ABSTRACTS OF WORKING PAPERS IN ECONOMICS

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

Abrar, Suleiman

PD December 2001. TI Duality, Choice of Functional Form and Peasant Supply Response in Ethiopia. AA Addis Abab University and University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 01/20; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 22. PR no charge. JE D20, Q10, Q11. KW Ethiopia. Agriculture.

AB This study assesses the responsiveness of peasant farmers, and the extent to which empirical estimates and their inferences are sensitive to estimation techniques using farm level survey data from Ethiopia. While non-nested hypotheses tests provide no clear choice among alternative functional forms, the Cobb-Douglas and the quadratic models are preferred to the generalized Leontief and translog on the basis of statistical performance and consistency with theory. The results indicate that farmers respond only modestly to price incentives. The own-price output supply elasticity is very low and output supply is not responsive to fertilizer prices or the wage rate. Non-price factors are far more important in affecting production and resource use than price incentives. The results are robust to functional forms and to whether the primal or dual approach is used to estimate elasticities. The results underscore the need to strengthen market incentives through effective policies that will improve farmers' access to land and credit, public investment in roads and irrigation.

PD September 2002. TI Supply Response of Peasant Farmers in Ethiopia: A Farmer-Level Profit Function Analysis. AU Abrar, Suleiman; Morrissey, Oliver; Rayner, Tony A. J. AA Abrar: Addis Ababa University and University of Nottingham. Morrissey and Rayner: University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 02/16; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 21. PR no charge. JE Q10, Q11, Q12. KW Agriculture. Ethiopia. Profit Function.

AB This study assesses the responsiveness of peasant farmers to price and non-price factors using a farm-level survey data from Ethiopia, and the extent to which responsiveness varies with agro-ecology and farming systems. Agro-climatic and farming system differences are explicitly taken into account by estimating the Northern and Central highlands of the grain-plough, as well as the Southern enset-hoe, systems separately. Peasant farmers in Ethiopia respond positively and significantly to price incentives, and responsiveness to prices is far greater in the more climatically favored and commercially oriented regions of the Central and Southern highlands. This suggests that agro- climatic and farming system differences need to be taken into account in designing and implementing agricultural policy. Some important differences are also observed in the relative importance of non-price variables across zones, although the difference is not generally large compared to the effects of prices. The results underscore the need to strengthen market incentives through effective policies that will improve farmer's access to better quality land, credit and inputs, and public investment in roads and irrigation. Even more so in the Northern highlands where these factors are far more important in affecting production and resource use than price incentives.

Abul Naga, Ramses

PD August 2002. TI Intergenerational Mobility in Britain: Revisiting the Prediction Approach of Dearden, Machin and Reed. AU Abul Naga, Ramses; Cowell, Frank. AA Abul Naga: University of Lausanne. Cowell: STICERD, London School of Economics. SR Universite de Lausanne, Cahiers de Recherches Economiques: 02/15; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e- cahiers.htm. PG 13. PR no charge. JE D31, J62. KW Intergenerational Mobility. Measurement Error. Prediction Approach. Simultaneous Equations. Britain.

AB The prediction approach proposed by Dearden, Machin, and Reed (DMR) consists of (1) regressing the observed incomes of the child and parent families on separate sets of predetermined variables, and (2) regressing the child's predicted income on that of the parents. Conceptually, this estimator must relate to the 2SLS/IV estimator. We re-derive the prediction estimator in matrix form, and reconsider its consistency requirements. The measurement model of DMR is then embedded within a simultaneous equations framework, for which an alternative 2SLS/IV estimator is proposed. The latter produces larger estimates for the intergenerational correlation. The policy relevance of the two sets of findings is then discussed.

Acemoglu, Daron

PD June 2002. TI Women, War and Wages: The Effect of Female Labor Supply on the Wage Structure at Mid-Century. AU Acemoglu, Daron; Autor, David H.; Lyle, David. AA Acemoglu and Autor: MIT and NBER. Lyle: MIT. SR National Bureau of Economic Research Working Paper: 9013; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 40. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H56, J16, J21, J22, J31, N32. KW Female Labour Supply. Wages. Return to Education. Wage Inequality.

AB This paper investigates the effects of female labor supply on the wage structure. To identify variation in female labor supply, we exploit the military mobilization for World War II, which drew many women into the workforce as males exited civilian employment. The extent of mobilization was not uniform across states, however, with the fraction of eligible males serving ranging from 41 to 54 percent. We find that in states with greater mobilization of men, women worked substantially more after the War and in 1950, though not in 1940. We interpret these differentials as labor supply shifts induced by the War. We find that increases in female labor supply lower female wages, lower male wages, and increase the college premium and male wage inequality generally. Our findings indicate that at mid-century, women were close substitutes to high school graduates and relatively low- skill males, but not to those with the lowest skills.

PD July 2002. TI Distance to Frontier, Selection, and Economic Growth. AU Acemoglu, Daron; Aghion, Philippe; Zilibotti, Fabrizio. AA Acemoglu: MIT and NBER. Aghion: Harvard University and NBER. Zilibotti: University College London. SR National Bureau of Economic Research Working Paper: 9066; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 42. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE L16, O31, O33, O38, O40. KW Technology Frontier. Manager Selection. Economic Growth. Non- Convergence. Poverty Trap.
AB We analyze an economy where managers engage both in the adaptation of technologies from the world frontier and in innovation activities. The selection of high-skill managers is more important for innovation activities. As the economy approaches the technology frontier, selection becomes more important. As a result, countries at early stages of development pursue an investment-based strategy, with long term relationships, high average size and age of firms, large average investments, but little selection. Closer to the world technology frontier, there is a switch to innovation-based strategy with short- term relationships, younger firms, less investment and better selection of managers. We show that relatively backward economies may switch out of the investment-based strategy too soon such that certain economic institutions and policies, such as limits on product market competition or investment subsidies, that encourage the investment-based strategy may be beneficial. However, societies that cannot switch out of the investment-based strategy fail to converge to the world technology frontier. Non-convergence traps are more likely when policies and institutions are endogenized, enabling beneficiaries of existing policies to bribe politicians to maintain these policies.

Adams, Gregory D.

PD August 2002. TI The Social Costs of an MTBE Ban in California (Condensed Version). AU Adams, Gregory D.; Montgomery, W. David; Rausser, Gordon C.; Smith, Anne E. AA Adams, Montgomery, and Smith: Charles River Associates. Rausser: University of California, Berkeley. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 931; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. PG 59. PR $14.75 domestic; $29.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE Q25, Q42. KW MTBE. Oxygenate. Groundwater Contamination. Ethanol. Alkylates.
AB A careful analysis of the costs and benefits of using MTBE as a fuel oxygenate, as compared to use of its most reasonable substitutes, finds that the net private and social costs of MTBE's alternatives are substantially higher than those of MTBE. The expected costs of future MTBE use have been revised downwards as a result of the state of California's successful program to replace and monitor underground fuel storage tanks, as well as more complete estimates of the incremental clean up costs from MTBE contamination. Moreover, as California has begun to seriously consider the logistics and costs of removing MTBE from gasoline, it has become clear that the cost of MTBE alternatives is higher than previously anticipated. In light of the information that has come to light since California's 1999 decision to phase out MTBE use by 2003, that decision may merit revisiting.

PD August 2002. TI The Social Costs of an MTBE Ban in California (Long Version). AU Adams, Gregory D.; Montgomery, W. David; Rausser, Gordon C.; Smith, Anne E. AA Adams, Montgomery, and Smith: Charles River Associates. Rausser: University of California, Berkeley. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 932; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. PG 89. PR $22.25 domestic; $45.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE Q25, Q42. KW MTBE. Oxygenate. Groundwater Contamination. Ethanol. RFG.
AB A careful analysis of the costs and benefits of using MTBE as a fuel oxygenate, as compared to use of its most reasonable substitutes, finds that the net private and social costs of MTBE's alternatives are substantially higher than those of MTBE. The expected costs of future MTBE use have been revised downwards as a result of the state of California's successful program to replace and monitor underground fuel storage tanks, as well as more complete estimates of the incremental clean up costs from MTBE contamination. Moreover, as California has begun to seriously consider the logistics and costs of removing MTBE from gasoline, it has become clear that the cost of MTBE alternatives is higher than previously anticipated. In light of the information that has come to light since California's 1999 decision to phase out MTBE use by 2003, that decision may merit revisiting.

Adams, Robert M.

PD October 2002. TI Market Power in Outputs and Inputs: An Empirical Application to Banking. AU Adams, Robert M.; Roller, Lars-Hendrik; Sickles, Robin C. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/52; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 28. PR no charge. JE C30, G21, L10. KW Measuring Market Power. Banking.
AB This paper provides evidence on the empirical separability of input and output market imperfections. We

specify a model of banking competition and simultaneously estimate bank conduct in output (loan) and input (deposit) markets. Our results suggest that firms display some degree of non-competitive behavior in both the loan and the deposit markets. Moreover, we find that the input side and the output side are empirically separable, that is the measurement of market power on one side of the market is not affected by assuming that the other side of the market is perfectly competitive. Our results suggest that empirical studies of market power that concentrate on either the input side or the output side are not subject to significant misspecification error.

Aggarwal, Reena

PD July 2002. TI Institutional Allocation in Initial Public Offerings: Empirical Evidence. AU Aggarwal, Reena; Prabhala, Nagpurnanand R.; Puri, Manju. AA Aggarwal: Georgetown University. Prabhala: University of Maryland. Puri: Stanford University and NBER. SR National Bureau of Economic Research Working Paper: 9070; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 24. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G24, G32. KW Initial Public Offerings. Institutional Allocation.
AB We analyze institutional allocation in initial public offerings (IPOs) using a new dataset of US offerings between 1997 and 1998. We document a positive relationship between institutional allocation and day one IPO returns. This is partly explained by the practice of giving institutions more shares in IPOs with strong pre-market demand, consistent with book-building theories. However, institutional allocation also contains private information about first-day IPO returns not reflected in pre-market demand and other public information. Our evidence supports book-building theories of IPO underpricing, but suggests that institutional allocation in underpriced issues is in excess of that explained by book-building alone.

Aghion, Philippe

PD June 2002. TI Endogenous Political Institutions. AU Aghion, Philippe; Alesina, Alberto; Trebbi, Francesco. AA Aghion: Harvard University, University College London, and CIAR. Alesina: Harvard University, CEPR, and NBER. Trebbi: Harvard University. SR National Bureau of Economic Research Working Paper: 9006; 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 D72, P16. KW Political Institutions. Institutional Design. Majority Rule.
AB Political institutions influence economic policy, but they are themselves endogenous since they are chosen, in some way, by members of the polity. An important aspect of institutional design is how much society chooses to delegate unchecked power to its leaders. If, once elected, a leader cannot be restrained, society runs the risk of a tyranny of the majority, if not the tyranny of a dictator. If a leader faces too many ex post checks and balances, legislative action is too often blocked. As our critical constitutional choice we focus upon the size of the minority needed to block legislation, or conversely the size of the (super) majority needed to govern. We analyze both "optimal" constitutional design and "positive" aspects of this process. We derive several empirical implications which we

then discuss.

TI Distance to Frontier, Selection, and Economic Growth.
AU Acemoglu, Daron; Aghion, Philippe; Zilibotti, Fabrizio.

Aidt, Toke S.

PD January 2003. TI Unions: Rent Extractors or Creators? AU Aidt, Toke S.; Sena, Vania. AA Aidt: University of Cambridge. Sena: University of Leeds. SR University of Cambridge, DAE Working Paper: 0236; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. PG 23. PR $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. JE J51, J58. KW Unions. Rent Creation. Rent Extraction. Product Market Competition.
AB This paper proposes a model of workplace-specific unions that integrates two (conflicting) views of what unions do. One view holds that unions mainly engage in rent extraction. The other view is that unions mainly engage in rent creation by providing agency services that increase workplace productivity. In our model, the union leadership makes a choice between the two types of activities and we demonstrate why it is optimal to engage in both: rent extraction increases the bargained wage rate while rent creation secures higher employment. More importantly, the choice between the two activities depends systematically on the economic and regulatory environment in which the union operates. Unions operating in an environment of intense market competition are mainly engaged in rent extraction. Our model thus suggests that the economic and regulatory environment is an important determinant of "what unions do", and that changes/differences in this environment can explain changes/differences in union behavior across time and space.

Aizcorbe, Ana

PD June 2002. TI The Role of Semiconductor Inputs in IT Hardware Price Decline: Computers vs. Communications. AU Aizcorbe, Ana; Flamm, Kenneth; Khurshid, Anjum. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/37; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 42. PR no charge. JE L63, O30, O47. KW Price Indexes. Semiconductors. High-Tech Sector. Computer Prices. Telecommunications Prices.
AB Sharp declines in semiconductor prices are largely responsible for observed declines in computer prices. Although communications equipment also has a large semiconductor content, communications equipment prices do not fall nearly as fast as computer prices. This paper partly resolves the puzzle -- first noted by Flamm (1989) -- by demonstrating that prices for chips used in communications equipment do not fall nearly as fast as prices for those chips used in computers, and those differences are large enough to potentially explain all of the output price differences.

Alberini, Anna

PD April 2002. TI Does the Value of a Statistical Life Vary with Age and Health Status? Evidence from the United States and Canada. AU Alberini, Anna; Cropper, Maureen;

Krupnick, Alan; Simon, Nathalie B. **AA** Alberini: University of Maryland. Cropper: The World Bank and University of Maryland. Krupnick: Resources for the Future. Simon: U.S. Environmental Protection Agency. **SR** Resources for the Future Discussion Paper: 02/19; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. **PG** 18. **PR** domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. **JE** D61, I11, I12. **KW** Willingness to Pay. Mortality. Contingent Valuation. Age. Health Status.
AB This paper provides an empirical assessment of the effects of age and baseline health on WTP for mortality risk reductions. One survey was administered in-person to residents of Hamilton, Ontario, and the other to a nationally representative sample of U.S. residents using the Internet. Both surveys elicited respondents' WTP for reductions in mortality risk of different magnitudes. Our results provide weak support for the notion that WTP declines with age, but only after age 70. Specifically, in our Canadian sample, WTP declines by about 30% after age 70 compared with WTP at younger ages. There is no such statistically significant decline, however, in the U.S. sample. We similarly find no support for the idea that people who have cancer or chronic heart or lung disease are willing to pay less to reduce their risk of dying than people without these illnesses.

PD September 2002. **TI** Can People Value the Aesthetic and Use Services of Urban Sites? Evidence from a Survey of Belfast Residents. **AU** Alberini, Anna; Longo, Alberto; Riganti, Patrizia. **AA** Alberini: University of Maryland. Longo: University of Venice, University of Maryland, and FEEM. Riganti: Queen's University. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/70; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 27. **PR** no charge; available only on website. **JE** Q51, R14, Z10. **KW** Conjoint Analysis. Conditional Logit. Consumer Behavior. Aesthetic Value. Use Value. Urban Regeneration.
AB This study explores the potential of conjoint choice analysis for planning decisions in urban sites. We elicit people's preferences for regeneration projects that change the aesthetic and use character of specified urban sites. We focus on two sets of regeneration projects. The first set entails hypothetical transformations of an actual square with an important cultural and historical dimension. The other set of projects consists of hypothetical transformations of an abstract square. Each regeneration project is defined by aesthetic and use attributes. Our results suggest that people behaved in a way that is consistent with the Random Utility Model for the abstract square, and that there are both similarities and differences between preferences for the actual and the abstract square.

Alderman, Harold
PD March 2001. **TI** Reducing Child Malnutrition: How Far Does Income Growth Take Us? **AU** Alderman, Harold; Appleton, Simon; Haddad, Lawrence; Song, Lina; Yohannes, Yisehac. **AA** Alderman: World Bank. Appleton and Song: University of Nottingham. Haddad and Yohannes: International Food Policy Research Institute. **SR** University of Nottingham, CREDIT Research Paper: 01/05; CREDIT Secretary, School of Economics, University of Nottingham,

University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 16. **PR** no charge. **JE** I12, O40. **KW** Malnutrition. Income Growth.
AB How rapidly will child malnutrition respond to GNP growth? This study explores that question using household data from twelve countries. In addition, data on the malnutrition rates since the 1970s available from a cross section of countries are employed in this investigation. Both forms of analysis yield similar results. Income increases at the household and at the national level imply similar rates of reduction in malnutrition at the same rate of increase in income. Using these estimates we find that goals of halving the levels of child malnutrition in the first two decades of this century set by the 1990 UNICEF World Summit on Children or the 1996 FAO-WHO World Food summit are unlikely to be met through income growth. Thus a combination of growth and specific nutrition programs will be needed.

Alesina, Alberto
TI Endogenous Political Institutions. **AU** Aghion, Philippe; Alesina, Alberto; Trebbi, Francesco.

PD July 2002. **TI** Optimal Currency Areas. **AU** Alesina, Alberto; Barro, Robert J.; Tenreyro, Silvana. **AA** Alesina and Barro: Harvard University and NBER. Tenreyro: Harvard University. **SR** National Bureau of Economic Research Working Paper: 9072; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 24. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E52, F31, F41. **KW** Optimal Currency Areas. Yen Area. Currency Union.
AB As the number of independent countries increases and their economies become more integrated, we would expect to observe more multi-country currency unions. This paper explores the pros and cons for different countries to adopt as an anchor the dollar, the euro, or the yen. Although there appear to be reasonably well-defined euro and dollar areas, there does not seem to be a yen area. We also address the question of how trade and co-movements of outputs and prices would respond to the formation of a currency union. This response is important because the decision of a country to join a union would depend on how the union affects trade and co-movements.

Alessandrini, Fabio
PD February 2003. **TI** Do Financial Variables Provide Information about the Swiss Business Cycle? **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 03/02; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e- cahiers.htm. **PG** 62. **PR** no charge. **JE** E32, E37, E44. **KW** Forecasting. Probit Model. Term Structure. Business Cycle. Switzerland.
AB This paper extends the literature on the information content of financial variables with respect to future economic growth. It shows that variables originating from both the equity market and the bond market in Switzerland are useful indicators for forecasting the Swiss business cycle. In particular, the difference between risk-free long- term and short-term rates is an efficient indicator for both the amplitude and the timing, especially over long forecasting horizons. Part of this power seems however to be linked to monetary policy.

Contrary to evidence from the US, equity returns are useful only in forecasting the timing of the cycle. It is also shown that financial variables, coupled with indicators from the real economy, form the most efficient combination for forecasting economic growth at all time horizons. Moreover, foreign financial variables also provide useful information. This paper uses for the first time the business cycle dates for Switzerland computed recently by Amstad (2000).

PD February 2003. **TI** Introducing Capital Structure in a Production Economy: Implications for Investment, Debt and Dividends. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 03/03; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e- cahiers.htm. **PG** 36. **PR** no charge. **JE** D92, E22, E32, G32, G33. **KW** Capital Structure. Business Cycle. Bankruptcy. Dividends.
AB This model adds to the standard neoclassical model of business fluctuations by introducing a more realistic capital structure problem, where firms have to balance the tax benefits of debt with the costs of potential financial distress. Therefore, firms solve a dynamic problem with both an investment and a financing decision. This feature allows firms to finance investment through both retained earnings and debt. As a result, debt will increase after a positive shock and dividends will follow a smoother path. This implies that, as pointed by previous empirical evidence, short-term fluctuations in investment are mostly absorbed by debt and not dividends. The capital structure deteriorates first but then improves after a few quarters. In this model, investment is also inversely related to financial leverage.

PD February 2003. **TI** Some Additional Evidence from the Credit Channel on the Response to Monetary Shocks: Looking for Asymmetries. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 03/04; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e- cahiers.htm. **PG** 41. **PR** no charge. **JE** C32, E51, E52. **KW** Credit Channel. Threshold VAR. Asymmetric Responses.
AB The credit channel of monetary policy has both cross-sectional and time series implications for the reaction of the economy to monetary shocks. This paper focuses on the more rarely investigated time-series aspect and shows that the economy has varying sensitivity to monetary shocks over time. By using a Threshold VAR model, we find that output and credit spreads react much more strongly to monetary shocks when cash flows or dividends are low. This distinction in the regimes is in particular more significant than one based on the stage of the business cycle or on the stance of monetary policy. In this sense, the response to a tightening for instance cannot be considered as constant and traditional impulse-response functions have to be interpreted with caution.

Alguacil, Maria Teresa

PD March 2001. **TI** Openness and Growth: Re-Examining Foreign Direct Investment, Trade and Output Linkages in Latin America. **AU** Alguacil, Maria Teresa; Cuadros, Ana; Orts, Vicente. **AA** University of Jaume I of Castellon in Spain and the Institute of International Economics. **SR** University of Nottingham, CREDIT Research Paper: 01/04; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 18. **PR** no charge. **JE** F43, O40. **KW** Growth. Foreign Direct Investment. Latin America.
AB The relationship between openness and economic growth in developing countries has been fully analyzed by a large number of empirical papers. Primary attention has been given to the advantages of an outward-oriented strategy and to the role of exports in economic performance. Nevertheless, the evidence about the export-led growth (ELG) hypothesis is rather mixed. In particular, recent time series studies fail to provide uniform support for this hypothesis. Taking into account that openness is increasing not only trade but also foreign direct investment flows. In this paper we have employed a vector autoregressive (VAR) model to test the existence and nature of the causal relationship between output level, inward FDI and trade in Argentina, Brazil and Mexico from the middle seventies to 1997. Our principal aim is to analyze the extent and sources of international linkages between openness and economic performance in these developing countries. Although we have not found evidence about the ELG hypothesis, our results suggest a significant impact of FDI on economic growth and trade in the analyzed countries.

PD May 2002. **TI** Does Saving Really Matter for Growth? Mexico (1970-2000). **AU** Alguacil, Maria Teresa; Cuadros, Ana; Orts, Vicente. **AA** University Jaume I, Spain and Institute of International Economics. **SR** University of Nottingham, CREDIT Research Paper: 02/09; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 15. **PR** no charge. **JE** E21, F21, O40. **KW** Saving. Growth. Mexico. Granger Non-Causality. FDI.
AB This paper uses the Granger non-causality test procedure developed by Toda and Yamamoto (1995) to analyze the saving-growth nexus in Mexico. Contrary to the reverse causation between national saving and domestic income found in recent empirical studies, evidence is presented in favor of Solow's model prediction that higher saving leads to higher economic growth. The confirmation of a saving-growth nexus in this country seems to be related to the inclusion of foreign direct investment (FDI) in the model. As this study will try to show, this last variable enhances economic growth and reinforces the connection between the two focus variables.

Aloi, Marta

PD July 2001. **TI** Growing Through Subsidies. **AU** Aloi, Marta; Lasselle, Laurence. **AA** Aloi: University of Nottingham. Lasselle: University of St. Andrews. **SR** University of Nottingham, Discussion Paper in Economics: 01/08; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 17. **PR** no charge. **JE** O11, O40. **KW** Balanced Growth Path. Overlapping Generations. Subsidies.
AB We consider an overlapping generation model based on Matsuyama (1999) and show that, whenever actual capital accumulation falls below its balanced growth path, subsidizing innovators by taxing consumers has stabilizing effects and increases welfare. Further, if the steady state is unstable under laissez faire, the introduction of the subsidy can make the

steady state stable. Such a policy has positive welfare effects as it fosters output growth along the transitional adjustment path. Therefore, fast growing economies, in which high factor accumulation plays a crucial role alongside innovative sectors that enjoy temporary monopoly rents, should follow an unorthodox approach to stabilization; namely, taxing the consumers and reallocate resources to the innovative sectors.

PD July 2001. TI Entry Dynamics, Capacity Utilisation, and Productivity in a Dynamic Open Economy. AU Aloi, Marta; Dixon, Huw D. AA Aloi: University of Nottingham. Dixon: University of York. SR University of Nottingham, Discussion Paper in Economics: 01/09; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 26. PR no charge. JE E32, L13. KW Capacity Utilisation. Ramsey Model. Entry Dynamics. AB This paper analyzes an open economy Ramsey model with an endogenous labor supply without capital. The technology defines an optimal firm size. Changes to the number of firms are subject to adjustment costs, so that the entry dynamics are determined endogenously. We find that there is a short run transitory productivity dynamic introduced when there is imperfect competition due to changes in capacity utilization. We are able to analyze this in different contexts, including demand and technology shocks, both temporary and permanent.

Alonso, Jose Antonio

PD May 2003. TI Poverty Reduction and Aid Policy. AU Alonso, Jose Antonio; Garcimartin, Carlos. AA Alonso: Complutense University of Madrid. Garcimartin: University of Salamanca. SR University of Nottingham, CREDIT Research Paper: 03/06; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 19. PR no charge. JE F35, I30. KW Poverty. Foreign Aid. AB This paper deals with the effectiveness of several alternative models of aid allocation in terms of poverty reduction. We use a model that admits the presence of diminishing returns to aid in the output and poverty functions. We shall discuss the impact of aid on poverty in a single country, showing that conditional aid to improve policies has a deeper impact than other alternatives of aid allocation. But if the donor's aim is to maximize poverty reduction in a group of countries in presence of conflicts of interest between donor and recipient, a general rule to distribute aid cannot be stated a priori. Decreasing returns can offset the positive impact on incentives to improve policies. There is not something like a universal solution and aid policy should be tailored according to the recipient characteristics.

Amel, Dean

PD August 2002. TI Consolidation and Efficiency in the Financial Sector: A Review of the International Evidence. AU Amel, Dean; Barnes, Colleen; Panetta, Fabio; Salleo, Carmelo. AA Amel: Board of Governors of the Federal Reserve System. Barnes: Department of Finance Canada. Panetta and Salleo: Bank of Italy. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/47; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 42. PR no charge. JE G21, G34, L10. KW Mergers. Efficiency. Bank Mergers. AB In response to fundamental changes in regulation and technology, the financial industry around the world is undergoing an unprecedented wave of consolidation. A growing body of empirical literature has attempted to measure the efficiency gains from M&As; however there is little sense of how the results might depend on the country, industry and time period analyzed. In this paper we review critically works that cover the main sectors of the financial industry (commercial and investment banks, insurance and asset management companies) in the major industrialized countries over the last twenty years, searching for common patterns that transcend national and sectoral peculiarities. We find that consolidation in the financial sector is beneficial up to a relatively small size in order to reap economies of scale, but there is little evidence that mergers yield economies of scope or gains in managerial efficiency.

Anderson, Soren T.

TI The Organization of Local Solid Waste and Recycling Markets: Public and Private Provision of Services. AU Walls, Margaret; Macauley, Molly K.; Anderson, Soren T.

PD September 2002. TI Information Programs for Technology Adoption: The Case of Energy- Efficiency Audits. AU Anderson, Soren T.; Newell, Richard G. AA Resources for the Future. SR Resources for the Future Discussion Paper: 02/58; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 26. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE O33, O38, Q41, Q48. KW Energy Efficiency. Information. Technology Adoption. Energy Audits. AB We analyze technology adoption decisions of manufacturers in response to energy audits provided by Department of Energy Industrial Assessment Centers. Using fixed effects logit estimation to control for unobserved plant characteristics, we find that plants respond as expected to financial costs and benefits, though there are unmeasured project-related factors that also influence investment decisions. Revealed behavior of plants suggests that most require a payback of 15 months or less as their investment threshold, corresponding to an 80% or greater hurdle rate. This is consistent with survey results for stated investment thresholds, suggesting that these programs do not lower hurdle rates, as some suggest. Plants reject about half of recommended projects; the primary rationale given is their economic undesirability rather than remaining market or organizational barriers. This raises concerns regarding engineering-economic estimates of the degree to which there are feasible no-net-cost opportunities for reducing energy consumption and carbon emissions.

PD January 2003. TI Prospects for Carbon Capture and Storage Technologies. AU Anderson, Soren T.; Newell, Richard G. AA Resources for the Future. SR Resources for the Future Discussion Paper: 02/68; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 46. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to

Resources for the Future. JE Q25, Q41, Q42, Q54. KW Carbon Capture. Storage. Sequestration. Climate Change. Technology.
AB Carbon capture and storage (CCS) technologies remove carbon dioxide from flue gases for storage in geologic formations or the ocean. We find that CCS is technically feasible and economically attractive within the range of carbon policies discussed domestically and internationally. Current costs are about $200 to $250 per ton of carbon, although costs are sensitive to fuel prices and other assumptions and could be reduced significantly through technical improvements. Near-term prospects favor CCS for certain industrial sources and electric power plants, with storage in depleted oil and gas reservoirs. Deep aquifers may provide an attractive longer-term storage option, whereas ocean storage poses greater technical and environmental uncertainty. Vast quantities of economically recoverable fossil fuels, sizable political obstacles to their abandonment, and inherent delay associated with developing alternative energy sources suggest that CCS should be seriously considered in the portfolio of options for addressing climate change, alongside energy efficiency and carbon-free energy.

Andrews, Martyn J.

AB This paper provides the first analysis of employer search using duration methods for the UK. We model both the duration of employer search and whether employers succeed in filling vacancies. We present the appropriate econometric techniques for dealing with groups of identical vacancies posted simultaneously, and we examine the robustness of our results to the flexibility of the baseline hazard and unobserved heterogeneity. We compare results across two quite different markets (jobs and training places). Our results show that employers search longer for high quality vacancies; that there are skill shortages in so far as jobs requiring more qualified applicants are more likely to be withdrawn from the labor market; and that vacancy duration varies pro-cyclically with labor market tightness.

Antoci, A.

AB This paper examines a simple North-South growth model where negative externalities may contribute to reinforce economic growth. To protect against environmental deterioration, agents may increase their labor supply to produce more of a consumption good to be used as a substitute for the depleted natural resource. The consequent growth in production and consumption may generate a further depletion of the natural resource. This may lead to a self-enforcing growth process in a polluted world where individuals work and produce more than is socially optimal. We examine the choices of the two hemispheres using a two- population evolutionary game with transboundary pollution across hemispheres. We show that economic growth in the North and/or in the South may lead to stationary states that are Pareto dominated by states of the world with a lower level of production and consumption. Moreover, negative environmental externalities from the North to the South may foster growth in the South, which may have in turn feedback effects on growth in the North. Finally, we discuss possible welfare effects of transferring the environmental impact of Northern production to the South and show that such a policy may decrease welfare in both hemispheres.

Appleton, Simon

AB This paper examines the relationship between poverty and education in Uganda in the 1990s. It shows how growth in living standards and poverty reduction during that period was fastest for more educated households. Income growth at the household level is disaggregated into earnings growth from three kinds of activity: farming, non-agricultural self-employment and wage employment. The direct productivity effects of education on earnings from each income source are estimated and found to have increased over time. The role of education in determining access to different sources of income is also assessed.

Arcidiacono, Peter

AB Using data on the universe of students who graduated from U.S. medical schools between 1996 and 1998, we examine whether the abilities and specialty preferences of a medical school class affect a student's academic achievement in medical school and his choice of specialty. We mitigate the selection problem by including school-specific fixed effects, and show that this method yields an upper bound on peer effects for our data. We estimate positive peer effects that disappear when school-specific fixed effects are added to control for the

endogeneity of a peer group. We find no evidence that peer effects are stronger for blacks, that peer groups are formed along racial lines, or that students with relatively low ability benefit more from their peers than students with relatively high ability. However, we do find some evidence that peer groups form along gender lines.

Ariga, Kenn

PD November 2002. TI Are the More Educated Receiving More Training? Evidence From Thailand. AU Ariga, Kenn; Brunello, Giorgio. AA Ariga: Kyoto University. Brunello: Padova University, Cesifo, and IZA. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/97; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. PG 27. PR no charge; available only on website. JE J24, J31. KW Training. Education. Wages.

AB This paper investigates the relationship between education and training provided by the firm, both on the job and off the job, using a unique dataset based on a survey of Thai employees conducted in the summer of 2001. We find a significant and negative relationship between educational attainment and on the job training and no significant relationship between education and off the job training. We also find that education and training are technical complements, especially in the case of off the job training. These findings are consistent with more educated individuals having higher marginal costs of training than less educated workers, especially where on the job training is concerned. Either the better educated have lower learning skills in jobs requiring on the job training or they have higher opportunity costs of training, or both.

Aronow, Emily

TI Measuring the Contribution to the Economy of Investments in Renewable Energy: Estimates of Future Consumer Gains. AU Macauley, Molly K.; Shih, Jhih-Shyang; Aronow, Emily; Austin, David; Bath, Tom; Darmstadter, Joel.

Arrow, Kenneth

PD November 2002. TI Genetic Diversity and Interdependent Crop Choices in Agriculture. AU Arrow, Kenneth; Daily, Gretchen; Dasgupta, Partha; Ehrlich, Paul; AA Arrow, Daily, Ehrlich, and Schneider: Stanford University. Dasgupta: Cambridge University. Heal: Columbia Business School. Kautsky: Stockholm University. Levin: Princeton University. Lubchenco: Oregon State University. Maler: Beijer Institute of Ecological Economics. Schneider and Starrett: not available. Walker: CSIRO. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/100; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/ default.htm. PG 13. PR no charge; available only on website. JE I12, Q12. KW Genetic Diversity. Agriculture. Nash Equilibrium. External Effect.

AB The extent of genetic diversity in food crops is important as it affects the risk of attack by pathogens. A drop in diversity increases this risk. Farmers may not take this into account when making crop choices, leading to what from a social perspective is an inadequate level of diversity.

Ashenfelter, Orley

PD June 2002. TI Art Auctions: A Survey of Empirical Studies. AU Ashenfelter, Orley; Graddy, Kathryn. AA Ashenfelter: Princeton University and NBER. Graddy: University of Oxford and CEPR. SR National Bureau of Economic Research Working Paper: 8997; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 37. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D44, G11, G12, L41, Z11. KW Art Auctions. Sotheby's. Christie's. Art Asset Returns.

AB We review research on the art auction system and what it indicates about price formation. First, we find that in recent years returns on art assets appear to be little different from returns on other assets. Moreover, the weak correlation between art and other returns supports the inclusion of art in a diversified portfolio. Second, we find evidence of several anomalies in art market pricing: "masterpieces" underperform the market and there are fairly long periods in which art prices may diverge across geographic areas and even auction houses. Third, we review the public record of the criminal trial of Sotheby's former Chairman, who was accused of price fixing, to show how the collusion with Christie's, the other great public auction house, was actually engineered. Contrary to the way the proceeds from the settlement of the civil suit in this case were distributed, we show that buyers were almost certainly not injured by the collusion, but that sellers were. In addition, based on the public record of settlement, it appears that the plaintiffs in the civil suit were very handsomely repaid for their injury. Finally, we review the extensive research on the effects of the auction institution on price formation.

PD August 2002. TI Using Mandated Speed Limits to Measure the Value of a Statistical Life. AU Ashenfelter, Orley; Greenstone, Michael. AA Ashenfelter: Princeton University and NBER. Greenstone: University of Chicago, American Bar Foundation, and NBER. SR National Bureau of Economic Research Working Paper: 9094; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 28. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I18, J17, R41, R48. KW Statistical Life. Value. VSL. Traffic Fatalities. Speed Limit.

AB In 1987 the federal government permitted states to raise the speed limit on their rural interstate roads from 55 mph to 65 mph for the first time in over a decade. Since the states that adopted the higher speed limit must have valued the travel hours they saved more than the fatalities incurred, this experiment provides a way to estimate an upper bound on the public's willingness to trade off wealth for a change in the probability of death. In the 21 states that raised the speed limit and for whom we have complete data, our estimates suggest that about 125,000 hours were saved per lost life. Valuing the time saved at the average hourly wage implies savings of $1.54 million (1997$) per fatality. Since this estimate is an upper bound of the value of a statistical life (VSL), we set out a simple structural model that is identified by variability across the states in the probability of the adoption of increased speed limits to recover the VSL. The empirical implementation of this model produces estimates of the VSL that are generally smaller that $1.54 million, but these estimates are very imprecise.

PD September 2002. TI Using Mandated Speed Limits to Measure the Value of a Statistical Life. AU Ashenfelter,

Orley; Greenstone, Michael. AA Ashenfelter: Princeton University and NBER. Greenstone: University of Chicago. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/65; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 28. PR no charge; available only on website. JE R40. KW Speed Limits. Fatalities. Statistical Life. AB See the abstract for Ashenfelter, Orley; Greenstone, Michael. August 2002. "Using Mandated Speed Limits to Measure the Value of a Statistical Life". National Bureau of Economic Research Working Paper: 9094; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org.

Auerbach, Alan J.

PD June 2002. TI The Bush Tax Cut and National Saving. AA University of California, Berkeley and NBER. SR National Bureau of Economic Research Working Paper: 9012; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 23. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D91, E62. KW National Saving. Tax Cut. EGTRRA.
AB Following through on pledges made during his election campaign, President Bush proposed and Congress passed a substantial tax cut in 2001, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA). Much has been written about the size of the tax cut, its impact on the federal budget, its distributional consequences, and its short-run macroeconomic impact. There has been less focus on EGTRRA's incentive effects; one of the most important potential behavioral effects is on saving. To analyze the behavioral effects of the Bush tax cut on saving and other macroeconomic variables, I use the Auerbach-Kotlikoff (1987) model in conjunction with the NBER's TAXSIM model. An interesting by- product of this analysis is the "dynamic scoring" of the tax cut -- the estimated feedback effects of behavior on revenue. By comparing the revenue losses generated by the model with those that would occur without any behavioral response, one can estimate how much of the static revenue loss would be recouped by expanded economic activity. The simulations suggest that dynamic scoring has a significant impact on estimated revenue losses, but that the tax cut's impact on national saving is still negative in the long run.

Auriol, Emmanuelle

PD September 2002. TI Privatizations in Developing Countries and the Government's Budget Constraint. AU Auriol, Emmanuelle; Picard, Pierre M. AA Auriol: University of Toulouse I. Picard: University of Manchester. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/75; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. PG 35. PR no charge; available only on website. JE O11, O23. KW Privatization. Government. Budget Constraint. Regulation.
AB In this paper, we study the impact of the government's budget constraint on the optimal industrial policy in industries with increasing returns to scale. We show that privatization is preferred to regulation for intermediate values of the shadow cost of public funds (i.e., the Lagrange multiplier on the government's budget constraint). However, the advantage of privatization is likely to disappear once the product market allows the entry of more than one firm. In this paper, we study the impact of the government's budget constraint on the optimal industrial policy in industries with increasing returns to scale. We show that privatization is preferred to regulation for intermediate values of the shadow cost of public funds. However, the advantage of privatization is likely to disappear once the product market allows the entry of more than one firm.

Austin, David

TI Measuring the Contribution to the Economy of Investments in Renewable Energy: Estimates of Future Consumer Gains. AU Macauley, Molly K.; Shih, Jhih-Shyang; Aronow, Emily; Austin, David; Bath, Tom; Darmstadter, Joel.

TI Measuring the Contribution to the Economy of Investments in Renewable Energy: Estimates of Future Consumer Gains. AU Macauley, Molly K.; Shih, Jhih-Shyang; Aronow, Emily; Austin, David; Bath, Tom; Darmstadter, Joel.

Autor, David H.

TI Women, War and Wages: The Effect of Female Labor Supply on the Wage Structure at Mid-Century. AU Acemoglu, Daron; Autor, David H.; Lyle, David.

Bacchetta, Philippe

PD July 2002. TI A Theory of the Currency Denomination of International Trade. AU Bacchetta, Philippe; van Wincoop, Eric. AA Bacchetta: Studienzentrum Genzensee. van Wincoop: University of Virginia and NBER. SR National Bureau of Economic Research Working Paper: 9039; 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 F40, F41. KW International Trade. Exchange Rate Policy. Nominal Rigidities.
AB Nominal rigidities due to menu costs have become a standard element in closed economy macroeconomic modeling. The "New Open Economy Macroeconomics" literature has investigated the implications of nominal rigidities in an open economy context and found that the currency in which prices are set has significant implications for exchange rate pass-through to import prices, the level of trade and net capital flows, and optimal monetary and exchange rate policy. While the literature has exogenously assumed in which currencies goods are priced, in this paper we solve for the equilibrium optimal pricing strategies of firms. We find that the higher the market share of an exporting country in an industry, and the more differentiated its goods, the more likely its exporters will price in the exporter's currency. Country size and the cyclicality of real wages play a role as well, but are empirically less important. We also show that when a set of countries forms a monetary union, the new currency is likely to be used more extensively in trade than the sum of the currencies it replaces.

PD September 2002. TI A Theory of the Currency Denomination of International Trade. AU Bacchetta, Philippe; van Wincoop, Eric. AA Bacchetta: Study Center Gerzensee, University of Lausanne, and CEPR. van Wincoop: University of Virginia and NBER. SR European Central Bank Working Paper: 177; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany.

Website: www.ecb.int/pub/. **PG** 50. **PR** no charge. **JE** F31, F41. **KW** Exchange Rate Pass-Through. Currency Invoicing. New Open Economy. Macroeconomics.
AB See the abstract for Bacchetta, Philippe; van Wincoop, Eric. July 2002."A Theory of the Currency Denomination of International Trade". National Bureau of Economic Research Working Paper: 9039; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org.

PD November 2002. **TI** Why Do Consumer Prices React less than Import Prices to Exchange Rates? **AU** Bacchetta, Philippe; van Wincoop, Eric. **AA** Bacchetta: University of Lausanne, Study Center Gerzensee and CEPR. van Wincoop: University of Virginia and NBER. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/18; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/ e-cahiers.htm. **PG** 26. **PR** no charge. **JE** F31, F41. **KW** Exchange Rate Pass-Through. Currency Invoicing. Consumer Prices. Import Prices.
AB It is well known that the extent of pass-through of exchange rate changes to consumer prices is much lower than to import prices. One explanation is local distribution costs. Here we consider an alternative, complementary, explanation based on the optimal pricing strategies of firms. We consider a model where foreign exporting firms sell intermediate goods to domestic firms. Domestic firms assemble the imported intermediate goods and sell final goods to consumers. When domestic firms face significant competition from other domestic final goods producing sectors (e.g., the non-traded goods sector) we show that they prefer to price in domestic currency, while exporting firms tend to price in the exporter's currency. In that case the pass-through to import prices is complete, while the pass-through to consumer prices is zero.

Baker, Bruce

PD July 2002. **TI** Intertemporal State Budgeting. **AU** Baker, Bruce; Besendorfer, Daniel; Kotlikoff, Laurence J. **AA** Baker: U.S. Department of Commerce. Besendorfer: Boston University and Universitat Freiburg. Kotlikoff: Boston University and NBER. **SR** National Bureau of Economic Research Working Paper: 9067; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 22. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H71, H72, H74. **KW** Intertemporal. State Budgeting. Credit Ratings. Program.
AB This study presents intertemporal budgeting as of 1999 for all 50 U.S. states. We form our year-age-sex-and state-specific population projections using the 2001 Social Security Administration 's projection of the total U.S. population by age and sex in conjunction with the 1995 Census projections on state-specific age-sex population shares. Among other findings, state official liabilities are not good proxies for their intertemporal imbalances. Indeed, the correlation between scaled state intertemporal imbalances and gross state debt scaled by state income is essentially zero. The corresponding correlation based on net state debt is negative. It is thus not surprising that we find very little correspondence between the ranking of the states based on their intertemporal budget imbalances and the credit ratings published by either Moody's or Standard and Poor's. Our user-friendly program for calculating intertemporal state budget imbalances (the

difference between a) the present value of expenditures plus net debt and b) the present value of receipts) is written in Excel and is available for download upon request.

Banerjee, Abhijit V.

PD January 2003.. **TI** The World Bank of the Future. **AU** Banerjee, Abhijit V.; He, Ruimin. **AA** MIT. **SR** MIT, Department of Economics Working Paper: 03/06; Linda Woodbury, MIT Department of Economics, E52-251, 50 Memorial Drive, Cambridge, MA 02142. Website: ssrn.com/abstract_id=375701. **PG** 12. **PR** $7.00 U.S., Canada, Mexico; $10.00 other international. **JE** F33, F35, O19. **KW** World Bank. Aid Effectiveness. Multi-Lateral Lending.
AB This paper argues that the prima facie evidence suggests that the World Bank is not particularly effective either in dealing with countries that default or in promoting countries, projects, and ideas that are likely to do well. We argue that this is probably related to the fact that the Bank does not make adequate use of scientific evidence in its decision-making and suggest ways to improve matters.

Banzhaf, H. Spencer

PD March 2002. **TI** Quality Adjustment for Spatially-Delineated Public Goods: Theory and Application to Cost-of-Living Indices in Los Angeles. **AA** Resources for the Future. **SR** Resources for the Future Discussion Paper: 02/10; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. **PG** 50. **PR** domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. **JE** C51, D12, E31, H41, Q51, R13. **KW** Air Quality. Discrete Choice Models. Green Accounting. Nonmarket Valuation. Price Index.
AB This paper illustrates how public goods may be incorporated into a cost-of-living index. When public goods are weak complements to a market good, quality-adjusted prices for the market good capture all the welfare information required. They are also consistent with a Laspeyres index that maintains the bound on a true cost-of-living index. The paper recovers this information from a discrete-choice model, using a simulation routine to solve for the appropriate price adjustments. These concepts are applied to the case of housing, education, crime, and air quality in Los Angeles for 1989 to 1994. Over a period of time when they are improving, incorporating pubic goods into the index lowers the estimated change in the cost of living by 0.5 to 2.6 percentage points. In other years, when public goods diverge, the estimated annual adjustment differs by model, with a range of -0.2 to +1.3 percentage points.

TI General Equilibrium Benefit Transfers for Spatial Externalities: Revisiting EPA's Prospective Analysis. **AU** Smith, V. Kerry; Sieg, Holger; Banzhaf, H. Spencer; Walsh, Randy.

PD October 2002. **TI** Efficient Emission Fees in the U.S. Electricity Sector. **AU** Banzhaf, H. Spencer; Burtraw, Dallas; Palmer, Karen. **AA** Resources for the Future. **SR** Resources for the Future Discussion Paper: 02/45; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. **PG** 20. **PR** domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make

checks payable to Resources for the Future. **JE** D61, L94, Q48. **KW** Emissions Trading. Emission Fees. Air Pollution. Cost-Benefit Analysis. Electricity Particulates. Nitrogen Oxides. NOX. Sulfur Dioxide. SO2. Health Benefits.
AB This paper provides new estimates of efficient emission fees for sulfur dioxide (SO2) and nitrogen oxides (NOX) emissions in the U.S. electricity sector. The estimates are obtained by coupling a detailed simulation model of the U.S. electricity markets with an integrated assessment model that links changes in emissions with atmospheric transport, environmental endpoints, and valuation of impacts. Efficient fees are found by comparing incremental benefits with emission fee levels. National quantity caps that are equivalent to these fees also are computed, and found to approximate caps under consideration in the current multi-pollutant debate in the U.S. Congress and the recent proposals from the Bush administration for the electricity industry. We also explore whether regional differentiation of caps on different pollutants is likely to enhance efficiency.

Barbier, Edward B.
PD January 2002. **TI** The Economics of a "Mixed Blessing" Effect: A Case Study of the Black Sea. **AU** Barbier, Edward B.; Knowler, Duncan. **AA** Barbier: University of Wyoming. Knowler: Simon Fraser University. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/03; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 23. **PR** no charge; available only on website. **JE** Q22, Q57. **KW** Nutrients. Black Sea. Mnemiopsis. Anchovy. Eutrophication. Stochastic. Valuation. Bioeconomic. Turkey.
AB Nutrient enrichment of marine ecosystems is regarded as a pressing global environmental problem. For certain marine species it may be a mixed blessing, resulting in damaging ecosystem events, but contributing to primary productivity. Consequently, the impact of enrichment on fishery profits may be positive or negative. This paper develops a method for analyzing such problems, using the example of the Black Sea anchovy fishery. Employing a bioeconomic model that incorporates nutrients directly into fish population dynamics, the problem is formulated in deterministic and stochastic terms. The deterministic model assumes a given ecological state in which nutrients contribute positively to pelagic fish production. The stochastic model recognizes that the planner may take into account the probability of potentially damaging shifts in ecological states due to nutrient enrichment. In this latter model, nutrient abatement has an indeterminate welfare effect, but under certain conditions a marginal change in nutrients generates positive aggregate benefits.

Barnes, Colleen
TI Consolidation and Efficiency in the Financial Sector: A Review of the International Evidence. **AU** Amel, Dean; Barnes, Colleen; Panetta, Fabio; Salleo, Carmelo.

Barrett, Scott
PD July 2002. **TI** Towards a Better Climate Treaty. **AA** John Hopkins University. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/54; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 9. **PR** no charge; available only on website.

JE Q20, Q54. **KW** Kyoto Protocol. Compliance. International Environmental Agreements. Technology. R&D.
AB The essential problem with the Kyoto approach is that it provides poor incentives for participation and compliance. The minimum participation clause is set at such a low level that the agreement can enter into force while limiting the emissions of less than a third of the global total. The compliance mechanism essentially requires that non-complying countries punish themselves for failing to comply. The likely outcome will be an agreement that fails to enter into force, or an agreement that enters into force but is not implemented, or an agreement that enters into force and is implemented but only because it requires that countries do next to nothing about limiting their emissions. These weaknesses cannot be improved by a minor redesign of the treaty. The basic problem stems from the requirement that countries agree to, and meet, emission limitation ceilings. My proposal focuses on collective funding of basic research into the development of new, carbon-saving energy technologies, and on standards protocols for the adoption and diffusion of new technologies around the world. The main attraction of this approach is strategic: it does not require that compliance be enforced, and it provides positive incentives for participation.

PD November 2002. **TI** Increasing Participation and Compliance in International Climate Change Agreements. **AU** Barrett, Scott; Stavins, Robert N. **AA** Barrett: John Hopkins University. Stavins: Harvard University and Resources for the Future. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/94; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 28. **PR** no charge; available only on website. **JE** Q54, Q58. **KW** Compliance. Cost Effectiveness. Climate Change. International Agreements. Participation.
AB Scientific and economic consensus increasingly points to the need for a credible and cost-effective approach to address the threat of global climate change, but the Kyoto Protocol to the U.N. Framework Convention on Climate Change appears incapable of inducing significant participation and compliance. We assess the Protocol and thirteen alternative policy architectures that have been proposed, with particular attention to their respective abilities to induce participation and compliance. We find that those approaches that offer cost-effective mitigation are unlikely to induce significant participation and compliance, while those approaches that are likely to enjoy a reasonably high level of implementation by sovereign states are sorely lacking in terms of their anticipated cost effectiveness. The feasible set of policy architectures is thus limited to second-best alternatives. Much more attention needs to be given -- both by scholarly research and by international negotiations -- to aspects of future international climate agreements that will affect the degrees of participation and compliance that can reasonably be expected to be forthcoming.

Barrios, Salvador
PD June 2003. **TI** Dry Times in Africa. **AU** Barrios, Salvador; Bertinelli, Luisito; Strobl, Eric. **AA** CORE, University of Louvain. **SR** University of Nottingham, CREDIT Research Paper: 03/07; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 15. **PR** no

charge. **JE** O40, Q54. **KW** Africa. Growth. Climate.
AB While there have been some references in the literature to the potential role of the general decline in rainfall in sub-Saharan African nations on their poor growth performance relative to other developing countries, this avenue remains empirically unexplored. In this paper we use a new cross-country panel climatic data set in an economic growth framework to explore the issue. Our results show that rainfall has been a significant determinant of poor economic growth for Africa, but not for other developing countries. Depending on the benchmark measure of potential rainfall, we estimate that the direct impact under the scenario of no decline in rainfall would have resulted in a reduction of between 13 and 36 per cent of today's gap in African GDP per capita relative to rest of the developing world.

Barro, Robert J.
TI Optimal Currency Areas. **AU** Alesina, Alberto; Barro, Robert J.; Tenreyro, Silvana.

Barrow, Lisa
PD July 2002. **TI** Using Market Valuation to Assess Public School Spending. **AU** Barrow, Lisa; Rouse, Cecilia Elena. **AA** Barrow: Federal Reserve Bank of Chicago. Rouse: Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 9054; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 31. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H42, I22, I28. **KW** Public School Spending. Valuation. Property Values.
AB In this paper we use a "market-based" approach to examine whether increased school expenditures are valued by potential residents and whether the current level of public school provision is inefficient. We do so by employing an instrumental variables strategy to estimate the effect of state education aid on residential property values. We find evidence that, on net, additional state aid is valued by potential residents and that school districts do not appear to overspend on education. We also find that school districts may overspend in areas in which residents are poor or less educated, in large districts, and in districts with higher shares of rental property. One interpretation of these results is that increased competition has the potential to reduce overspending on public schools in some areas.

Bassett, William
TI What Drives the Persistent Competitiveness of Small Banks? **AU** Brady, Tom; Bassett, William.

Bates, David
TI Multivariate Unit Root Tests and Testing for Convergence. **AU** Harvey, Andrew C.; Bates, David.

Battacharya, Jayanta
PD June 2002. **TI** Food Insecurity or Poverty? Measuring Need-Related Dietary Adequacy. **AU** Battacharya, Jayanta; Currie, Janet; Haider, Steven. **AA** Battacharya: Stanford University. Currie: UCLA and NBER. Haider: RAND. **SR** National Bureau of Economic Research Working Paper: 9003; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 18. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** I12, I32. **KW** Food Insecurity. Poverty. Diet.
AB We examine the extent to which food insecurity questions and the standard poverty measure are correlated with various dietary and physiologic outcomes. Our findings suggest that the correlations vary tremendously by age. We find that the food insecurity questions are correlated with the dietary outcomes of older household members, but that they are not consistently related to the diets of children. In contrast, poverty predicts dietary outcomes among preschoolers. Among adults, both poverty and food insecurity questions are good predictors of many dietary outcomes.

PD June 2002. **TI** Heat or Eat? Cold Weather Shocks and Nutrition in Poor American Families. **AU** Battacharya, Jayanta; DeLeire, Thomas; Haider, Steven; Currie, Janet. **AA** Battacharya: Stanford University. DeLeire: University of Chicago. Haider: RAND. Currie: UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 9004; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 20. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** I12, I32. **KW** Cold Weather. Food Expenditures. United States.
AB We examine the effects of cold weather periods on family budgets and on nutritional outcomes in poor American families. Expenditures on food and home fuels are tracked by linking the Consumer Expenditure Survey to temperature data. Using the Third National Health and Nutrition Examination Survey, we track calorie consumption, dietary quality, vitamin deficiencies, and anemia in summer and winter months. We find that both rich and poor families increase fuel expenditures in response to unusually cold weather (a 10 degree F drop below normal). At the same time, poor families reduce food expenditures by roughly the same amount as the increase in fuel expenditures, while rich families increase food expenditures. Poor adults and children reduce caloric intake by roughly 200 calories during winter months, unlike richer adults and children. In sensitivity analyses, we find that decreases in food expenditure are most pronounced outside the South. We conclude that poor parents and their children outside the South spend and eat less food during cold weather temperature shocks. We surmise that existing social programs fail to buffer against these shocks.

Beatty, Timothy K. M.
PD April 2001. **TI** Income Elasticity and Functional Form. **AU** Beatty, Timothy K. M.; LaFrance, Jeffrey T. **AA** University of California, Berkeley. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 922; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. **PG** 11. **PR** $5.00 domestic; $18.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** C30, C50. **KW** Income Elasticity. Functional Form. PIGLOG. Quadratic Utility.
AB A simple, utility theoretic, demand model which nests both the functional form of income and prices is presented. This model is used to calculate the income elasticities of twenty-one food items over the course of the last century.

Bebchuk, Lucian Arye
PD June 2002. **TI** The Powerful Antitakeover Force of

Staggered Boards: Theory, Evidence and Policy. AU Bebchuk, Lucian Arye; Coates, John C., IV..; Subramanian, Guhan. AA Bebchuk: Harvard University and NBER. Coates and Subramanian: Harvard University. SR National Bureau of Economic Research Working Paper: 8974; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 69. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G34, K22. KW Staggered Boards. Antitakeover Defense. Hostile Bid.

AB Staggered boards, which a majority of public companies now have, provide a powerful antitakeover defense, stronger than is commonly recognized. They provide antitakeover protection both by (i) forcing any hostile bidder, no matter when it emerges, to wait at least one year to gain control of the board and (ii) requiring such a bidder to win two elections far apart in time rather than a one-time referendum on its offer. Using a new data set of hostile bids in the five-year period 1996-2000, we find that not a single hostile bid won a ballot box victory against an "effective" staggered board (ESB). We also find that an ESB nearly doubled the odds of remaining independent, halved the odds that a first bidder would be successful, and reduced the odds of a sale to a white knight. Overall, we estimate that, in the period studied, ESBs reduced the returns of shareholders of hostile bid targets on the order of 8-10%. Finally, we show that most staggered boards were adopted before the developments in takeover doctrine that made ESBs such a potent defense.

PD July 2002. TI Managerial Power and Rent Extraction in the Design of Executive Compensation. AU Bebchuk, Lucian Arye; Fried, Jesse M.; Walker, David I. AA Bebchuk: Harvard University and NBER. Fried: UC Berkeley. Walker: Boston University. SR National Bureau of Economic Research Working Paper: 9068; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 98. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D23, G32, G34, G38, J33, J44, K22, M14. KW Executive Compensation. Optimal Contracts. Shareholder Value.

AB This paper develops an account of the role and significance of managerial power and rent extraction in executive compensation. Under the optimal contracting approach to executive compensation, which has dominated academic research on the subject, pay arrangements are set by a board of directors that aims to maximize shareholder value. In contrast, the managerial power approach suggests that executives have power to influence their own pay, and they use that power to extract rents. Furthermore, the desire to camouflage rent extraction might lead to the use of inefficient pay arrangements that provide suboptimal incentives and thereby hurt shareholder value. The authors show that the processes that produce compensation arrangements leave managers with considerable power to shape their own pay arrangements. Examining the large body of empirical work on executive compensation, the authors show that managerial power and the desire to camouflage rents can explain significant features of the executive compensation landscape, including ones that have long been viewed as puzzling or problematic from the optimal contracting perspective.

PD July 2002. TI The Case Against Board Veto in Corporate Takeovers. AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 9078; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 57. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G32, G34, K22. KW Corporate Takeovers. Board Veto.

AB This paper argues that once undistorted shareholder choice is ensured -- which can be done by making it necessary for hostile bidders to win a vote of shareholder support -- boards should not have veto power over takeover bids. The paper considers all of the arguments that have been offered for board veto including ones based on analogies to other corporate decisions, directors' superior information, bargaining by management, pressures on managers to focus on the short-run, inferences from IPO charters, interests of long-term shareholders, aggregate shareholder wealth, and protection of stakeholders. Examining these arguments both for their theoretical consistency and in light of all available empirical evidence, the paper concludes that none of them individually, nor all of them taken together, warrants a board veto. Finally, the paper discusses the implications for judicial review of defensive tactics.

Beck, Thorsten

PD June 2002. TI Industry Growth and Capital Allocation: Does Having a Market- or Bank-Based System Matter? AU Beck, Thorsten; Levine, Ross. AA Beck: The World Bank. Levine: University of Minnesota and NBER. SR National Bureau of Economic Research Working Paper: 8982; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 32. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE O16, O49. KW Banking System. Financial System. Growth.

AB Are market-based or bank-based financial systems better at financing the expansion of industries that depend heavily on external finance, facilitating the formation of new establishments, and improving the efficiency of capital allocation across industries? We find evidence for neither the market-based nor the bank-based hypothesis. While legal system efficiency and overall financial development boost industry growth, new establishment formation, and efficient capital allocation, having a bank-based or market-based system per se does not seem to matter much.

PD July 2002. TI Stock Markets, Banks, and Growth: Panel Evidence. AU Beck, Thorsten; Levine, Ross. AA Beck: The World Bank. Levine: University of Minnesota and NBER. SR National Bureau of Economic Research Working Paper: 9082; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 20. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E44, G20, O16. KW Stock Markets. Banks. Economic Growth.

AB This paper investigates the impact of stock markets and banks on economic growth using a panel data set for the period 1976-98 and applying recent GMM techniques developed for dynamic panels. On balance, we find that stock markets and banks positively influence economic growth and these findings are not due to potential biases induced by simultaneity, omitted variables, or unobserved country- specific effects.

PD August 2002. TI Law, Endowment, and Finance. AU Beck, Thorsten; Demirguc-Kunt, Asli; Levine, Ross. AA Beck and Demirguc-Kunt: The World Bank. Levine: University of Minnesota and NBER. SR National Bureau of

Economic Research Working Paper: 9089; 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** G20, K49, O11, P51. **KW** Financial Development. International Differences. Endowment Theory. Law and Finance Theory.

AB This paper assesses two theories regarding the historical determinants of international differences in financial development. The law and finance theory holds that legal traditions differ in terms of the priority they attach to protecting the rights of private investors vis-a-vis the State and that these differences have important implications for financial development. The endowment theory argues that the disease and geographical environment influence the formation of long-lasting institutions that influence financial development. Using a sample of former colonies, we explore whether the legal system brought by colonizers and/or the initial disease/geographical endowments encountered by colonizers explain financial development today. The empirical results indicate that both the legal systems brought by colonizers and the initial endowments in the colonies are important determinants of stock market development and private property rights protection. However, initial endowments are more robustly associated with financial intermediary development than legal origin and initial endowments explain more of the cross-country variation in financial intermediary and stock market development than legal origin.

Beetsma, Roel M. W. J.
PD August 2002. **TI** Monetary and Fiscal Policy Interactions in a Micro-Founded Model of a Monetary Union. **AU** Beetsma, Roel M. W. J.; Jensen, Henrik. **AA** Beetsma: University of Amsterdam. Jensen: University of Copenhagen. **SR** European Central Bank Working Paper: 166; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 42. **PR** no charge. **JE** E52, E61, E62, E63, F33. **KW** Policy Mix. Monetary Policy Rules. Fiscal Policy Rules. Monetary Union.

AB So far, the "new open economy macroeconomics" literature has focused on monetary policy and monetary policy rules and has paid little attention to fiscal policy. This is an omission because, especially with the advent of the EMU, the role fiscal policy as an instrument for macroeconomic stabilization has potentially increased. In this paper, we focus on the interactions between monetary and fiscal policy in a micro-founded model of a monetary union. By extending a two-country, New-Keynesian model with public spending, we find that the forward- looking Phillips curves depend on consumption, terms-of-trade and public spending deviations from their respective stochastic natural rates. We study the optimal coordinated monetary and fiscal policies for various settings. We also consider simple monetary and fiscal policy rules and investigate to what extent these rules can approximate the optimal solution under commitment.

Beierle, Thomas
PD March 2002. **TI** From Uruguay to Doha: Agricultural Trade Negotiations at the World Trade Organization. **AA** Resources for the Future. **SR** Resources for the Future Discussion Paper: 02/13; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott

Hase at hase@rff.org. Website: www.rff.org. **PG** 66. **PR** domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. **JE** F13, Q17. **KW** Trade. Agriculture. WTO. GATT.

AB This paper examines current agricultural trade negotiations at the World Trade Organization, with particular attention to the relationship between liberalization and developing countries' economic growth and food security. Agriculture remains one of the most highly protected arenas of international trade. The cost of such protection falls particularly hard on developing countries, where agriculture typically accounts for a much higher share of economic output, exports, and employment than in developed countries. Although the 1994 Uruguay Round of trade talks succeeded in bringing agriculture into the rules-based trading system, it did little to actually reduce agricultural trade protection. This paper describes how three important actors in the agricultural trading system -- the United States, the European Union, and developing countries -- are positioning themselves in the current talks to deal with the unfinished business from the Uruguay Round.

Benigno, Pierpaola
PD September 2002. **TI** Inflation Persistence and Optimal Monetary Policy in the Euro Area. **AU** Benigno, Pierpaola; Lopez-Salido, J. David. **AA** Benigno: New York University and CEPR. Lopez-Salido: Banco de Espana and CEPR. **SR** European Central Bank Working Paper: 178; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 46. **PR** no charge. **JE** E52, E58. **KW** Optimal Monetary Policy. Currency Areas. Inflation Dynamics.

AB In this paper we present supporting evidence of the existence of heterogeneity in inflation dynamics across euro area countries. Based on the estimation of New Phillips Curves for five major countries of the euro area, we find that there is significant inertial (backward looking) behavior in inflation in four of them, while inflation in Germany has a dominant forward looking component. We then present an optimizing agent model for the area emphasizing the heterogeneity in inflation persistence across regions. Allowing for such a backward looking component will affect the evaluation of the degree of nominal rigidities relevant for the monetary policy design. We explore the welfare implications of this circumstance by comparing the adjustment of the economies and the area as a whole in response to terms-of-trade shocks under four monetary policy rules: fully optimal, optimal inflation targeting, HICP targeting, and output gap stabilization.

Berck, Peter
PD February 2000. **TI** Developing a Methodology for Assessing the Economic Impacts of Large Scale Environmental Regulations. **AU** Berck, Peter; Hess, Peter. **AA** University of California, Berkeley. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 924; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. **PG** 48. **PR** $12 domestic; $24 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** Q25, Q28. **KW** Air

Pollution. CGE Model. Dynamic Revenue Analysis Model. Environmental Regulations. Vector Auto Regression Techniques.

AB This paper explains the development and implementation of a methodology for assessing the economic impacts of large scale environmental regulations. The development process began with a literature review surveying channels through which environmental regulations might influence economic performance. Avenues deemed suitable were incorporated into a computable general equilibrium (CGE) model of the California economy. This model is based on the California Department of Finance's Dynamic Revenue Analysis Model (DRAM). Modifications to DRAM for the current project include a revised sectoring scheme that features industries of particular regulatory interest, revamped data matrices that accommodate this new sectoring scheme, a new air pollution module, programming options designed to facilitate the simulation of environmental regulations, and enhanced output reporting that highlights income, production, employment, and price responses to proposed regulatory changes. The new model, E-DRAM, is implemented, policy experiments are run, and their results are interpreted. A brief time-series exploration of state-product, pollution prevention costs, and pollution follows. Findings suggests that the cost of holding pollution levels constant increases with Gross State Product (GSP) and that the cost of pollution control given GSP rises as ambient pollution levels fall. This line of inquiry will be more fruitful as more data becomes available.

PD September 1997. TI Estimation of Household Demand for Goods and Services in California's Dynamic Revenue Analysis Model. AU Berck, Peter; Hess, Peter; Smith, Bruce D. AA Berck and Hess: University of California, Berkeley. Smith: California Department of Finance. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 923; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/ workpap.html. PG 17. PR $5 domestic; $10 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE D10, D12. KW Household Demand. Consumer Demand. CGE Models. DRAM.

AB The purpose of this paper is to present the results of investigations into more flexible functional forms of household demand than those incorporated in the original Dynamic Revenue Analysis Model (DRAM). What follows is a brief review of consumer demand theory and a description of our procedure, including data development, for estimating coefficients of a desirable functional form. In brief, a Linear Approximate Almost Ideal Demand (LA/AIDS) is chosen to replace commonly used Cobb-Douglas demand equations. The former is estimated using current and geographically relevant Bureau of Labor Statistics (BLS) data. How these new functional forms will be implemented in DRAM and their impact on results of the model are then discussed. Conclusions follow.

Berger, Allen N.

PD April 2002. TI Credit Scoring and the Availability, Price, and Risk of Small Business Credit. AU Berger, Allen N.; Frame, W. Scott; Miller, Nathan H. AA Berger: Board of Governors of the Federal Reserve System and Wharton

Financial Institutions Center. Frame: Federal Reserve Bank of Atlanta. Miller: Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/26; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 38. PR no charge. JE G21, G28, G34, L23. KW Banks. Credit Scoring. Small Business. Risk.

AB We examine the economic effects of small business credit scoring (SBCS) and find that it is associated with expanded quantities, higher average prices, and greater risk levels for small business credits under $100,000. These findings are consistent with a net increase in lending to relatively risky "marginal borrowers" that would otherwise not receive credit, but pay relatively high prices when they are funded. We also find that: 1) bank-specific and industry-wide learning curves are important; 2) SBCS effects differ for banks that adhere to "rules" versus "discretion" in using the technology; and 3) SBCS effects differ for slightly larger credits.

PD June 2002. TI Technological Progress and the Geographic Expansion of the Banking Industry. AU Berger, Allen N.; DeYoung, Robert. AA Berger: Board of Governors of the Federal Reserve System and Wharton Financial Institutions Center. DeYoung: Federal Reserve Bank of Chicago. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/31; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 40. PR no charge. JE G21, G28, G34, L11. KW Banks. Efficiency. Mergers. Productivity. Technological Progress.

AB We test some predictions about the effects of technological progress on geographic expansion using data on banks in U.S. multi-bank holding companies over 1985-1998. Specifically, we test whether over time (a) parental control over affiliate banks has increased, and (b) the agency costs associated with distance from the parent have decreased. The data suggest that banking organizations exercise significant control over affiliates that has been increasing over time, and that the agency costs associated with distance have decreased somewhat over time. The findings are consistent with the hypothesis that technological progress has facilitated the geographic expansion of the banking industry.

PD September 2002. TI The Economic Effects of Technological Progress: Evidence from the Banking Industry. AA Board of Governors of the Federal Reserve System and Wharton Financial Institutions Center. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/50; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 42. PR no charge. JE G21, G28, G34, O30. KW Technological Progress. Productivity. Banks. Mergers. Efficiency.

AB This paper examines technological progress and its effects in the banking industry. Banks are intensive users of both IT and financial technologies, and have a wealth of data available that may be helpful for the general understanding of the effects of technological change. The research suggests improvements in costs and lending capacity due to improvements in "back-office" technologies, as well as consumer benefits from improved "front-office" technologies.

The research also suggests significant overall productivity increases in terms of improved quality and variety of banking services. In addition, the research indicates that technological progress likely helped facilitate consolidation of the industry.

PD October 2002. TI Capital Structure and Firm Performance: A New Approach to Testing Agency Theory and an Application to the Banking Industry. AU Berger, Allen N.; Bonaccorsi di Patti, Emilia. AA Berger: Board of Governors of the Federal Reserve System and Wharton Financial Institutions Center. Bonaccorsi di Patti: Bank of Italy. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/54; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 37. PR no charge. JE G21, G28, G32, G34. KW Capital Structure. Agency Costs. Banking. Efficiency.
AB Corporate governance theory predicts that leverage affects agency costs and thereby influences firm performance. We propose a new approach to test this theory using profit efficiency, or how close a firm's profits are to the benchmark of a best-practice firm facing the same exogenous conditions. We are also the first to employ a simultaneous-equations model that accounts for reverse causality from performance to capital structure. We also control for measures of ownership structure in the tests. We find that data on the U.S. banking industry are consistent with the theory, and the results are statistically significant, economically significant, and robust.

Bergloef, Erik
TI Optimal Debt Design and the Role of Bankruptcy. AU von Thadden, Ernst-Ludwig; Bergloef, Erik; Roland, Gerard.

Berkowitz, Jeremy
PD June 2002. TI Bankruptcy and Small Firms' Access to Credit. AU Berkowitz, Jeremy; White, Michelle J. AA Berkowitz: University of Houston. White: UCSD and NBER. SR National Bureau of Economic Research Working Paper: 9010; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 18. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E51, K35. KW Bankruptcy. Capital Imperfections. Small Firms.
AB In this paper, we investigate how personal bankruptcy law affects small firms' access to credit. When a firm is unincorporated, its debts are personal liabilities of the firm's owner, so that lending to the firm is legally equivalent to lending to its owner. If the firm fails, the owner has an incentive to file for personal bankruptcy, since the firm's debts will be discharged and the owner is only obliged to use assets above an exemption level to repay creditors. The higher the exemption level, the greater is the incentive to file for bankruptcy. We show that supply of credit falls and demand for credit rises when non-corporate firms are located in states with higher bankruptcy exemptions. We test the model and find that, if small firms are located in states with unlimited rather than low homestead exemptions, they are more likely to be denied credit, they receive smaller loans and interest rates are higher. Results for non-corporate versus corporate firms suggest that lenders often disregard small firms' organizational status in making loan decisions.

Bernard, Andrew B.
PD July 2002. TI The Deaths of Manufacturing Plants. AU Bernard, Andrew B.; Jensen, J. Bradford. AA Bernard: Dartmouth College and NBER. Jensen: University of Maryland. SR National Bureau of Economic Research Working Paper: 9026; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 31. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D20, F10, L20, L60. KW Manufacturing. International Competition. Shutdowns.
AB This paper examines the causes of manufacturing plant deaths within and across industries in the U.S. from 1977-1997. The effects of international competition from low wage countries, exporting, ownership structure, product diversity, productivity, geography, and plant characteristics are considered. The probability of shutdowns is higher in industries that face increased competition from low-income countries, especially for low-wage, labor-intensive plants within those industries. Conditional on industry and plant characteristics, closures occur more often at plants that are part of a multi-plant firm and at plants that have recently experienced a change in ownership. Plants owned by U.S. multinationals are more likely to close than similar plants at non-multinational firms. Exits occur less frequently at multi-product plants, at exporters, at plants that pay above average wages, and at large, older, more productive and more capital-intensive plants.

PD July 2002. TI Factor Price Equalization in the UK? AU Bernard, Andrew B.; Redding, Stephen; Schott, Peter K.; Simpson, Helen. AA Bernard: Tuck School of Business and NBER. Redding: London School of Economics. Schott: Yale University and NBER. Simpson: Institute for Fiscal Studies. SR National Bureau of Economic Research Working Paper: 9052; 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 F11, F14, F16. KW Factor Price Equalization. United Kingdom.
AB This paper develops a general test of factor price equalization that is robust to unobserved regional productivity differences, unobserved region-industry factor quality differences and variation in production technology across industries. We test relative factor price equalization across regions of the UK. Although the UK is small and densely-populated, we find evidence of statistically significant and economically important departures from relative factor price equalization. Our estimates suggest three distinct relative factor price areas with a clear spatial structure. We explore explanations for these findings, including multiple cones of diversification, region- industry technology differences, agglomeration and increasing returns to scale.

Bernard, Jean-Thomas
PD June 2002. TI The Measurement of the Energy Intensity of Manufacturing Industries: A Principal Components Analysis. AU Bernard, Jean-Thomas; Cote, Bruno. AA Resources for the Future. SR Resources for the Future Discussion Paper: 02/31; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 17. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE C43, L60, Q41. KW Energy Intensity. Aggregation. Principal Components.

AB Energy intensity is the ratio of energy use to output. Most -industries deal with several energy sources and outputs. This leads to the usual difficulties of aggregating heterogeneous inputs and outputs. We apply principal components analysis to assess the information derived from six energy intensity indicators. We use two measures of total energy use (thermal and economic) and three measures of industry output (value added, value of production, and value of shipments). The data comes from manufacturing industries in Quebec, Ontario, Alberta, and British Columbia from 1976 to 1996. We find that the variation of the six energy intensity indicators that is accounted for by the first principal component is quite large. However, depending on how variables are measured, there may be significant differences in the assessment of the evolution of energy intensity for some industries. This makes identifying benchmarks that could be used to assess future performance difficult.

AB Since January 1997, the United States wholesale electricity market has been open to competition. To satisfy the reciprocity requirements imposed by the Federal Energy Regulatory Commission, Hydro-Quebec made its transmission grid accessible to third parties. Under current regulations, transmission losses are accounted for through a single, constant rate. Hydro-Quebec generates most of its electricity from hydro resources. Long high-voltage power lines link production in the North to consumption centers in the South, where there are interconnections with neighboring areas. We develop an optimization model that allows us to calculate nodal prices on the basis of the opportunity costs of exports. Hydro resources and interconnections with neighbors tend to equalize nodal prices between peak and off-peak periods. However, transmission losses give rise to large price differences between the northern and the southern regions. The disregard for price differences under the current regulation has implications for locating new power stations.

Bernheim, B. Douglas

AB We examine democratic policy-making in a simple institution with real-time agenda setting. Individuals are recognized sequentially. Once recognized, an individual makes a proposal, which is immediately put to a vote. If a proposal passes, it supercedes all previously passed proposals. The policy that emerges from this process is implemented. For some familiar classes of policy spaces with rich distributional politics, we show that the last proposer is effectively a dictator under a variety of natural conditions. Most notably, this occurs whenever a sufficient number of individuals have opportunities to make proposals. Thus, under reasonably general assumptions, control of the final proposal with real-time agenda setting confers as much power as control of the entire agenda.

Bertail, Patrice

AB This paper presents statistical methods based on extreme value theory, for evaluating risk exposures from food contaminants. We focus on estimating the probability the exposure exceeds a fixed safe level such as Provisional Tolerable Weekly Intake (PTWI). Different calculations of risk exposure are proposed and compared. Indeed, as exposure is the product of contamination and consumption values, assumptions about the aggregation of data have a crucial role in the risk evaluation for many contaminants, PTWI belongs to the exposure tail distribution, which suggests the use of Extreme Value Theory to evaluate the risk. Our approach consists in modeling the exposure tail by a Pareto type distribution characterized by a Pareto index which may be seen as a measure of risk. Using propositions by Hall, Feuverger, Beirlant, et al., we correct the bias of the usual Hill estimator to accurately estimate the risk index. We compare the results with an empirical plug-in method and show that the Pareto adjustment is relevant and efficient for low risk evaluation while the plug-in method should be used for risky contaminants. To illustrate our approach, we present some evaluations of risk exposure to heavy metals (lead, cadmium, mercury) via sea product consumption.

Bertinelli, Luisito

Bertola, Guiseppe

AB Using data from 17 OECD countries over the 1960-96

period, we investigate the impact of institutions on the relative employment of youth, women, and older individuals. Theoretically, we show that labor market institutions meant to improve workers' income share imply larger disemployment effects for groups whose labor supply is more elastic. Using an empirical model that allows us to control for unmeasured country-specific factors that affect relative employment and unemployment, we find that, for both men and women, more extensive involvement of unions in wage-setting significantly decreases the employment rate of young and older individuals relative to the prime- aged, with no significant effects on the relative unemployment of these groups. In contrast, a larger role for unions has insignificant effects on male-female employment differentials, but raises female unemployment relative to male unemployment. These results suggest that union wage- setting policies price the young and elderly out of employment and drive disemployed individuals in these groups to non-labor-force (education, retirement) states. A possible scenario for women is that high union wages encourage female labor force participation, but that women who would otherwise be disemployed by high wage floors are able to find work in unregulated sectors or are absorbed by public employment.

Besendorfer, Daniel
TI   Intertemporal State Budgeting. AU   Baker, Bruce; Besendorfer, Daniel; Kotlikoff, Laurence J.

Bharvirkar, Ranjit
TI   Investment in Electricity Transmission and Ancillary Environmental Benefits. AU   Bloyd, Cary; Bharvirkar, Ranjit; Burtraw, Dallas.

TI   The Effect on Asset Values of the Allocation of Carbon Dioxide Emission Allowances. AU   Burtraw, Dallas; Palmer, Karen; Bharvirkar, Ranjit; Paul, Anthony.

Bils, Mark
PD   July 2002. TI   Some Evidence on the Importance of Sticky Prices. AU   Bils, Mark; Klenow, Peter J. AA   Bils: University of Rochester and NBER. Klenow: Federal Reserve Bank of Minneapolis and NBER. SR   National Bureau of Economic Research Working Paper: 9069; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   30. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   E31, L11. KW   Flexible-Price Goods. Sticky-Price Goods. Inflation. Price Changes.
AB   We examine the frequency of price changes for 350 categories of goods and services covering about 70% of consumer spending, based on unpublished data from the BLS for 1995 to 1997. Compared with previous studies we find much more frequent price changes, with half of prices lasting less than 4.3 months. The frequency of price changes differs dramatically across categories. We exploit this variation to ask how inflation for "flexible-price goods" (goods with frequent changes in individual prices) differs from inflation for "sticky-price goods" (those displaying infrequent price changes). Compared to the predictions of popular sticky price models, actual inflation rates are far more volatile and transient, particularly for sticky-price goods.

Bishop, Kate
PD   September   2002.   TI   Endogenous   Ownership Structure: Factors Affecting the Post- Privatisation Equity in Largest Hungarian Firms. AU   Bishop, Kate; Filatotchev, Igor; Mickiewicz, Tomasz. AA   University College London. SR   Fondazione Eni Enrico Mattei Note di Lavoro: 2002/78; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG   22. PR   no charge; available only on website. JE   G32, G34, P31. KW   Ownership Structure. Corporate Control. Foreign Investors. Privatization.
AB   Using a data set for the 162 largest Hungarian firms during the period 1994-1999 this paper explores the determinants of equity shares held by both foreign investors and by Hungarian corporations. We find evidence of a post-privatization evolution towards more homogeneous equity structures, where dominant categories of owners aim at achieving controlling stakes. Here, the foreign investors and Hungarian corporations play a major role. In addition, focusing on firm level characteristics we find that the exporting firms attract foreign owners, who acquire controlling equity stakes. Similarly, the firm size measurements are positively associated with the presence of foreign investors. However, they are negatively associated with 100% foreign ownership, possibly because the marginal costs of acquiring additional equity are growing with the size of the assets. We interpret the results in light of the existing theory. In particular, following Demsetz and Lehn (1985) and Demsetz and Villalonga (2001) we argue that equity should not be treated as an exogenous variable. As for specific determinants of equity levels, we focus on informational asymmetries and (unobserved) ownership specific characteristics of foreign investors and Hungarian investors.

Blackman, Allen
PD   September 2002. TI   Scrap Tires in Ciudad Juarez and El Paso: Ranking the Risks. AU   Blackman, Allen; Palma, Alejandra. AA   Resources for the Future. SR   Resources for the Future Discussion Paper: 02/46; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG   19. PR   domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE   I18, Q53. KW   Scrap Tires. U. S. -Mexico Border. Environment. Health. Risk Assessment.
AB   According to conventional wisdom, rapidly growing stocks of scrap tires on the U.S. -- Mexico border pose a variety of health and environmental risks. This article assesses these risks in Paso del Norte, the border's second-largest metropolis comprised principally of Ciudad Juarez, Chihuahua, and El Paso, Texas. We find that air pollution from tire pile fires poses the greatest threat. Scrap tires in Paso del Norte do not contribute significantly to the propagation of mosquito-borne diseases or to shortages of space in solid waste disposal sites. The burning of scrap tires at industrial facilities is minimal and might not have significant adverse environmental impacts even if it were more common.

Blake, Adam
PD   April 2001. TI   The Impact on Uganda of Agricultural Trade Liberalization. AU   Blake, Adam; McKay, Andrew; Morrissey, Oliver. AA   University of Nottingham. SR   University of Nottingham, CREDIT Research Paper: 01/07; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United

Kingdom. Website: www.nottingham.ac.uk/economics/credit/. ·PG 16. PR no charge. JE F10, F14, Q17. KW Uganda. Agriculture. Trade Liberalization. Uruguay Round.

AB This paper evaluates the impact on Uganda of the liberalization of world trade, especially in agricultural commodities, as proposed in the Uruguay Round. We can draw three broad conclusions. First, the impact of multilateral liberalization on a low-income country such as Uganda appears to be quite slight, albeit positive, largely because there is only a slight impact on the world prices of the agricultural commodities it exports. Second, the principal gains actually arise from reforms that are essentially unilateral trade liberalization. Third, the impact is likely to be pro-poor. Although the largest proportional gains are to the urban self-employed, there are significant gains in agriculture that benefit almost all categories of rural household.

Blanchard, Olivier

PD September 2002. TI Current Account Deficits in the Euro Area: The End of the Feldstein Horioka Puzzle? AU Blanchard, Olivier; Giavazzi, Francesco. AA MIT. SR MIT, Department of Economics Working Paper: 03/05; Linda Woodbury, MIT Department of Economics, E52-251, 50 Memorial Drive, Cambridge, MA 02142. Website: ssrn.com/abstract_id=372880. PG 43. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE F32, F36, F41, F43. KW Current Account. Europe. Euro. Feldstein Horioka Puzzle. Saving. Investment. Capital Market Integration. Product Market Integration.

AB Both Portugal and Greece have been running large current account deficits, and these are expected to continue in the future. Yet, financial markets do not appear to be worried. Starting from this observation, we document that Portugal and Greece are in fact representative of a broader evolution: the increasing integration of goods and financial markets is leading to an increasing decoupling of saving and investment within the European Union, and even more so within the Euro area. In particular, it is allowing poorer countries to invest more, save less, and run larger current account deficits. The converse holds for the richer countries.

Blank, Rebecca M.

PD June 2002. TI Evaluating Welfare Reform in the United States. AA University of Michigan and NBER. SR National Bureau of Economic Research Working Paper: 8983; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 84. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I38, J22. KW Welfare Reform. Poverty. Family Formation. Labor Force Changes.

AB This paper reviews the economics literature on welfare reform over the 1990s. A brief summary of the policy changes over this period is followed by a discussion of the methodological techniques utilized to analyze the effects of these changes on outcomes. The paper then critically reviews the econometric and experimental literature on caseload changes, labor force changes, poverty and income changes, and family formation changes. A growing body of evidence suggests that the recent policy changes have influenced economic behavior and well-being in a variety of ways. One particular set of "new-style" welfare programs seems to show especially promising results, with significantly increased work,

earnings, and reduced poverty.

Blau, Francine D.

TI Labor Market Institutions and Demographic Employment Patterns. AU Bertola, Guiseppe; Blau, Francine D.; Kahn, Lawrence M.

PD July 2002. TI The Role of the Family in Immigrants' Labor-Market Activity: Evidence from the United States. AU Blau, Francine D.; Kahn, Lawrence M.; Moriarty, Joan Y.; Souza, Andre Portela. AA Blau: Cornell University, NBER, and CESifo. Kahn: Cornell University and CESifo. Moriarty: Cornell University. Souza: University of Sao Paolo. SR National Bureau of Economic Research Working Paper: 9051; 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 J15, J22, J31. KW Immigrants. Labour Supply. Husbands and Wives.

AB We use Census of Population microdata for 1980 and 1990 to examine the labor supply and wages of immigrant husbands and wives in the United States in a family context. Earlier research by Baker and Benjamin (1997) posits a family investment model in which, upon arrival, immigrant husbands invest in their human capital while immigrant wives work to provide the family with liquidity during this period. Consistent with this model, they find for Canada that immigrant wives work longer hours upon arrival than comparable natives, but, with time in Canada, they are eventually overtaken by native wives. In contrast, we find that, among immigrants to the United States, both husbands and wives work and earn less than comparable natives upon arrival, with similar shortfalls for men and women. Further, both immigrant husbands and wives have similar, positive assimilation profiles in wages and labor supply and eventually overtake both the wages and the labor supply of comparable natives.

Bleaney, Michael

PD October 2001. TI Monetary Policy after Financial Liberalization: A Central Bank Reaction Function for Botswana. AU Bleaney, Michael; Lisenda, Lisenda. AA Bleaney: University of Nottingham. Lisenda: Botswana Institute for Development Policy Analysis. SR University of Nottingham, CREDIT Research Paper: 01/17; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 12. PR no charge. JE E43, E52, E58. KW Monetary Policy. Financial Liberalization. Central Bank. Botswana.

AB A reaction function is estimated for interest rates set by the Bank of Botswana since financial liberalization. Interest rate changes tend to be larger and somewhat less frequent than in developed countries. Interest rates are nevertheless smoothed in the sense that successive changes tend to be in the same direction. Interest rates react significantly to private sector credit growth and to recent inflation, but not to the real exchange rate or to South African interest rates. The estimated long-run inflation coefficient is low, and much lower than in developed countries.

PD February 2002. TI Stabilizations, Crises and the "Exit" Problem -- A Theoretical Model. AU Bleaney, Michael; Gundermann, Marco. AA University of Nottingham. SR University of Nottingham, CREDIT

Research Paper: 02/06; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 19. **PR** no charge. **JE** E63, F31. **KW** Exchange Rates. Stabilization. Crises.

AB Exchange-rate-based stabilizations, even if successful, usually lack credibility initially. This is reflected in high (ex post) real interest rates and some degree of real exchange rate appreciation. Empirical observation suggests that wage inflation declines smoothly over time whilst interest rates are volatile. We capture this by assuming that expectations are formed adaptively in labor markets, but rationally in financial markets. The model provides insights into: the eruption of exchange rate crises after a long period of apparently successful stabilization; the potential advantages of heterodox approach; when to delay a stabilization attempt; and the optimal date for "exit" to a floating exchange rate.

PD August 2002. **TI** The Aftermath of a Currency Collapse: How Different Are Emerging Markets? **AA** University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 02/07; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 16. **PR** no charge. **JE** E31, F31, O40. **KW** Currency Crisis. Exchange Rate. Growth. Inflation.

AB In currency crises, unlike in orderly devaluations, the financial markets dominate events. It is shown that currency collapses (crises followed by depreciations) have had a much greater adverse impact in emerging markets (defined as relatively high-income developing countries exposed to international capital markets) than in developed countries. There is greater nominal and real depreciation, a substantial inflation shock, a much bigger output effect, and far greater import compression, whilst inflows of portfolio capital virtually cease. There is wide variation in the post-collapse experience of emerging markets.

PD November 2002. **TI** International Labour Mobility and Unemployment. **AU** Bleaney, Michael; Roberts, Mark A. **AA** University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 02/14; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 14. **PR** no charge. **JE** F22, J51, J61. **KW** Labour Mobility. Unions. Wage Bargaining. Globalization. Unemployment.

AB We develop a two-country labor-market model characterized by union wage-bargaining, in which the unemployed incur individual-specific costs of seeking work abroad. We explore the effects on equilibrium unemployment in each country of changes in union bargaining strength, the ratio of unemployment benefits to wages, and employers' willingness to hire foreign workers. Unfavorable labor-market institutions increase unemployment abroad as well as at home. We find that no country has an incentive to internationalize its own labor market unilaterally because all of the employment gains spill over abroad which gives countries a strong incentive to co-ordinate on internationalization.

PD December 2002. **TI** Economic Growth and Income Inequality. **AU** Bleaney, Michael; Nishiyama, Akira.

AA University of Nottingham. **SR** University of Nottingham, CREDIT Research Paper: 02/28; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 16. **PR** no charge. **JE** D63, O40. **KW** Economic Growth. Income Inequality.

AB We investigate whether income inequality affects subsequent growth in a cross-country sample for 1965-90, using the models of Barro (1997), Bleaney and Nishiyama (2002) and Sachs and Warner (1997), with negative results. We then investigate the evolution of income inequality over the same period and its correlation with growth. The dominating feature is inequality convergence across countries. This convergence has been significantly faster amongst developed countries. Growth does not appear to influence the evolution of inequality over time.

Blonigen, Bruce A.

PD July 2002. **TI** Tariff-Jumping FDI and Domestic Firms' Profits. **AU** Blonigen, Bruce A.; Tomlin, KaSaundra; Wilson, Wesley W. **AA** Blonigen: University of Oregon and NBER. Tomlin: Howard University. Wilson: University of Oregon. **SR** National Bureau of Economic Research Working Paper: 9027; 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** F13, F23, L11. **KW** Foreign Direct Investment. Trade Policy. Antidumping.

AB Studies of the welfare implications of trade policy often do not take account of the potential for tariff-jumping FDI to mitigate positive gains to domestic producers. We use event study methodology to examine the market effects for U.S. domestic firms that petitioned for antidumping (AD) relief, as well as the effect of announcements of FDI by their foreign rivals in the U.S. market on these U.S. petitioning firms. On average, affirmative U.S. AD decisions are associated with 3% abnormal gains to a petitioning firm when there is no tariff-jumping FDI, but no abnormal gains if there is tariff-jumping FDI. The evidence for this mitigating effect is strongest when announcements of the intended tariff-jumping FDI have already occurred before an AD decision takes place, which happened in a fair number of cases. We also find evidence that the announcements of plant expansions (and, to some extent, new plants) have significantly larger negative effects on U.S. domestic firms' profits than other types of FDI, including acquisitions and joint ventures.

Bloyd, Cary

PD March 2002. **TI** Investment in Electricity Transmission and Ancillary Environmental Benefits. **AU** Bloyd, Cary; Bharvirkar, Ranjit; Burtraw, Dallas. **AA** Resources for the Future. **SR** Resources for the Future Discussion Paper: 02/14; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. **PG** 19. **PR** domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. **JE** L94, Q25, Q41. **KW** Electricity. Transmission. Air Pollution. Ancillary Benefits. Nitrogen Oxides. Sulfur Dioxide. Carbon Dioxide.

AB Planning of the electricity transmission system generally focuses on the pros and cons of providing generation close to

the source of the power demand versus remote generation linked via the transmission system. Recent electricity supply problems in the western United States have renewed interest in the role of transmission in assuring the reliability of electricity supply. Recently, the Western Governors' Association led the development of a planning exercise that examined the tradeoffs over the next 10 years between locating new natural gas powered generation close to the load centers versus new coal, wind, hydro, and geothermal generation in remote areas. Although the analysis concentrated on the direct system costs, the choice of new generation will have both local and global environmental impacts. This paper examines some of the "ancillary" environmental effects of electricity transmission decisions using a suite of models that combine to provide an integrated assessment.

Boemare, Catherine

PD June 2002. TI Implementing Greenhouse Gas Trading in Europe: Lessons from Economic Theory and International Experiences. AU Boemare, Catherine; Quirion, Philippe. AA CIRED/EHESS. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/35; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 19. PR no charge; available only on website. JE D78, Q25, Q28, Q48. KW Emissions Trading. Climate Change Policy. Policy-Making.
AB The European Commission (2001a) recently presented a directive proposal to the Parliament and the Council to implement a tradable permits scheme. However, as stressed by the positive political economy, due to the influence of various interest groups, very few environmental policies are implemented in their textbook forms. A close look at implemented emission trading schemes, stressing their discrepancies with textbook requests, is thus useful to increase the chances of forthcoming emission trading schemes to go through the political process without being watered down. We thus review ten emission trading systems, that are either implemented or at an advanced stage of the policy process. We draw attention to major points to be aware of when designing an emission trading system: participants, spatial coverage, permits allocation, temporal flexibility, trading organization, monitoring, enforcement, compliance, and the harmonization vs. subsidiarity issue. The aim is to evaluate how far experiences in emission trading move away from theory and why. We then provide some lessons and recommendations on how to implement a greenhouse gas emission trading program in Europe. A review of the theoretical and applied literature, and some interviews, lead us to the assessment of the European system.

Bonaccorsi di Patti, Emilia

TI Capital Structure and Firm Performance: A New Approach to Testing Agency Theory and an Application to the Banking Industry. AU Berger, Allen N.; Bonaccorsi di Patti, Emilia.

Bontems, Philippe

PD September 2002. TI Input Use and Capacity Constraint Under Uncertainty: The Case of Irrigation. AU Bontems, Philippe; Favard, Pascal. AA Bontems: University of Toulouse. Favard: University of La Rochelle and LEERNa. SR Fondazione Eni Enrico Mattei Note di Lavoro:

2002/72; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 14. PR no charge; available only on website. JE H39, Q15. KW Irrigation. Investment. Uncertainty. Risk Aversion.
AB In this paper we consider a two period model of cropping using irrigation. The farmer takes two kinds of decisions, one related to the level of investment in irrigation capacity and the other to the irrigation level in each period. In the first period, decisions are taken under uncertainty on the rainfall level which is resolved at the beginning of the second period. Assuming a CARA utility function, we show that taxing the investment may entail an increase in preventive irrigation although the investment decreases. Moreover, in the case of a logistic production function, the total water use is non monotonic with respect to the price of investment. Indeed, taxing capital may induce the farmer to increase the total level of irrigation despite that the irrigation capacity decreases. Surprisingly, the impact of an increase of water price is generally ambiguous even assuming risk neutrality.

Bordo, Michael D.

PD June 2002. TI Globalization and Changing Patterns in the International Transmission of Shocks in Financial Markets. AU Bordo, Michael D.; Murshid, Antu Panini. AA Bordo: Rutgers University and NBER. Murshid: University of Wisconsin-Milwaukee. SR National Bureau of Economic Research Working Paper: 9019; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 28. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F20, F31, N20. KW Globalization. Transmission of Shocks. Financial Markets.
AB In this paper we compare various characteristics of the cross- country transmission of shocks in the financial markets of both advanced and emerging countries during two periods of globalization -- the pre-World War I classical gold standard era, 1880-1914, and the post-Bretton Woods era, 1975-2000. Based on principal components analysis on monthly spreads on long-term sovereign bond yields and on an EMP measure of currency crises, an index of global stress, and impulse response functions from VARs estimated using weekly data on short-term interest rates, we conclude that financial market shocks were more globalized before 1914 compared to the present. We postulate that this difference in systemic stability between the two eras of globalization reflects factors such as strong cross-country interdependence fostered through links to gold, the growing financial maturity of advanced countries, and the widening of the center to include a more diverse group of countries spanning several regions.

Borghesi, Simone

TI Working Too Much in a Polluted World: A North-South Evolutionary Model. AU Antoci, A.; Borghesi, Simone.

Borzekowski, Ron

PD August 2002. TI Health Care Finance and the Early Adoption of Hospital Information Systems. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/41; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website:

www.federalreserve.gov/pubs/feds/. PG 33. PR no charge. JE C41, I11, I18, L31, O30. KW Hospitals. Information Technology. Medicare.
AB This study examines the adoption of hospital information systems (HIS), specifically focusing on the connection between the financing of health care and the adoption of these new technologies. Using a recently uncovered dataset detailing the systems installed at over 2300 hospitals, the results indicate that state price regulations slowed the adoption of these systems during the 1970's. In contrast, hospitals increased their adoption of HIS in response to the implementation of Medicare's prospective payment system. The evidence suggests that in the early years, these systems did not have the ability to save sufficient funds to justify their expense and adopters, in particular not-for-profit hospitals, were motivated by factors other than cost. By the early 1980's, this had changed: hospitals with the greatest incentives to lower costs were now more likely to adopt these technologies.

PD August 2002. TI Measuring the Cost Impact of Hospital Information Systems. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/42; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 37. PR no charge. JE I11, I18, L23, O30. KW Hospitals. Information Technology. Productivity.
AB This study measures the impact of information technology (IT) use on hospital operating costs during the late 1980's and early 1990's. Using a proprietary eight-year panel dataset (1987-1994) that catalogues application-level automation for the complete census of the 3,000 U.S. hospitals with more than 100 beds, this study finds that both financial/administrative and clinical IT systems at the most thoroughly automated hospitals are associated with declining costs three and five years after adoption. At the application level, declining costs are associated with the adoption of some of the newest technologies, including systems designed for cost management, the administration of managed care contracts, and for both financial and clinical decision support. The association of cost declines with lagged IT as well as the cost patterns at the less automated hospitals both provide evidence of learning effects.

Bougheas, Spiros
PD January 2001. TI Optimism, Education, and Industrial Development. AA University of Nottingham. SR University of Nottingham, Discussion Paper in Economics: 01/01; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 15. PR no charge. JE E22, J24, O11. KW Optimism. Literacy Rates. Confidence. Investment. Human Capital.
AB When the equilibrium of the economy depends on the coordination of actions of a large number of agents the level of optimism can become a deciding factor. We propose an equilibrium selection process where the level of optimism is endogenously determined. The method is used to provide a novel explanation for the low literacy rates in LCDs. It is suggested that a country's politico-socio-economic environment influences the state of confidence of economic agents thereby affecting not only the decisions of young

persons to seek educational opportunities but the decisions of entrepreneurs to invest in new technologies.

PD May 2001. TI Apprenticeship Training, Earnings Profiles and Labour Turnover: Theory and German Evidence. AU Bougheas, Spiros; Georgellis, Yannis. AA Bougheas: University of Nottingham. Georgellis: Brunel University. SR University of Nottingham, Discussion Paper in Economics: 01/06; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 17. PR no charge. JE J24, J31, J41, J62. KW Apprenticeship Training. German Labor Market.
AB We develop a simple labor turnover model of general training. Upon completion of their training, apprentices are equipped with general skills and they accumulate firm-specific skills by continuing working for their training firm. Job turnover is associated with a loss of accumulated firm-specific skills, not fully transferable to new employers. Our model predicts that: (i) post-apprenticeship wage profiles for those workers who stay with the apprenticeship firm are steeper than the corresponding profiles of those workers who find new jobs, and (ii) labor turnover decreases with tenure. Based on data from the German Socio-Economic Panel (GSOEP), turnover patterns and estimated wage profiles of German apprentices support the predictions of the model.

PD November 2001. TI Cost Padding in Regulated Monopolies. AU Bougheas, Spiros; Worrall, Tim. AA Bougheas: University of Nottingham. Worrall: Keele University. SR University of Nottingham, Discussion Paper in Economics: 01/12; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 26. PR no charge. JE D82, L12, L51. KW Regulation. Cost Padding. Costly State Falsification. Costly State Verification. Endogenous Screening.
AB In this paper we consider a regulated monopoly that can pad its costs to increase its cost reimbursement. Even while padding is inefficient, the optimal incentive scheme tolerates some padding of costs to reduce the information rents paid to low cost types. It is shown that high cost firms pad costs more than low cost firms. We also show that cost padding moves pricing away from Ramsay optimal pricing toward more monopolistic pricing rules. We show that when auditing of total costs is costly, low cost firms face a fixed price contract and engage in no cost padding. High cost firms do less well but do engage in padding to increase the verified cost. If padded costs can be audited at some cost, low cost types engage in cost padding but high cost types do not. We also endogenize the distribution of cost types by allowing firms to engage in a pre-contractual, non-observable or verifiable cost-reducing investment. The firm adopts a mixed strategy and this determines the distribution of cost types at the contracting stage. An example is given to show how the equilibrium distribution is computed.

PD September 2002. TI Imperfect Capital Markets, Income Distribution and the "Credit Channel": A General Equilibrium Approach. AA University of Nottingham. SR University of Nottingham, Discussion Paper in Economics: 02/10; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7

2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 12. PR no charge. JE D31, E44. KW Income Distribution. Imperfect Capital Markets. Credit Channel.
AB We develop and analyze a simple general equilibrium model with capital market imperfections. We find that the impact of monetary policy on real economic activity depends on the initial distribution of wealth in the economy. Changes in the opportunity cost of funds affect not only the choice of financial source but the decisions of agents to become entrepreneurs. We also identify a number of new issues that can potentially be addressed by following our general equilibrium approach.

PD October 2002. TI Trade Credit, Bank Lending and Monetary Policy Transmission. AU Bougheas, Spiros; Mateut, Simona; Mizen, Paul. AA University of Nottingham. SR University of Nottingham, Discussion Paper in Economics: 02/11; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 20. PR no charge. JE E44, E52. KW Trade Credit. Bank Lending. Monetary Policy. Transmission. Credit Channel.
AB This paper investigates the role of trade credit in the transmission of monetary policy. Most models of the transmission mechanism allow the firm to access only financial markets or bank lending according to some net worth criterion. In our model we introduce trade credit as an additional source of funding. We predict that when monetary policy tightens there will be a reduction in market and bank lending, and an increase in trade credit. This is confirmed with an empirical investigation of 16,000 manufacturing firms.

Bound, John
TI Closing the Gap or Widening the Divide: The Effects of the G.I. Bill and World War II on the Educational Outcomes of Black Americans. AU Turner, Sarah E.; Bound, John.

Boyd, James
PD April 2003. TI Measuring Ecosystem Service Benefits: The Use of Landscape Analysis to Evaluate Environmental Trades and Compensation. AU Boyd, James; Wainger, Lisa. AA Boyd: Resources for the Future. Wainger: University of Maryland. SR Resources for the Future Discussion Paper: 02/63; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 130. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE Q51, Q57. KW Ecosystem Valuation. Wetlands. Spatial Analysis. Landscape Analysis.
AB Ecosystem compensation and exchange programs require benefit analysis in order to guarantee that compensation or trades preserve the social benefits lost when ecosystems are destroyed or degraded. This study derives, applies, and critiques a set of ecosystem benefit indicators (EBIs). Organized around the concept of ecosystem services and basic valuation principles we show how GIS mappings of the physical and social landscape can improve understanding of the ecosystem benefits arising from specific ecosystems. The indicator system focuses on landscape factors that limit or enhance an ecosystem's ability to provide services and that limit or enhance the expected value of those services. The

analysis yields an organized, descriptive, and numerical depiction of sites involved in specific mitigation projects. Indicator- based evaluations are applied to existing wetland mitigation projects in Florida and Maryland in order to practically illustrate the virtues and limitations of the approach.

Bradley, Steve
TI Employer Search, Vacancy Duration and Skill Shortages. AU Andrews, Martyn J.; Bradley, Steve; Upward, Richard.

Brady, Tom
PD May 2002. TI What Drives the Persistent Competitiveness of Small Banks? AU Brady, Tom; Bassett, William. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/28; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 43. PR no charge. JE G21. KW Banking. Mergers. Deposit Insurance. Systemic Risk.
AB Several trends in the financial industry could have weakened the competitiveness of small banks in recent years. Despite those challenges, small banks have grown more rapidly than larger banks over the period from 1985 to 2001, and their profitability has been sustained at high levels. However, small banks have needed to increase the interest rates offered on deposit accounts in order to attract progressively more deposit funding. In this paper, we provide empirical evidence that this increased interest cost primarily reflects the high rate of return that small banks were able to earn on their assets. Moreover, we show with an arbitrage model that the decline in the real value of deposit insurance has only a small effect on deposit rates as long as bank failure rates are in the low range of recent years.

Braguinsky, Serguey
TI Bidder Discounts and Target Premia in Takeovers. AU Jovanovic, Boyan; Braguinsky, Serguey.

Brams, Steven J.
PD April 2002. TI Single-Peakedness and Disconnected Coalitions. AU Brams, Steven J.; Jones, Michael A.; Kilgour, D. Marc. AA Brams: New York University. Jones: Montclair State University. Kilgour: Wilfrid Laurier University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/19; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 26. PR no charge; available only on website. JE C78, D71. KW Coalition Formation. Dynamic Analysis. Single-Peakedness. Legislatures.
AB Ordinally single-peaked preferences are distinguished from cardinally single-peaked preferences, in which all players have a similar perception of distances in some one-dimensional ordering. While ordinal single-peakedness can lead to disconnected coalitions that have a "hole" in the ordering, cardinal single-peakedness precludes this possibility, based on two models of coalition formation: Fallback (FB): Players seek coalition partners by descending lower and lower in their preference rankings until a majority coalition forms. Build-Up (BU): Similar to FB, except that when nonmajority subcoalitions form, they fuse into composite players, whose positions are defined cardinally and who are treated as single

players in the convergence process. FB better reflects the unconstrained, or nonmyopic, possibilities of coalition formation, whereas BU -- because all subcoalition members must be included in any majority coalition that forms -- restricts combinatorial possibilities and tends to produce less compact majority coalitions. Applications of the models to legislatures, parliamentary coalitions, and military alliances are discussed.

Brandt, Michael W.

PD   July 2002.   TI   On the Relationship Between the Conditional Mean and Volatility of Stock Returns: A Latent VAR Approach.   AU   Brandt, Michael W.; Kang, Qiang.   AA   Brandt: University of Pennsylvania and NBER. Kang: University of Hong Kong.   SR   National Bureau of Economic Research Working Paper: 9056; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org.   PG   32.   PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.).   JE   C13, C23, G10, G12.   KW   Latent VAR. Sharpe Ratio.

AB   We model the conditional mean and volatility of stock returns as a latent vector autoregressive (VAR) process to study the contemporaneous and intertemporal relationship between expected returns and risk in a flexible statistical framework and without relying on exogenous predictors. We find a strong and robust negative correlation between the innovations to the conditional moments that leads to pronounced counter-cyclical variation in the Sharpe ratio. We document significant lead-lag correlations between the conditional moments that also appear related to business cycles. Finally, we show that although the conditional correlation between the mean and volatility is negative, the unconditional correlation is positive due to the lead-lag correlations.

Brau, Rinaldo

PD   September 2002.   TI   Privatizations as Price Reforms: Evaluating Consumers' Welfare Changes in the UK.   AU   Brau, Rinaldo; Florio, Massimo.   AA   Brau: University of Cagliari and CRENoS. Florio: University of Milan.   SR   Fondazione Eni Enrico Mattei Note di Lavoro: 2002/67; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm.   PG   18.   PR   no charge; available only on website.   JE   D12, D60, L33.   KW   Privatization. Welfare Measurement.

AB   This paper analyses the effects on consumers' welfare of the privatization policy carried out in the UK since 1979. The approach we follow sees the privatization of a State owned enterprise within the broader framework of the "policy reform" theory (Dreze and Stern, 1990). By adopting this perspective, the change in consumers' welfare "with" and "without" privatizations can be studied by appropriate welfare measures. We claim that an advantage of our approach is that of being able to provide the required welfare assessment in a simplified way by means of a limited set of information. In particular, we show that a series of welfare measures only based on aggregate information can be used once one becomes ready to accept the use of first and second order approximations and a few "reasonable" assumptions on the shape of demand functions. These welfare measures are subsequently used for the evaluation of the welfare effects related to price variations in seven British privatized public utilities. We conclude that the contribution to consumers' welfare of the privatization policy in the UK, when compared to the huge transfers involved in the

process, has been rather modest.

Brennan, Timothy J.

PD   October   2002.   TI   Preventing   Monopoly   or Discouraging Competition? The Perils of Price-Cost Tests for Market Power in Electricity.   AA   University of Maryland, Baltimore   County   and   Resources   for   the   Future. SR   Resources for the Future Discussion Paper: 02/50; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org.   PG   18.   PR   domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future.   JE   D42, L11, L51, L94.   KW   Market Power. Electricity. Peak. Load Pricing.

AB   Allegations of market power in wholesale electricity sales are typically tested using price-cost margins. Such tests are inherently suspect in markets -- such as electricity -- that are subject to capacity constraints. In such markets, prices can vary with demand while quantity, and thus cost measure, remain fixed. Erroneous conclusions are more likely when the proxy for marginal cost is the average operating cost of the marginal plant. Measured this way, high Lerner indices are consistent with competitive behavior. Using this proxy to cap wholesale prices, as the U.S. Federal Energy Regulatory Commission has proposed, would discourage entry by making it impossible for peak power suppliers to recover capital costs. The wholesale electricity sector may be susceptible to market power. But a preferable (if not unproblematic) test for market power would look not at prices but output, i.e., whether individual generators withheld energy that would have been profitable to supply at prevailing prices.

PD   October 2002.   TI   Market Failures in Real-Time Metering: A Theoretical Look.   AA   University of Maryland Baltimore   County   and   Resources   for   the   Future. SR   Resources for the Future Discussion Paper: 02/53; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org.   PG   25.   PR   domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future.   JE   D45, D62, L11,   L94.   KW   Real-Time   Metering.   Electricity Restructuring. Deregulation. Rationing. Externalities.

AB   Restructuring the electricity market may secure efficiencies by moving away from cost-of-service regulation, with typically (but not necessarily) time-invariant prices, and allowing prices to reflect how costs change. Charging "real time" prices requires that electricity use be measured according to when one uses it. Arguments that such real- time metering should be a policy objective promoted by subsidizing meters or delaying restructuring until meters are installed require more than these potential benefits. They require positive externalities to imply that too few meters would be installed through private transactions. Real-time metering presents no systematic externalities when utilities must serve peak period users, and may present negative externalities under some conditions. Positive externalities are likely when electricity is rationed through blackouts. Real-time metering may or may not increase welfare when peak period wholesale markets are not competitive; one might want to prohibit real-time metering in such situations even if metering itself were costless.

Breunig, Robert

PD   November 2000.   TI   Welfare Transfers and Intra-

Household Trickle-Down: A Model with Evidence from the US ·Food Stamp Program. **AU** Breunig, Robert; Dasgupta, Indraneel. **AA** Breunig: Australian National University. Dasgupta: University of Nottingham. **SR** University of Nottingham, CREDIT Research Paper: 00/18; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 24. **PR** no charge. **JE** D31, D60. **KW** Welfare Transfers. Food Stamp Program. Income Redistribution.

AB We provide a case for maintaining welfare and income redistribution programs even when their adverse general equilibrium effects reduce total earnings of poor households. Using a Cournot model of intra- household decision-making, we show that even if welfare cutbacks generate large increases in household income, these may still reduce the wellbeing of children and elderly dependants. Our model also explains the higher marginal propensity to consume food out of food stamps in the US, compared to that out of market income, noted in earlier empirical studies. We find evidence consistent with our argument in data from a US Food Stamp experiment.

Bruelart, Marius

PD March 2003. **TI** An Account of Geographic Concentration Patterns in Europe. **AU** Bruelart, Marius; Traeger, Rolf. **AA** Bruelart: University of Lausanne. Traeger: United Nations Economic Commission for Europe, Geneva. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 03/06; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e-   cahiers.htm. **PG** 40. **PR** no charge. **JE** F15, R12, R14. **KW** Geographic Concentration. EU Regions. Centre-Periphery Gradients. Entropy Indices. Bootstrap Inference.

AB Using entropy indices and associated bootstrap tests, we describe the distribution of economic sectors across Western European regions over the 1975-2000 period. We decompose geographic concentration into its within-country and between-country components. In addition, we estimate centre -periphery gradients in sectoral location patterns and the impact of EU membership on countries' internal geography. We find that manufacturing has become gradually more concentrated, although the locational bias towards central regions has become weaker. Conversely, market services have been relocating towards centrally located regions. EU integration appears to have strengthened countries' internal concentration trends.

Brunello, Giorgio

PD January 2002. **TI** Is Training More Frequent When Wage Compression is Higher? Evidence From 11 European Countries. **AA** University of Padova, CESifo, FEEM, and IZA. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/10; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 12. **PR** no charge; available only on website. **JE** J24, J31. **KW** Training. Europe.

AB In this paper, I use the 1996 wave of the ECHP dataset to investigate the relationship between measures of wage compression and training incidence in 11 European countries. I find that, after controlling for individual factors and country specific institutional differences, there is evidence of a positive and significant relationship between wage compression and training. This positive relationship is confirmed when I consider only general training. While the former finding is consistent with both competitive and non- competitive approaches to training, the latter result is only consistent with the non-competitive approach.

PD June 2002. **TI** Labor Taxes, Wage Setting and the Relative Wage Effect. **AU** Brunello, Giorgio; Parisi, Maria Luisa; Sonedda, Daniela. **AA** Brunello and Parisi: University of Padova, CESifo, and IZA. Sonedda: University College London and University of Novara. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/34; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 23. **PR** no charge; available only on website. **JE** H21, H24. **KW** Progressive Taxation. Wage Determination. Italy. Double Dividend.

AB With unemployment in Europe concentrated among the young and unskilled, it has been suggested that the reduction of social security contributions for low wage earnings, financed by a carbon tax, could yield a double dividend, the reduction of unemployment and the abatement of pollution. The empirical evidence to date, however, does not support this possibility. This paper adds to the existing literature additional evidence based on Italian data. We use both panel and grouped data to study the effects of average and marginal (payroll and income) tax rates on wage pressure, and investigate whether these effects vary by skill, age group and region of residence. Our empirical findings are: a) changes in average payroll taxes are not fully absorbed by offsetting changes in the after tax wage and affect both pretax wages and employment; b) the estimated effects of changes in average income taxes on pretax wages are mixed but on balance the evidence suggests that after tax wages do not fully offset these changes; c) higher tax progressivity increases pretax wages; d) there are significant differences in the relationship between labor taxes and pretax wages by age group but not by region of residence or skill.

TI Are the More Educated Receiving More Training? Evidence From Thailand. **AU** Ariga, Kenn; Brunello, Giorgio.

Buchinsky, Moshe

PD 2002. **TI** Interfirm Mobility, Wages, and the Returns to Seniority and Experience in the U.S. **AU** Buchinsky, Moshe; Fougere, Denis; Kramarz, Francis; Tchernis, Rusty. **AA** Buchinsky: UCLA, CREST-INSEE, and NBER. Fougere: CNRS, CREST-INSEE, CEPR, and IZA. Kramarz: CREST-INSEE, CEPR, and IZA. Tchernis: Brown University. **SR** INSEE Documents de Travail du CREST: 2002/29; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. **PG** 26. **PR** no charge. **JE** C11, J31. **KW** Bayesian Inference. Returns to Experiences. Returns to Seniority.

AB This paper presents new estimates of the returns to experience and seniority on individual wages. In contrast to previous studies, we explicitly model the participation and mobility decisions. Our theoretical model gives rise to a statistical model with three equations: (1) a participation equation; (2) a wage equation; and (3) an interfirm mobility equation. In this model, the wage equation is estimated simultaneously with the decision to participate in the labor force and the decision to move to a new firm. We use the Panel

Study of Income Dynamics (PSID) to estimate the model for three education groups: (1) high school dropouts; (2) high school graduates with some post-high school education; and (3) college graduates. We adopt a Bayesian approach and employ methods of Markov Chain Monte Carlo (MCMC) to compute the posterior joint distribution of the model's parameters. We find that the effects of seniority and experience differ for all education groups. Our modeling strategy also allows us to examine the individuals' "optimal" mobility patterns for maximizing their wage growth over their lifetime. We find that the optimal job durations differ markedly across education groups.

Buchner, Barbara K.

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

AB   International trade negotiations have recently tackled the issue of possible free trade restrictions, justified - among others - on the basis of environmental concerns. Also, some analyses of international environmental agreements (especially in the field of climate change) have highlighted the key role played by changes in the terms of trade in determining the cost of environmental policies. Yet, secondary effects of international trade remain disregarded in many environmental policies, whereas the introduction of environmental trade barriers has been resisted, arguing that this may hide a Trojan horse of a renewed protectionism. This paper reviews the debate on trade and the environment in the two fields of environmental and trade negotiations, highlighting the different and somewhat conflicting approach adopted in the two cases. A numerical general equilibrium model is used to illustrate how different "perceptions" (translated in terms of alternative model closures) affect the use of instruments, the distributional impact of the various policies, and the strategic interplay between negotiators in international agreements.

Buerler, Monika

AB   Switzerland is one of the few countries with a relatively mature funded pension scheme. This paper offers a short description of the Swiss system, highlighting two specific areas for which previous experience is particularly valuable. We first discuss the importance of prudential regulation and adequate transparency standards. The paper also explores the impact of different pay-out options in a mandatory second pillar.

Burkart, Mike

AB   We present a model of succession in a firm owned and managed by its founder. The founder decides between hiring a professional manager or leaving management to his heir, as well as on how much, if any, of the shares to float on the stock exchange. We assume that a professional is a better manager than the heir, and describe how the founder's decision is shaped by the legal environment. Specifically, we show that, in legal regimes that successfully limit the expropriation of minority shareholders, the widely held professionally managed corporation emerges as the equilibrium outcome. In legal regimes with intermediate protection, management is delegated to a professional, but the family stays on as large shareholders to monitor the manager. In legal regimes with the weakest protection, the founder designates his heir to manage and ownership remains inside the family. This theory of separation of ownership from management includes the Anglo-Saxon and the Continental European patterns of corporate governance as special cases, and generates additional empirical predictions consistent with cross- country evidence.

Burtraw, Dallas

·TI   Investment in Electricity Transmission and Ancillary Environmental Benefits. AU Bloyd, Cary; Bharvirkar, Ranjit; Burtraw, Dallas.

PD   March 2002. TI   The Effect on Asset Values of the Allocation of Carbon Dioxide Emission Allowances. AU   Burtraw, Dallas; Palmer, Karen; Bharvirkar, Ranjit; Paul, Anthony. AA   Resources for the Future. SR   Resources for the Future Discussion Paper: 02/15; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG   23. PR   domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE   L94, Q25. KW   Carbon Dioxide. Emission Allowance Trading. Allocation. Electricity. Restructuring. Air Pollution. Auction. Grandfathering. Output-Based Allocation. Cost-Effectiveness.
AB   Paradoxically, owners of existing generation assets may be better off paying for carbon dioxide emission allowances than having them distributed for free. This analysis shows that it takes just 7.5% of the revenue raised under an auction to preserve the asset values of existing generators.

TI   Efficient Emission Fees in the U.S. Electricity Sector.
AU   Banzhaf, H. Spencer; Burtraw, Dallas; Palmer, Karen.

Busetti, Fabio

PD   December 2002. TI   Testing for Drift in a Time Series. AU   Busetti, Fabio; Harvey, Andrew C. AA   Busetti: Bank of Italy. Harvey: University of Cambridge. SR   University of Cambridge, DAE Working Paper: 0237; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. PG   20. PR $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. JE   C22, C52. KW   Cramer-von Mises. Distribution. Locally Best Test. Stochastic Trend. Unit Root. Unobserved Components.
AB   The paper presents various tests for assessing whether a time series is subject to drift. We first consider departures from the null hypothesis of no drift against the alternative of a deterministic and/or a nonstationary stochastic drift with initial value zero. We show that the standard t-test on the mean of first differences achieves high power in both directions of the alternative hypothesis and it seems preferable to locally best invariant tests specifically designed to test against a non-stationary drift. Tests for the null hypothesis of a non-stationary drift are then examined. The simple t-statistic is again a viable alternative, but this time there is no need to correct for serial correlation. We present the asymptotic distribution of the test, provide critical values and compare its performance with that of the standard augmented Dickey-Fuller test procedures. We show that the t-test does not suffer from the large size distortion of the augmented Dickey-Fuller test for cases in which the variance of the nonstationary drift, the signal, is small compared to that of the stationary part of the model. The use of the tests is illustrated with data on global warming and electricity consumption.

Byrne, David

PD   May 2001. TI   Defining Unemployment in Developing Countries: The Case of Trinidad and Tobago. AU   Byrne, David; Strobl, Eric. AA   Byrne: University of Virginia. Strobl: University College, Dublin. SR   University of Nottingham, CREDIT Research Paper: 01/09; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG   23. PR   no charge. JE   J64. KW   Unemployment. Developing Countries. Trinidad. Tobago.
AB   The International Labor Organization (ILO) argues for relaxing the standard definition of unemployment in developing countries where labor markets are not as efficient as those in the developed world. We examine whether such an extension of the standard definition is appropriate in the case of Trinidad and Tobago. Specifically, we use individual behavior to classify persons into labor market states, rather than a priori criteria like job search. The Trinidad and Tobago Continuous Survey Sample of Population provides data uniquely suited to this purpose. Our results indicate that in Trinidad and Tobago males, who under the standard criteria would be considered out of the labor force because they report willingness to work but are not currently searching for a job, are appropriately classified as unemployed. Further evidence suggests that this may be because job search may not be as meaningful in rural as it is in urban areas.

Campbell, John Y.

PD   July 2002. TI   Foreign Currency for Long-Term Investors. AU   Campbell, John Y.; Viceira, Luis M.; White, Joshua S. AA   Campbell: Harvard University and NBER. Viceira: Harvard University, CEPR, and NBER. White: Harvard University. SR   National Bureau of Economic Research Working Paper: 9075; 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   G11, G12. KW   Foreign Currency Risk. Long-Term Investors. Interest Rate Parity.
AB   Conventional wisdom holds that conservative investors should avoid exposure to foreign currency risk. Even if they hold foreign equities, they should hedge the currency exposure of these positions and should hold only domestic Treasury bills. This paper argues that the conventional wisdom may be wrong for long-term investors. Domestic bills are risky for long-term investors, because real interest rates vary over time and bills must be rolled over at uncertain future interest rates. This risk can be hedged by holding foreign currency if the domestic currency tends to depreciate when the domestic real interest rate falls, as implied by the theory of uncovered interest parity. Empirically, this effect is important and can lead conservative long-term investors to hold more than half their wealth in foreign currency.

Capuano, Carlo

PD   September 2002. TI   Demand Growth, Entry and Collusion Sustainability. AA   University of Naples. SR   Fondazione Eni Enrico Mattei Note di Lavoro: 2002/62; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG   40. PR   no charge; available only on website. JE   L13, L41. KW   Collusion. Penal Code. Merger Control. Demand Growth.
AB   The purpose of this paper is to represent in which way a stable and no negligible growth in demand can affect the level

of sustainability of collusion. For the European Commission this assumption is seen as a factor that disincentives collusion and pushes to a competitive behavior. This fact may not be so obvious and it is shown that what is important is the final effect on entry in the market. In fact, expected oligopolistic profits are as the Faith Morgan that attracts competitors and disappears when they have come in. Entry is profitable if it is finite, i.e. one or very few entrants, and if prices above marginal cost are still successfully sustainable. Our result is that demand growth path is not a sufficient condition to neglect the risk of collective dominance, and in order to support our analysis we consider first some trigger strategy equilibria where deviation punishment is implemented by Nash Reversion for ever. After that, we consider Abreu's simple penal code (1986) and derive a non-stationary optimal penal code that in our framework implement collusion before and after entry as a subgames perfect equilibrium.

Caratti, Pietro

AB The objective of the Analytical Strategic Environmental Assessment (ANSEA) method is to provide a complementary and decision-centered approach to the SEA process. The focus is to evaluate the decision- making process instead of the quantitative output of an assessment. Thus, the project provides a methodology and the relevant tools to analyze and assess the decision-making process of policies, plans, and programs (PPP). By considering the whole decision-making process, decisions most critical to the environmental impact of PPP can be identified. The ANSEA approach is designed to be used as an objective and transparent approach to ensure that environmental considerations are taken into account, or as an evaluation of how far environmental integration has been achieved in decision making processes.

Card, David

AB This paper exploits the discrete nature of the eligibility criteria for two major federal expansions of Medicaid to measure the effects on Medicaid coverage, overall health insurance coverage, and the probability of visiting a doctor. The "100 percent" expansion, effective in 1991, extended Medicaid eligibility to children born after September 30, 1983 in families below the poverty line. We estimate that this law led to about a 10 percentage point rise in Medicaid coverage for children born just after the cutoff date, and a similar or slightly smaller rise in overall health insurance. It also increased the fraction of children in the newly eligible group with a doctor visit in the previous year. The "133 percent" expansion, effective in 1990, extended Medicaid to children under 6 in families with incomes below 133 percent of the poverty line. This law had a relatively small impact on Medicaid coverage for children near the eligibility limits, and little or no effect on health insurance coverage.

Carlton, Dennis W.

AB There is a fundamental tension between laws governing intellectual property rights and antitrust laws. Attempts to adapt static antitrust analysis to a setting of dynamic R&D competition through the use of "innovation markets" are likely to lead to error. Applying standard antitrust doctrines such as tying and exclusivity to R&D settings is likely to be complicated. Only detailed study of the industry of concern has the possibility of uncovering reliable relationships between innovation and industry behavior. One important form of competition, especially in certain network industries, is between open and closed systems. We have presented an example to illustrate how there is a tendency for systems to close even though an open system is socially more desirable. Rather than trying to use the antitrust laws to attack the maintenance of closed systems, an alternative approach would be to use intellectual property laws and regulations to promote open systems and the standard setting organizations that they require. Recognition that optimal policy toward R&D requires coordination between the antitrust and intellectual property laws is needed.

Carneiro, Pedro

AB This paper examines the family income / college enrollment relationship and the evidence on credit constraints in post-secondary schooling. We distinguish short-run liquidity constraints from the long-term factors that promote cognitive and noncognitive ability. Long-run factors crystallized in ability are the major determinants of the family income -- schooling relationship, although there is some evidence that up to 8% of the U.S. population is credit constrained in a short-run sense. Evidence that IV estimates of the returns to schooling exceed OLS estimates is sometimes claimed to support the

existence of substantial credit constraints. This argument is critically examined.

Carraro, Carlo

PD January 2002. **TI** Stable Coalitions. **AU** Carraro, Carlo; Marchiori, Carmen. **AA** Carraro: University of Venice and FEEM. Marchiori: FEEM. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/05; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 39. **PR** no charge; available only on website. **JE** C72, D71, D74. **KW** Agreements. Coalitions. Incentives. Negotiations. Stability.
AB This paper examines recent theoretical developments of the theory of coalition stability. It focuses on the relationship between the incentives to defect from a coalition, the size of the resulting equilibrium coalition structure, and the different assumptions on membership rules, coalition behavior, players' conjectures, etc. The paper considers several cases. Simultaneous vs. sequential moves, linear vs. circular order of moves, Nash vs. rational conjectures, open vs. exclusive membership, monotonic vs. non monotonic payoff functions, and orthogonal vs. non-orthogonal reaction functions. The profitable and stable coalition is derived for each possible configuration of the rules of the game, the payoff functions, and the membership rules. The results show that the size of the profitable and stable coalition critically depends on the chosen configuration and that the equilibrium outcome ranges from a small coalition with a few signatories to full cooperation. The paper explores under which conditions a large stable coalition is likely to emerge, and identifies the institutional setting that favors the emergence of such coalition.

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

PD July 2002. **TI** Integrated Assessment Modeling: Modules for Cooperation. **AU** Carraro, Carlo; Hasselmann, Klaus; Hourcade, Jean-Charles; Jaeger, Carlo C.; Keeler, Andrew; Klein, Rupert; Leimbach, Marian. **AA** Carraro: FEEM and University of Venice. Hasselmann: MPI. Hourcade: CIRED. Jaeger, Klein, and Leimbach: Potsdam Institute of Climate Impact Research. Keeler: University of Georgia. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/53; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 12. **PR** no charge; available only on website. **JE** A12, Z00. **KW** Integrated Assessment. Knowledge Management. Decision Support.
AB An integrated assessment (IA) model combines knowledge from different disciplines in view of a practical problem. We propose to develop a modular approach to IA based on advances in knowledge management as well as in object oriented software engineering. The incentive structure of modular IA is based on turning the knowledge produced into neither public nor private goods, but rather into club goods. Competition amongst modelers becomes a process of discovery at the level of module design and module coupling, with strong synergies between competing teams. Together they develop a community pool of IAM- modules, along with software and know-how for running them in varying combinations.

Castater, Nichole M.

PD September 2002. **TI** Privatization as a Means to Societal Transformation: An Empirical Study of Privatization in Central and Eastern Europe and the Former Soviet Union. **AA** University of South Carolina. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/76; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 62. **PR** no charge; available only on website. **JE** L33, P31. **KW** Privatization. Former Soviet Union. Central Europe. Eastern Europe.
AB There have been numerous empirical studies of privatization programs, which have found efficiency gains to firms, industries, and financial markets in a multitude of developed and developing economies. Central and Eastern Europe (CEE) and the Former Soviet Union (FSU) are conspicuously and consistently absent from these studies. Some reasons for this include the lack of reliable and consistent firm data both before and after privatization, the absence of vital business mechanisms and institutions to distribute reliable business information, and misconceptions about what privatization actually is. Given these problems, Stiglitz (1998) offers an interesting solution for measuring the "success" privatization in CEE and FSU. We build on Stiglitz's suggestion and try to fill this gap in the literature. General findings suggest that overall there is positive economic, financial, and social growth after privatization. However, it is difficult to discern the effects of privatization, from the effects of other economic reforms. In addition, countries that have manager/employee privatization do not have sale privatization as part of their programs experience negative growth in market capitalization, value of stocks traded, and official development assistance.

Castelnuovo, Efrem

PD January 2002. **TI** What Does Monetary Policy Reveal About Central Bank's Preferences? **AU** Castelnuovo, Efrem; Surico, Paolo. **AA** Castelnuovo: Bocconi University and FEEM. Surico: Bocconi University. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/02; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 13. **PR** no charge; available only on website. **JE** E52, E58. **KW** Central Bank's Preferences. Calibration. Inflation Targeting. Optimal Monetary Policy.
AB The design of monetary policy depends upon the targeting strategy adopted by the central bank. This strategy describes a set of policy preferences, which are actually the structural parameters to analyze monetary policy making. Accordingly, we develop a novel calibration method to identify a central bank's preferences from the estimates of an optimal Taylor-type rule. The empirical analysis on US data shows that output stabilization has not been an independent argument in the Fed's objective function during the Greenspan era. This suggests that the output gap has entered the policy rule only as leading indicator for future inflation, therefore being only instrumental (to stabilize inflation) rather than important per se.

Cavallaro, Fausto

PD April 2002. **TI** Economic and Environmental Sustainability: A Dynamic Approach in Insular Systems Structures. **AU** Cavallaro, Fausto; Ciraolo, Luigi. **AA** Cavallaro: University of Catania. Ciraolo: University of

Messina. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/21; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 12. **PR** no charge; available only on website. **JE** C89, Q01. **KW** Sustainable Development. Dynamic Systems. Tourism. Models.
AB Environmental resources constitute the "raw materials" for tourism. This sector represents the driving force behind the economy of small islands. The sustainable use and a rational policy of conservation of these resources are prerequisites to enable their full exploitation. However, island systems have low stability, as they are highly sensitive to exogenous stress phenomena caused by economic factors, which exceeding the sustainable threshold may come together to damage the environment. This work systematically examines the effects and the feedbacks that the economy of tourism may generate in small areas like the minor islands of Sicily (Italy). The development of a dynamic model is proposed to supply a key to interpret the phenomena affecting the island of Salina (Aeolian islands-Messina) offering elements for the assessment of future local government policies.

Cavalluzzo, Ken

PD July 2002. **TI** Small Business Loan Turndowns, Personal Wealth and Discrimination. **AU** Cavalluzzo, Ken; Wolken, John. **AA** Cavalluzzo: Georgetown University. Wolken: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/35; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 31. **PR** no charge. **JE** D40, J71. **KW** Discrimination. Small Business Financing. Personal Wealth.
AB Using newly available data from the Federal Reserve, we examine the impact of personal wealth on small business loan turndowns across demographic groups. Information on home ownership, home equity, and personal net worth excluding the business owner's home, in combination with data on the personal credit history of the principal owner, the business credit history of the firm, a rich set of additional explanatory variables, and information on the competitiveness of local banking markets, contributes to our understanding of the credit market experiences of small businesses across demographic groups. We find substantial unexplained differences in denial rates between African American-, Hispanic-, Asian-, and white-owned firms. We also find that greater personal wealth is associated with a lower probability of loan denial. However, even after controlling for personal wealth, large differences in denial rates across demographic groups remain. Further, consistent with Becker's classic theories (1957), we find some evidence that African American-denial rates increase with lender market concentration.

Cavanagh, Sheila M.

PD June 2001. **TI** National Environmental Policy During the Clinton Years. **AU** Cavanagh, Sheila M.; Hahn, Robert W.; Stavins, Robert N. **AA** Cavanagh: Harvard University. Hahn AEI-Brookings Joint Center for Regulatory Studies. Stavins: Harvard University and Resources for the Future. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/32; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123

Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 42. **PR** no charge; available only on website. **JE** Q57, Q58. **KW** Environmental Policy. Evaluation. Clinton Administration.
AB We review major developments in national environmental policy during the Clinton Administration, defining environmental policy to include not only the statutes, regulations, and policies associated with reducing pollution, but major issues of public lands management and species preservation. We adopt economic criteria for policy assessment -- principally efficiency, cost-effectiveness, and distributional equity. While the paper is primarily descriptive, we highlight a set of themes that emerge in the economics of national environmental policy over the past decade.

PD December 2001. **TI** Muffled Price Signals: Household Water Demand Under Increasing-Block Prices. **AU** Cavanagh, Sheila M.; Hanemann, W. Michael; Stavins, Robert N. **AA** Cavanagh and Stavins: Harvard University. Hanemann: University of California, Berkeley. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/40; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 35. **PR** no charge; available only on website. **JE** D12, Q25. **KW** Water Demand. Demand Function. Increasing-Block.
AB In many areas of the world, including large parts of the United States, scarce water supplies are a serious environmental concern. The possibility exists that water is being used at rates that exceed what would be dictated by efficiency criteria, particularly when externalities are taken into account. Because of this, much attention has been given by policy makers and others to the use of various techniques of demand management, including requirements for the adoption of specific technologies and restrictions on particular uses. A natural question for economists to ask is whether price would be a more effective instrument to facilitate efficient management of water resources. As a first step in such an investigation, this paper draws upon a newly available set of detailed data to estimate the demand function for household use of urban water supplies. Because of the diverse multiple-block pricing structures that abound, estimation of this relationship poses some challenging and interesting problems.

Cayford, Jerry

TI The U.S. Patent System and Developing Country Access to Biotechnology: Does the Balance Need Adjusting? **AU** Taylor, Michael R.; Cayford, Jerry.

Cecchetti, Stephen G.

PD June 2002. **TI** Asset Prices in a Flexible Inflation Targeting Framework. **AU** Cecchetti, Stephen G.; Genberg, Hans; Wadhwani, Sushil. **AA** Cecchetti: Ohio State University and NBER. Genberg: Graduate Institute of International Studies. Wadhwani: Bank of England. **SR** National Bureau of Economic Research Working Paper: 8970; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 20. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E31, E52, E58. **KW** Inflation Targeting. Asset Price Misalignment. Bubbles.
AB We argue that there are sound theoretical reasons for believing that an inflation targeting central bank might improve

macroeconomic performance by reacting to asset price misalignments over and above the deviation of, say, a two-year ahead inflation forecast from target. We first summarize the arguments for our basic proposition. We then discuss some of the counter-arguments. Specifically, we counter those who argue that reacting to asset prices does not improve macroeconomic performance by claiming that they are attacking the "straw man" under which central bankers react in the same way to all asset price changes. In practice, we do believe that central bankers can detect large misalignments (e.g. the Nikkei in 1989 or the NASDAQ in early 2000), and that they might be in a better position to react to long-lived bubbles than many market participants. However, we recognize that our proposal may present communication challenges, and it is critically important that policy set to react to asset price misalignments both be explained well and that it be based on a broad consensus.

Cernat, Lucian
PD August 2002. **TI** How Important are Market Access Issues for Developing Countries in the Doha Agenda? **AU** Cernat, Lucian; Laird, Sam; Turrini, Alessandro. **AA** Cernat and Turrini: DITC, UNCTAD, Geneva. Laird: University of Nottingham and DITC, UNCTAD, Geneva. **SR** University of Nottingham, CREDIT Research Paper: 02/13; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 18. **PR** no charge. **JE** F13, F15. **KW** Developing Countries. WTO. Market Access Issues. Protection.
AB The aim of this paper is that of going "back to basics", focusing on the importance of market access issues for developing countries in the WTO negotiations begun in Doha in 2001. Data on protection patterns in agriculture and manufacturing are analyzed, with a special focus on the issues of tariff peaks and escalation. The likely impact of several liberalization scenarios is evaluated using GTAP. The broad conclusion is that developing countries still have sizable potential gains from improved market access in merchandise trade, but the size and the distribution of these gains depend much on the extent to which developing countries will be active in the liberalization process and on the agreed negotiation targets and modalities.

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

Chadha, Jagjit S.
PD January 2003. **TI** On the Interaction of Monetary and Fiscal Policy. **AU** Chadha, Jagjit S.; Nolan, Charles. **AA** Chadha: University of Cambridge. Nolan: University of Durham. **SR** University of Cambridge, DAE Working Paper: 0303; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. **PG** 81. **PR** $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. **JE** E32, E52, E63. **KW** Optimal Simple Rules. Monetary and Fiscal Policy. Finite Lives.
AB In this paper we review some fundamental issues that

have been identified by macroeconomists in discussing the co-ordination of monetary and fiscal policy. As Sargent and Wallace (1981) graphically illustrated, the consolidated public sector present-value budget constraint means that monetary and fiscal policy are ultimately joint decisions. However, as we show in a quantitative general equilibrium model, even when fiscal solvency is not an issue, monetary and fiscal policy may still need to be coordinated.

Chari, Anusha
PD June 2002. **TI** Risk Sharing and Asset Prices: Evidence From a Natural Experiment. **AU** Chari, Anusha; Henry, Peter Blair. **AA** Chari: University of Michigan. Henry: Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 8988; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F32, G12. **KW** Risk Sharing. Liberalization.
AB When countries liberalize their stock markets, firms that become eligible for purchase by foreigners (investible), experience an average stock price revaluation of 10.4 percent. Since the covariance of the median investible firm's stock return with the local market is 30 times larger than its covariance with the world market, liberalization reduces the systematic risk associated with holding investible securities. Consistent with this phenomenon are two facts: 1) the average effect of the reduction in systematic risk is 3.4 percentage points, or roughly one third of the total effect; and 2) variation in the firm-specific response is directly proportional to the firm-specific change in systematic risk. The statistical significance of this proportionality persists after controlling for changes in expected future profits and index inclusion criteria such as size and liquidity.

Charles, Kerwin Kofi
PD July 2002. **TI** Gender Differences in Completed Schooling. **AU** Charles, Kerwin Kofi; Luoh, Ming-Ching. **AA** Charles: University of Michigan and NBER. Luoh: National Taiwan University. **SR** National Bureau of Economic Research Working Paper: 9028; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 31. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** I20, J16, J24. **KW** Gender. Education. Human Capital.
AB This paper summarizes the dramatic changes in relative male-female educational attainment over the past three decades. Stock measures of education among the entire adult population show rising attainment levels for both men and women, with men enjoying an advantage in schooling levels throughout this interval. Cohort specific analysis reveals that these stock measures mask two interesting patterns: (a) gender difference at the cohort level had vanished by the early 1950 birth cohort and reversed sign ever since; (b) for several cohorts, attainment rates were flat for women and flat and falling for men. This last is puzzling in the face of the large college premia that these cohorts observed when making their schooling choices. We present a simple human capital model showing how the anticipated dispersion of future wages should affect educational investment and find that a model which includes measures of future earnings dispersion fits the data for relative schooling patterns quite well.

PD July 2002. **TI** Is Retirement Depressing? Labor Force

Inactivity and Psychological Well-Being in Later Life. AA University of Michigan and NBER. SR National Bureau of Economic Research Working Paper: 9033; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 23. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I31, J14, J17, J26. KW Retirement. Labor Force. Social Security.

AB This paper assesses how retirement -- defined as permanent labor force non-participation in a man's mature years -- affects psychological welfare. The raw correlation between retirement and well- being is negative. But this does not imply causation. In particular, people with idiosyncratically low well-being, or people facing transitory shocks which adversely affect well-being might disproportionately select into retirement. Discontinuous retirement incentives in the Social Security System, and changes in laws affecting mandatory retirement and Social Security benefits allows the exogenous effect of retirement on happiness to be estimated. The paper finds that the direct effect of retirement on well-being is positive once the fact that retirement and well being are simultaneously determined is accounted for.

PD July 2002. TI Relational Costs and the Production of Social Capital: Evidence from Carpooling. AU Charles, Kerwin Kofi; Kline, Patrick. AA Charles: University of Michigan and NBER. Kline: University of Michigan. SR National Bureau of Economic Research Working Paper: 9041; 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 Z13. KW Social Capital. Race.

AB This paper posits that individuals can more easily form social connections with persons of the same race. If true, the greater the incidence among his neighbors of persons of his race, the more likely an individual is to make neighborhood social capital connections, and the more likely he is to engage in activities which require it. The paper tests this idea using an indicator of individual social capital never previously studied: whether the person uses a carpool to get to work. We identify exogenous variation in adult neighborhood racial makeup arising from the racial makeup of the state in which the person was born in the year that he was born, and relate this exogenous portion of adult neighborhood racial composition to individual carpooling propensity using a TSLS approach. The results from this analysis, and from robustness tests which focus on neighborhoods with virtually identical racial distributions, show evidence of strong cross-racial relational difficulties, but interestingly, only for particular pairs of racial groups.

Charness, Gary

PD June 2002. TI Understanding Social Preferences with Simple Tests. AU Charness, Gary; Rabin, Matthew. AA Charness: UC Santa Barbara. Rabin: UC Berkeley. SR University of California, Berkeley, Department of Economics Working Paper: 02/317; University of California, Berkeley, WP orders, F502 Haas Building #1922, Berkeley, CA 94720-1922. Website: iber.berkeley.edu/wps/econwp.html. PG 29. PR $3.50 U.S. and Canada; $7.50 International; make checks payable to "Regents of the University of California". JE A12, A13, B49, C70, C91, D11, D63. KW Difference Aversion. Fairness. Inequity Aversion. Social Welfare. Non-Ultimatum Games. Reciprocal Fairness. Social Preferences. Ultimatum Games.

AB Departures from self-interest in economic experiments have recently inspired models of "social preferences". We design a range of simple experimental games that test these theories more directly than existing experiments. Our experiments show that subjects are more concerned with increasing social welfare -- sacrificing to increase the payoffs for all recipients, especially low-payoff recipients -- than with reducing differences in payoffs (as supposed in recent models). Subjects are also motivated by reciprocity: They withdraw willingness to sacrifice to achieve a fair outcome when others are themselves unwilling to sacrifice, and sometimes punish unfair behavior.

Chen, Ming

PD September 2001. TI Environmental Indices for the Chinese Grain Sector. AU Chen, Ming; Karp, Larry. AA University of California, Berkeley. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 927; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. PG 25. PR $6.25 domestic; $12.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE C32, C43, Q10, Q21. KW Chinese Agriculture. Dynamic Production. Environmental Indices. Sustainability. Kalman Filter.

AB Increased population pressure and political decisions have led to more intensive agricultural practices in China. As in other regions of the world, these practices can damage natural capital. We use the Kalman filter and Chinese panel data to estimate an index of environmental productivity (natural capital), together with the parameters of environmental dynamics and the production function. These estimates show that intensive practices are likely to have had persistent, substantial, and statistically significant negative effects on productivity. Ignoring these effects can cause substantial misallocation of resources. The results illustrate the possibility of estimating sectoral environmental indices using data commonly available.

Chevalier, Judith

TI Measuring Prices and Price Competition Online: Amazon and Barnes and Noble. AU Goolsbee, Austan; Chevalier, Judith.

Christiano, Lawrence J.

PD June 2002. TI Monetary Policy in a Financial Crisis. AU Christiano, Lawrence J.; Gust, Christopher; Roldos, Jorge. AA Christiano: Northwestern University and NBER. Gust: Federal Reserve Board of Governors. Roldos: IMF. SR National Bureau of Economic Research Working Paper: 9005; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 28. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E52, F32, F41. KW Interest Rate Cut. Stimulatory. Contractionary. Financial Crisis.

AB What are the economic effects of an interest rate cut when an economy is in the midst of a financial crisis? Under what conditions will a cut stimulate output and employment, and raise welfare? Under what conditions will a cut have the opposite effects? We answer these questions in a general class of open economy models, where a financial crisis is modeled as

a time when collateral constraints are suddenly binding. We find that when there are frictions in adjusting the level of output in the traded good sector and in adjusting the rate at which that output can be used in other parts of the economy, then a cut in the interest rate is most likely to result in a welfare-reducing fall in output and employment. When these frictions are absent, a cut in the interest rate improves asset positions and promotes a welfare- increasing economic expansion.

Ciraolo, Luigi

TI   Economic and Environmental Sustainability: A Dynamic Approach in Insular Systems Structures. AU   Cavallaro, Fausto; Ciraolo, Luigi.

Clark, Todd E.

PD   May 2002. TI   Evaluating Long-Horizon Forecasts. AU   Clark, Todd E.; McCracken, Michael W. AA   Clark: Federal Reserve Bank of Kansas City. McCracken: University of Missouri-Columbia. SR   Federal Reserve Bank of Kansas City Research Working Paper: RWP01/14; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG   22. PR   no charge. JE   C12, C52, C53. KW   Forecast Evaluation. Prediction. Causality. Capacity Utilization. Core Inflation.
AB   This paper examines the asymptotic and finite-sample properties of tests of equal forecast accuracy and encompassing applied to predictions from nested long-horizon regression models. We first derive the asymptotic distributions of a set of tests of equal forecast accuracy and encompassing, showing that the tests have non-standard distributions that depend on the parameters of the data-generating process. Using a simple parametric bootstrap for inference, we then conduct Monte Carlo simulations of a range of data-generating processes to examine the finite-sample size and power of the tests. In these simulations, the bootstrap yields tests with good finite-sample size and power properties, with the encompassing test proposed by Clark and McCracken (2001a) having superior power. The paper concludes with a reexamination of the predictive content of capacity utilization for core inflation.

PD   August 2002. TI   Forecast-Based Model Selection in the Presence of Structural Breaks. AU   Clark, Todd E.; McCracken, Michael W. AA   Clark: Federal Reserve Bank of Kansas City. McCracken: University of Missouri-Columbia. SR   Federal Reserve Bank of Kansas City Research Working Paper: RWP02/05; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG   37. PR   no charge. JE   C12, C52, C53. KW   Power. Structural Breaks. Forecast Evaluation. Model Selection.
AB   This paper presents analytical, Monte Carlo, and empirical evidence on the effects of structural breaks on tests for equal forecast accuracy and forecast encompassing. The forecasts are generated from two parametric, linear models that are nested under the null. The alternative hypotheses allow a causal relationship that is subject to breaks during the sample. With this framework, we show that in-sample explanatory power is readily found because the usual F-test will indicate causality if it existed for any portion of the sample. Out-of-sample predictive power can be harder to find because the results of out-of-sample tests are highly dependent on the timing of the predictive ability. Moreover, out-of-sample

predictive power is harder to find with some tests than with others: the power of F-type tests of equal forecast accuracy and encompassing often dominates that of the more commonly-used t-type alternatives. Overall, out-of-sample tests are effective at revealing whether one variable has predictive power for another at the end of the sample. Based on these results and additional evidence from two empirical applications, we conclude that structural breaks can explain why researchers often find evidence of in-sample, but not out-of-sample, predictive content.

PD   August 2003. TI   The Predictive Content of the Output Gap for Inflation: Resolving In-Sample and Out-of-Sample Evidence. AU   Clark, Todd E.; McCracken, Michael W. AA   Clark: Federal Reserve Bank of Kansas City. McCracken: University of Missouri-Columbia. SR   Federal Reserve Bank of Kansas City Research Working Paper: RWP03/06; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm.   PG   31. PR   no charge. JE   C52, C53, E31, E37. KW   Phillips Curve. Forecasts. Causality. Break Test.
AB   This paper sifts through potential explanations for the weakness of the existing out-of-sample evidence on the Phillips curve relative to the in-sample evidence, focusing on models relating inflation to the output gap. The out-of-sample evidence could be weaker because, even when the models are stable over time, out-of-sample metrics are less powerful than the usual in-sample Granger causality tests. The weakness of the out-of-sample evidence could also be due to model instability -- shifts in the coefficients or residual variance of the inflation-output gap model. This paper evaluates these explanations on the basis of comparisons of the sample forecasting results to results from Monte Carlo simulations of DGPs that either assume stability or allow empirically-identified breaks in the coefficients of the DGP. This analysis shows that most of the weakness of the out-of-sample evidence relative to the in-sample evidence is attributable to instabilities in the model, particularly in the coefficients on the output gap. Theoretical analysis, based on a local alternatives framework, confirms that breaks in the output gap coefficients, but not breaks in residual variances or AR coefficients, can lead to a breakdown in the power of tests of equal forecast accuracy and forecast encompassing.

Clark, Ximena

PD   June 2002. TI   Where Do U.S. Immigrants Come From, and Why? AU   Clark, Ximena; Hatton, Timothy J.; Williamson, Jeffrey G. AA   Clark: The World Bank. Hatton: University of Essex. Williamson: Harvard University and NBER. SR   National Bureau of Economic Research Working Paper: 8998; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   24. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   F22, J11, J15, O15. KW   Immigration Policy. United States. Changing Sources. Family Reunification.
AB   The United States has experienced rising immigration levels and changing source since the 1950s. The changes in source have been attributed to the 1965 Amendments to the Immigration Act that abolished country-quotas and replaced them with a system that emphasized family reunification. Some believed that the Amendments would not change the "traditional" sources of US immigrants. Given this view, it seems all the more remarkable that the sources of immigration

changed so dramatically. This paper isolates the economic and demographic fundamentals that determined immigration rates by source from 1971 to 1998 -- income, education, demographic composition and inequality. The paper also allows for persistence -- big US foreign-born stocks implying a strong "friends and neighbors" pull on current immigrant flows. Specific policy variables are included which are derived directly from the quotas allocated to different visa categories. Parameter estimates from the panel data are then used to implement counterfactual simulations that serve to isolate the effects of immigration policy as well as source-country economic and demographic conditions.

Clarke, George R. G.

PD October 2002. TI Privatization, Competition, and Corruption: How Characteristics of Bribe Takers and Payers Affect Bribe Payments to Utilities. AU Clarke, George R. G.; Xu, Lixin Colin. AA The World Bank. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/82; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 24. PR no charge; available only on website. JE K49, L95, L97. KW Corruption. Bribes. Ownership. Competition. Privatization.

AB Many recent studies have looked at the macroeconomic, cultural, and institutional determinants of corruption at the cross-country level. This study complements these existing cross-country studies by focusing on firm-level evidence of microeconomic factors affecting bribes paid in a single sector of the economy. Using firm-level data on bribes paid to utilities in 21 transition economies in Eastern Europe and Central Asia, we examine how characteristics of the utilities taking bribes and the enterprises paying bribes affect the equilibrium level of corruption in the sector. Bribe takers (utility employees) are more likely to take bribes in countries with greater constraints on utility capacity, lower levels of competition in the utility sector, and where utilities are state-owned. Bribe payers (enterprises) are more likely to pay bribes when they are more profitable, have greater overdue payment to utilities, and are de novo private firms. A thorny issue in the empirical literature on corruption is how to distinguish between the "endogenous harassment" and "speed money" theories of corruption. The former receives stronger support from some of the results than the latter.

Coates, John C., IV.

TI The Powerful Antitakeover Force of Staggered Boards: Theory, Evidence and Policy. AU Bebchuk, Lucian Arye; Coates, John C., IV..; Subramanian, Guhan.

Coatsworth, John H.

PD June 2002. TI The Roots of Latin American Protectionism: Looking Before the Great Depression. AU Coatsworth, John H.; Williamson, Jeffrey G. AA Coatsworth: Harvard University and Center for Latin American Studies. Williamson: Harvard University, NBER, and Center for International Development. SR National Bureau of Economic Research Working Paper: 8999; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 33. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F13, N16, O24. KW Trade Policy. Latin America. Nineteenth Century. Protectionism.

AB This paper uncovers a fact that has not been well appreciated: tariffs in Latin America were far higher than anywhere else in the century before the Great Depression. This is a surprising fact given that this region has been said to have exploited globalization forces better than most during the pre-1914 era and for which the Great Depression has always been viewed as a critical policy turning point towards protection and de-linking from the world economy. This paper shows that the explanation cannot lie with output gains from protection, since, while such gains were present in Europe and its non- Latin offshoots, they were not present in Latin America. The paper then explores Latin American tariffs as a revenue source, as a protective device for special interests, and as the result of other political economy struggles. We conclude by asking whether the same pro- protection conditions exist today as those which existed more than a century ago.

Cochran, Kathryn A.

TI Marine Protected Areas: Economic and Social Implications. AU Sanchirico, James N.; Cochran, Kathryn A.; Emerson, Peter M.

Cochrane, John H.

PD June 2002. TI Stocks as Money: Convenience Yield and the Tech-Stock Bubble. AA University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 8987; 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 G11, G12. KW Tech Stocks. Bubbles. Transactions Demand.

AB What caused the rise and fall of tech stocks? I argue that a mechanism much like the transactions demand for money drove many stock prices above the "fundamental value" they would have held in a frictionless market. I start with the Palm/3Com microcosm and then look at tech stocks in general. High prices are associated with high volume, high volatility, low supply of shares, wide dispersion of opinion, and restrictions on long-term short selling. I review competing theories and find that only the convenience yield view makes all these connections.

Cockburn, Iain M.

PD June 2002. TI Are All Patent Examiners Equal? The Impact of Examiner Characteristics on Patent Statistics and Litigation Outcomes. AU Cockburn, Iain M.; Kortum, Samuel; Stern, Scott. AA Cockburn: Boston University and NBER. Kortum: University of Minnesota and NBER. Stern: Northwestern University and NBER. SR National Bureau of Economic Research Working Paper: 8980; 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 K39, L32, O31, O32, O38. KW Patents. Examiner Characteristics. USPTO.

AB Building on insights gained from interviewing administrators and patent examiners at the United States Patent and Trademark Office (USPTO), we collect and analyze a novel dataset on patent examiners and patent outcomes. This dataset is based on 182 patents for which the Court of Appeals for the Federal Circuit (CAFC) ruled on validity between 1997 and 2000. For each patent, we identify a USPTO primary examiner, and collect historical statistics derived from their entire patent

examination history. Our main findings are as follows. (i) Patent examiners and the patent examination process are not homogeneous. There is substantial variation in observable characteristics of patent examiners, such as their tenure at the USPTO, the number of patents they have examined, and the degree to which the patents that they examine are later cited by other patents. (ii) There is no evidence that examiner experience or workload at the time a patent is issued affects the probability that the CAFC finds a patent invalid. (iii) Examiners whose patents tend to be more frequently cited tend to have a higher probability of a CAFC invalidity ruling.

Coenen, Gunter

AB In this paper we estimate a small macroeconomic model of the United States, the euro area, and Japan with rational expectations and nominal rigidities due to staggered contracts. Comparing three popular contracting specifications we find that euro area and Japanese inflation dynamics are best explained by Taylor-style contracts, while Buiter-Jewitt/Fuhrer-Moore contracts perform somewhat better in fitting U.S. inflation dynamics. We are unable to fit Calvo-style contracts to inflation dynamics in any of the three economies without allowing either for ad-hoc persistence in unobservables or a significant backward-looking element. The completed model matches inflation and output dynamics in the United States, the euro area, and Japan quite well. We then use it to evaluate the role of the exchange rate for monetary policy. Preliminary results, which are similar across the three economies, indicate little gain from a direct policy response to the exchange rate.

Combes, Pierre-Philippe

AB This paper studies the impact of local economic structure on local sectoral employment growth. Local employment growth is decomposed into "internal" growth (the growth of the size of existing plants) and "external" growth (the creation of new plants). Using panel data methods, we estimate the dynamics of both variables simultaneously. Our observations refer to 36 manufacturing, trade and service sectors and 341 French "Employment Areas" in every year between 1984 and 1993. Carefully specifying the short-run dynamics and controlling for fixed effects and endogeneity are shown to be critical. The low order of the selected model, an ARMA(1,1),

implies that static externalities are more frequent than dynamic ones. Moreover, whereas fixed effects explain most of the spatial variation of plant size, plant creation is mainly determined by the current local economic structure. Policies targeted on the creation of new plants should therefore prove to be more rapidly efficient.

Cooper, Daniel

AB This paper analyzes the effect on a company's stock price when it is added to the S&P 500 Index. A simple theoretical model is developed to show how trading effects and changes to fundamentals should affect the price of S&P500 additions upon announcement and in the long run. This model predicts that a company added to the S&P500 should experience an initial price increase followed by a reversal of this price increase owing to the predicted increased stock price volatility of companies post-addition. All of these effects should be growing over time because of the increasing importance of S&P500 indexed mutual funds. We test the predictions of the model using a sample of 303 S&P500 Index additions between 1978 and 1998. We find results generally consistent with the model, particularly in the most recent period when it appears that the post-addition increase in stock price volatility reverses almost all of the initial price increase.

Cooper, Joseph C.

AB To reduce the potential for response bias on the follow-up bid in multiple-bound discrete choice CVM questions while maintaining much of the efficiency gains of the multiple-bound approach, we introduce the one-and-one-half-bound (OOHB) approach. Despite the fact that the OOHB model uses less information than the double-bound (DB) approach, efficiency gains in moving from single-bound to OOHB capture a large portion of the gain associated with moving from single-bound to DB. In an analysis of survey data, our OOHB estimates demonstrated higher consistency with respect to the follow-up

data than the DB estimates and were more efficient as well.

PD April 2002. **TI** Farmer Premiums for the Voluntary Adoption of Conservation Plans. **AU** Cooper, Joseph C.; Signorello, Giovanni. **AA** Cooper: Economic Research Service. Signorello: University of Catania. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/27; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 18. **PR** no charge; available only on website. **JE** Q14, Q25. **KW** Risk Premium. Contingent Valuation. Willingness to Accept. One-and- One-Half-Bound. Discrete Choice. Elicitation Format.
AB Utilizing the random utility and random profit difference approaches, we develop a theoretical model that explains why farmers may require a premium in excess of the decrease in profits to adopt a conservation plan. Identification of this risk premium can aid the government in addressing approaches to lowering the costs of encouraging farmers to adopt the conservation programs. Previous work done in this area has not successfully identified this premium. We estimate this premium using a survey of farmers in conjunction with predictions of changes in production costs. To increase the efficiency of the econometric analysis of survey responses, we use the so-called "one-and-one-half-bound" (OOHB) elicitation format. Furthermore, to test the sensitivity of our estimation results to functional form and distributional specifications, we compare the results utilizing parametric, nonparametric, and semi-nonparametric econometric approaches.

Cooper, Russell
PD July 2003. **TI** The Economics of Labor Adjustment: Mind the Gap. **AU** Cooper, Russell; Willis, Jonathan L. **AA** Cooper: Boston University. Willis: Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP03/05; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. **PG** 19. **PR** no charge. **JE** E24, J23, J63. **KW** Aggregate Employment. Employment. Adjustment Costs.
AB We study inferences about the dynamics of labor adjustment obtained by the "gap methodology" of Caballero and Engel (1993) and Caballero, Engel, and Haltiwanger (1997). In that approach, the policy function for employment growth is assumed to depend on an unobservable gap between the target and current levels of employment. Using time series observations, these studies reject the partial adjustment model and find that aggregate employment dynamics depend on the cross-sectional distribution of employment gaps. Thus, nonlinear adjustment at the plant level appears to have aggregate implications. We argue that this conclusion is not justified: these findings of nonlinearities in time series data may reflect mismeasurement of the gaps rather than the aggregation of plant-level nonlinearities.

Coppejans, Mark
PD July 2002. **TI** Price Uncertainty, Tax Policy, and Addiction: Evidence and Implications. **AU** Coppejans, Mark; Sieg, Holger. **AA** Coppejans: Duke University. Sieg: Carnegie Mellon University and NBER. **SR** National Bureau of Economic Research Working Paper: 9073; 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 D84, I12. **KW** Tobacco. Rational Addiction Model. Price Volatility. Youth Smoking.
AB Consumption of addictive goods is subject to habit formation. Forward-looking individuals must, therefore, be concerned about future prices when making current consumption decisions. We study prices for tobacco products based on a unique data set provided by the Bureau of Labor Statistics. Our empirical findings suggest that prices have been highly volatile during the past decade. Price uncertainty has a potentially large impact on the economic well-being of young individuals with relatively low levels of disposable income. We develop a model to study consumption of addictive substances under price uncertainty. Our results indicate that optimal decision rules of low income individuals can crucially depend on subjective beliefs about future prices and the length of the planning horizon. These results imply that tax policies are most effective in reducing teenage cigarette consumption if they credibly alter individuals' beliefs about future prices.

Corman, Hope
PD July 2002. **TI** Carrots, Sticks and Broken Windows. **AU** Corman, Hope; Mocan, Naci. **AA** Corman: Rider University and NBER. Mocan: University of Colorado at Denver and NBER. **SR** National Bureau of Economic Research Working Paper: 9061; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 22. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** J18, K42. **KW** Crime. Economic Conditions. Law Enforcement. Deterrence. New York City.
AB This paper investigates the impact of economics conditions (carrots) and sanctions (sticks) on murder, assault, robbery, burglary and motor vehicle theft in New York City, using monthly time-series data spanning 1974-1999. Carrots are measured by the unemployment rate and the real minimum wage; sticks are measured by felony arrests, police presence, and New York City residents in prison. In addition, the paper tests the validity of the "broken windows" hypothesis, where misdemeanor arrests are used as a measure of broken windows policing. The broken windows hypothesis has validity in the cases of robbery and motor vehicle theft. The models explain between 33 and 86 percent of the observed decline in these crimes between 1990 and 1999. While both economic and deterrence variables are important in explaining the decline in crime, the contribution of deterrence measures is larger than those of economic variables.

Cornes, Richard
PD November 2001. **TI** Asymmetric Contests with General Technologies. **AU** Cornes, Richard; Hartley, Roger. **AA** Cornes: University of Nottingham. Hartley: Keele University. **SR** University of Nottingham, Discussion Paper in Economics: 01/10; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 21. **PR** no charge. **JE** C72, D72. **KW** Contests. Rentseeking. Noncooperative Games. Share Functions. Share Correspondences.
AB We investigate the Nash equilibria of asymmetric, winner-take-all, imperfectly discriminating contests, focusing on existence, uniqueness, and rent dissipation. When the contest success function is determined by a production function with decreasing returns for each contestant, equilibria are

unique. If marginal product is also bounded, limiting total expenditure is equal to the value of the prize in large contests even if contestants differ. Partial dissipation can occur only when infinite marginal products are permitted. Our analysis relies heavily on the use of 'share functions' and we discuss their theory and application. Increasing returns typically introduces multiple equilibria and requires an extension of share functions to correspondences. We describe the appropriate theory and apply it to the characterization of all equilibria of contests employing the asymmetric generalization of a widely-used symmetric contest success function.

PD November 2001. **TI** Disguised Aggregative Games. **AU** Cornes, Richard; Hartley, Roger. **AA** Cornes: University of Nottingham. Hartley: Keele University. **SR** University of Nottingham, Discussion Paper in Economics: 01/11; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/ research/dp/school_dp/. **PG** 20. **PR** no charge. **JE** C72, D43, D72. **KW** Noncooperative Games. Public Goods. Monopolistic Competition.
AB Noncooperative games in which each player's payoff function depends on an additively separable function of every player's choice variable may be transformed into an aggregative game, which may be analyzed using the concept of "share functions". The resulting approach avoids the proliferation of dimensions as the number of players is increased. We show how this approach may be exploited to provide a simple treatment of existence, uniqueness, and comparative statics in common models that arise in analyses of monopolistic competition, public goods, and rent-seeking contests.

PD September 2002. **TI** Dissipation in Rent-Seeking Contests with Entry Costs. **AU** Cornes, Richard; Hartley, Roger. **AA** Cornes: University of Nottingham. Hartley: Keele University. **SR** University of Nottingham, Discussion Paper in Economics: 02/08; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/.
PG 23. **PR** no charge. **JE** C72, D72. **KW** Entry Costs. Noncooperative Game Theory. Rent Dissipation. Rent Seeking.
AB This paper considers the extent to which expenditure by contestants in imperfectly discriminating rent-seeking contests dissipates the rent. In particular, we investigate strategic effects, technological effects, and asymmetry under an assumption of diminishing returns to scale. Although asymmetry can reduce dissipation when there are few contestants, we show that this effect disappears in the Nash equilibria of large contests. Similarly, strategic effects are diminished if the cost of entry, which restricts the number of contestants, is fully taken into account. When individual entry costs fall to zero, the reduction in dissipation arising from technological factors disappears. More generally, the dissipation-reducing properties of all three effects operating simultaneously disappear as individual entry fees fall to zero provided the aggregate cost of entry is added to the expenditure of entrants. These conclusions are robust to details of the entry process which can be sequential, in which case the ordering is irrelevant to the limiting results, or simultaneous. Our principal theoretical tool is the share function which expresses the probability of a player winning the contest as a function of aggregate expenditure. However,

this methodology has independent interest as it can be applied in many other contexts (not formally analyzed here).

PD April 2003. **TI** Aggregative Public Good Games. **AU** Cornes, Richard; Hartley, Roger. **AA** Cornes: University of Nottingham. Hartley: Keele University. **SR** University of Nottingham, Discussion Paper in Economics: 03/04; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/ research/dp/school_dp/. **PG** 28. **PR** no charge. **JE** C72, H41. **KW** Noncooperative Games. Public Goods.
AB We exploit the aggregative structure of the public good model to provide a simple analysis of the voluntary contribution game. In contrast to the best response function approach, ours avoids the proliferation of dimensions as the number of players is increased, and can readily analyze games involving many heterogeneous players. We demonstrate the approach in the standard pure public economic model and show how to analyze extensions of the basic model.

Corsetti, Giancarlo
PD September 2002. **TI** Macroeconomics of International Price Discrimination. **AU** Corsetti, Giancarlo; Dedola, Luca. **AA** Corsetti: University of Rome III, Yale University and CEPR. Dedola: Bank of Italy and Ente Einaudi. **SR** European Central Bank Working Paper: 176; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 64. **PR** no charge. **JE** F31, F41. **KW** Exchange Rate Pass-Through. Nominal Rigidities. Optimal Monetary Policy. International Cooperation.
AB This paper builds a baseline two-country model of real and monetary transmission under optimal international price discrimination. Distributing traded goods to consumers requires nontradables; because of distributive trade, the price elasticity of export demand depends on the exchange rate. Profit-maximizing monopolistic firms drive a wedge between wholesale and retail prices across countries. This entails possibly large deviations from the law of one price and incomplete pass-through on import prices. Yet, consistent with expenditure- switching effects, a nominal depreciation generally worsens the terms of trade. Moreover, the exchange rate and the terms of trade can be more volatile than fundamentals. For plausible ranges of the distribution margin, there can be multiple steady states, whereas large differences in nominal and real exchange rates across equilibria translate into small differences in consumption, employment and the price level. Finally, we show that with competitive goods markets international policy cooperation is redundant even under financial autarky.

Cossa, Ricardo
TI Learning-By-Doing Vs. On-the-Job Training: Using Variation Induced by the EITC to Distinguish Between Models of Skill Formation. **AU** Heckman, James J.; Lochner, Lance; Cossa, Ricardo.

Costello, Christopher
PD January 2002. **TI** Fishery Management Under Multiple Uncertainty. **AU** Costello, Christopher; Fisher, Anthony C.; Hanemann, W. Michael; Karp, Larry; Sethi, Gautam. **AA** Costello: University of California, Santa Barbara. Fisher, Hanemann, and Karp: University of California,

Berkeley. Sethi: Bard College. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 929; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. **PG** 38. **PR** $9.50 domestic; $19 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** Q22. **KW** Fishery Management. Uncertainty. Environmental Variability. Profits.

AB Among others who point to environmental variability and managerial uncertainty as causes of fishery collapse, Roughgarden and Smith (1996) argue that three sources of error are important for fisheries management: variability in fish dynamics, inaccurate stock size estimates, and inaccurate implementation of harvest quotas. We develop a bioeconomic model with these three sources of error, and solve for optimal harvest "announcements" based on measurements of fish stock in a discrete-time model. Among other results we find: (1) when errors are large, we generally reject the constant-escapement rule advocated in much of the existing literature, (2) inaccurate stock estimation affects policy in a fundamentally different way than the other error sources, (3) the optimal policy is associated with higher commercial value and lower extinction risk than the optimal constant-escapement policy, and (4) including existence value leads to more conservative management, substantially increasing stock viability without significantly sacrificing commercial fishery profits.

Cote, Bruno

TI The Measurement of the Energy Intensity of Manufacturing Industries: A Principal Components Analysis. **AU** Bernard, Jean-Thomas; Cote, Bruno.

Courtois, Pierre

PD October 2002. **TI** Influence Processes in Climate Change Negotiations: Modelling the Rounds. **AA** CIRED. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/86; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 17. **PR** no charge; available only on website. **JE** Q28, Q54, Q58. **KW** Imitation. Persuasion. Climate Change Negotiation. Master Equation.

AB I present an integrated framework for structuring and evaluating dynamic and sequential climate change decision making in the international arena taking into account influence processes occurring during negotiation rounds. The analysis integrates imitation, persuasion, and dissuasion behaviors. The main innovation brought in the approach is the presentation of a stochastic model framework derived from thermodynamics. The so-called master equation is introduced in order to better understand strategic switch and influence games exerted. The model is illustrated toward a simulation of climate change conferences decision making processes. Characteristics of regions behaviors are derived from the simulations. In particular, the bargain behaviors allowing for the emergence of an agreement are presented.

Covitz, Daniel M.

PD August 2002. **TI** Insolvency or Liquidity Squeeze? Explaining Very Short-Term Corporate Yield Spreads. **AU** Covitz, Daniel M.; Downing, Chris. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/45; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 40. **PR** no charge. **JE** E40, G10, G30. **KW** Yields. Spreads. Default. Insolvency. Liquidity.

AB In this paper, we first document some stylized facts about very short-term and long-term corporate yield spreads. We find that short-term spreads are sizable, and the correlations between many firms' short-term and long-term yield spreads are at times negative. We then develop a structural model that generates levels and correlations of short-term and long-term spreads that are more consistent with what we observe. The model allows for the possibility of payment delays when a firm's liquid asset position deteriorates. Payment delays generate sizable short-term debt spreads because the realized returns on short-term investments are very sensitive to an increase in the holding period. The presence of liquidity risk can also explain negative correlations between short- and long-term spreads because liquidity risk is imperfectly correlated with insolvency risk. Using firm-level data, we provide empirical evidence that liquid assets holdings help predict short-term spreads, but not long-term spreads.

PD August 2002. **TI** Market Discipline in Banking Reconsidered: The Roles of Deposit Insurance Reform, Funding Manager Decisions and Bond Market Liquidity. **AU** Covitz, Daniel M.; Hancock, Diana; Kwast, Myron L. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/46; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 36. **PR** no charge. **JE** G14, G21. **KW** Market Discipline. Subordinated Debt. Market Efficiency.

AB This paper demonstrates that the risk sensitivity of a banking organization's subordinated debt yield spreads may understate the potential for market discipline in some periods and overstate in others because such spreads contain liquidity premiums that are driven, in part, by the risk-sensitivity of funding manager decisions. Once such decisions are accounted for, new evidence is provided that indicates that subordinated debt spreads were sensitive to organization-specific risks in the mid-1980s, and that the risk-sensitivity of such spreads was about the same in the pre- and post-FDICIA periods. These results resolve some anomalies in the existing literature. In addition, it is argued that mandating the regular issuance of subordinated debt would, by reducing the endogeneity of liquidity premiums, improve the information content of both primary and secondary market debt spreads, thereby augmenting both direct and indirect market discipline.

Cowell, Frank

TI Intergenerational Mobility in Britain: Revisiting the Prediction Approach of Dearden, Machin and Reed. **AU** Abul Naga, Ramses; Cowell, Frank.

Creedy, John

PD December 2001. **TI** Aggregating Labour Supply and Feedback Effects in Microsimulation. **AU** Creedy, John; Duncan, Alan. **AA** Creedy: University of Melbourne. Duncan: University of Nottingham, Institute for Fiscal Studies,

and MIAESR. **SR** University of Nottingham, Discussion Paper in Economics: 01/14; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 23. **PR** no charge. **JE** H31, J22. **KW** Behavioral Microsimulation. Labour Supply. Supply Response Schedule. **AB** This paper extends behavioral microsimulation modeling so that third round effects of a policy change can be simulated. The first round effects relate to fixed hours of work, while second round effects allow for changes in desired hours of work at unchanged wages. These allow for endogenous changes to the distribution of wage rates resulting from the labor supply responses to tax changes. This is achieved using the concept of an aggregate "supply response schedule", which identifies the extent to which average labor supply responds to a proportional change in wage rates. The third round effect is obtained after re-running a microsimulation model with a suitable modification to individuals' wage rates. The method is illustrated using the MITTS behavioral microsimulation model.

Crepet, Amelie

TI Evaluation of Food Risk Exposure Based on Extreme Value Theory: Application to Heavy Metals from Sea Products. **AU** Bertail, Patrice; Crepet, Amelie; Feinberg, Max; Tressou, Jessica.

Crepon, Bruno

PD January 2002. **TI** Wages, Productivity, and Worker Characteristics: A French Perspective. **AU** Crepon, Bruno; Deniau, Nicolas; Perez-Duarte, Sebastien. **AA** Crepon and Perez-Duarte: CREST-INSEE. Deniau: Direction du Tresor. **SR** INSEE Documents de Travail du CREST: 2003/04; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. **PG** 17. **PR** no charge. **JE** J24, J31, J71. **KW** Labor Productivity. Wages. Discrimination. **AB** We investigate the relationship between wages, productivity, and worker characteristics using a new exhaustive matched employer-employee longitudinal dataset for France. Expanding on the methodology originally proposed by Hellerstein, Neumark, and Troske (1999), we relax their hypotheses and provide a new method using cost for the employer. Interestingly, results for France stand in stark contrast with those found in the US: in manufacturing, we find no or little wage discrimination against women who appear to hold less productive jobs, while older workers are relatively overpaid, or equivalently, younger workers are underpaid. Robustness of these results across time periods, industries and identifying assumptions, are confirmed.

Cretegny, Laurent

PD May 2003. **TI** Politique agricole et bien-etre des consommateurs (Swiss Agricultural Policy and Consumer's Welfare). **AU** Cretegny, Laurent; Mattei, Aurelio. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 03/11; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e-cahiers.htm. **PG** 34. **PR** no charge. **JE** D58, D60, Q18. **KW** Agricultural Policy. Switzerland. Welfare. **AB** The Swiss agricultural sector is considered to be one of the more subsidized in the world. Using an applied general equilibrium model, we study the effects of two reforms of the agricultural policy on the welfare of various categories of households. Our framework allows us to consider the multitude of agricultural policy instruments set up by the government. The analysis of the reform AP 2002 shows that, in spite of almost non-existent aggregate welfare gains, great disparities appear between the various households considered. The farmers are by far the greatest losers whereas the pensioners and the wealthy employees profit substantially from the reform. With regard to project AP 2007, the effect of an auction of the tariff quotas is positive for most of the households in the sense that it increases their welfare gains compared to the reform AP 2002. However, the farmers, the pensioners, as well as some other households do not improve their situation compared to AP 2002. This paper is written in French.

Cropper, Maureen

TI Does the Value of a Statistical Life Vary with Age and Health Status? Evidence from the United States and Canada. **AU** Alberini, Anna; Cropper, Maureen; Krupnick, Alan; Simon, Nathalie B.

Cruz, Bruno

PD May 2003. **TI** Public Capital and Private Investment, a Real Option Approach. **AU** Cruz, Bruno; Pommeret, Aude. **AA** Cruz: Universite Catholique de Louvain and IRES. Pommeret: University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 03/10; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e-cahiers.htm. **PG** 19. **PR** no charge. **JE** E22, E62, H41. **KW** Irreversible Investment. Public Capital. Uncertainty. **AB** In this paper, public investment provision takes place in a stochastic environment. The role of the government is to remove a part of the uncertainty faced by the firm. If the government simply maximizes the value of the firm, then the optimal tax is smaller under imperfect competition than it is under perfect competition since more public capital reduces the selling price. But if the government seeks to maximize the consumer surplus, tax and public capital provision are also a mean to correct the market and the optimal tax is then higher.

Cuadros, Ana

TI Openness and Growth: Re-Examining Foreign Direct Investment, Trade and Output Linkages in Latin America. **AU** Alguacil, Maria Teresa; Cuadros, Ana; Orts, Vicente.

TI Does Saving Really Matter for Growth? Mexico (1970-2000). **AU** Alguacil, Maria Teresa; Cuadros, Ana; Orts, Vicente.

Cullen, Julie Berry

PD June 2002. **TI** Taxes and Entrepreneurial Activity: Theory and Evidence for the U.S. **AU** Cullen, Julie Berry; Gordon, Roger H. **AA** Cullen: University of Michigan. Gordon: UCSD and NBER. **SR** National Bureau of Economic Research Working Paper: 9015; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 36. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H25, H31, H32, O31. **KW** Entrepreneurship. Tax

Incentives.
AB Entrepreneurial activity is presumed to generate important spillovers, potentially justifying tax subsidies. How does the tax law affect individual incentives? How much of an impact has it had in practice? We first show theoretically that taxes can affect the incentives to be an entrepreneur due simply to differences in tax rates on business vs. wage and salary income, due to differences in the tax treatment of losses vs. profits through a progressive rate structure and through the option to incorporate, and due to risk-sharing with the government. We then provide empirical evidence using U.S. individual tax return data that these aspects of the tax law have had large effects on actual behavior.

Cummins, Jason G.

PD September 2002. **TI** The Dark Side of Competitive Pressure. **AU** Cummins, Jason G.; Nyman, Ingmar. **AA** Cummins: Board of Governors of the Federal Reserve System. Nyman: Hunter College, CUNY. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/43; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 35. **PR** no charge. **JE** D20, D40, D82. **KW** Competition. Information Aggregation. Incentives.
AB One of the most basic principles in economics is that competitive pressure promotes efficiency. However, this pressure can also have a dark side because it makes firms reluctant to act on private information that is unpopular with consumers. As a result, firms that possess superior information about the consequences of their actions for consumers' welfare may choose not to use it. We develop this idea in a simple model of delegated investment in which agents are fully rational and risk neutral, and agency problems are absent. We show that competitive pressure obliges firms to make inefficient decisions when their information advantage over consumers is relatively small. This result could be applied to a broad range of economically important situations.

Currarini, Sergio

PD July 2002. **TI** Stable Organizations with Externalities. **AA** University of Venice. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/51; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 21. **PR** no charge; available only on website. **JE** C72, D71. **KW** Organizations. Graphs. Networks. Cooperation. Coalitions. Externalities.
AB We study the stability properties of organizations in partition function games, describing cooperative situations with externalities. An organization is defined as a group of agents, together with a set of bilateral relations - formally, this is a connected graph. Because of the presence of externalities, the profitability of coalitional threats to an organization depend on the reaction of non coalitional members. This reaction is likely to depend on the links that non coalitional members maintain in the organization. We show that this directly implies that minimally connected organizations emerge under positive externalities, while the fully connected organization emerges under negative externalities. This result is shown to hold independently of the adopted payoff imputation rule. Sharper predictions are possible for the specific case of egalitarian rule.

Here, if only coalitions that are connected in the organization can effectively object to it, the star organization prevails under positive externalities, and the wheel, which is not a fully connected organization, prevails under negative externalities.

Currie, Janet

TI Food Insecurity or Poverty? Measuring Need-Related Dietary Adequacy. **AU** Battacharya, Jayanta; Currie, Janet; Haider, Steven.

TI Heat or Eat? Cold Weather Shocks and Nutrition in Poor American Families. **AU** Battacharya, Jayanta; DeLeire, Thomas; Haider, Steven; Currie, Janet.

PD August 2002. **TI** Socioeconomic Status and Health: Why is the Relationship Stronger for Older Children? **AU** Currie, Janet; Stabile, Mark. **AA** Currie: UCLA and NBER. Stabile: University of Toronto and NBER. **SR** National Bureau of Economic Research Working Paper: 9098; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 22. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** I12, J13. **KW** Health Shocks. Socioeconomic Status. Children.
AB Case, Lubotsky, and Paxson (2001) show that the well-known relationship between socio- economic status (SES) and health exists in childhood and grows more pronounced with age. However, in cross- sectional data it is difficult to distinguish between two possible explanations. The first is that low SES children are less able to respond to a given health shock. The second is that low SES children experience more shocks. We show, using panel data on Canadian children that: 1) the gradient we estimate in the cross section is very similar to that estimated previously using U.S. children; 2) both high and low SES children recover from past health shocks to about the same degree; and 3) that the relationship between SES and health grows stronger over time mainly because low SES children receive more negative health shocks. In addition, we examine the effect of health shocks on math and reading scores. We find that health shocks affect test scores and future health in very similar ways. Our results suggest that public policy aimed at reducing SES-related health differentials in children should focus on reducing the incidence of health shocks as well as on reducing disparities in access to palliative care.

Cutler, David M.

PD December 2001. **TI** The Birth and Growth of the Social-Insurance State: Explaining Old- Age and Medical Insurance Across Countries. **AU** Cutler, David M.; Johnson, Richard. **AA** Cutler: Harvard University and the NBER. Johnson: Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP01/13; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. **PG** 33. **PR** no charge. **JE** H11, H51, H55, J14. **KW** Social Insurance. Health Insurance. Government Provision. Welfare State.
AB We seek to explain why countries have adopted national Old-Age Insurance and Health Insurance programs. Theoretical work has posited several factors that could lead to this adoption: the strain from expanding capitalism; the need for political legitimacy; the desire to transfer to similar people; increased wealth; and the outcome of leviathan government.

We relate the probability of a country's creating social insurance to proxies for each of these theories. We find weak evidence that the probability of adopting a system declines with increases in wealth and with greater ethnic heterogeneity. Still, none of the theories are strongly related to system adoption. We conclude that social insurance can be politically expedient for many different reasons.

PD July 2002. **TI** Employee Costs and the Decline in Health Insurance Coverage. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 9036; 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** I10, J32. **KW** Health. Insurance.
AB This paper examines why health insurance coverage fell despite the lengthy economic boom of the 1990s. It shows that insurance coverage declined primarily because fewer workers took up coverage when offered it, not because fewer workers were offered insurance or were eligible for it. The reduction in take-up is associated with the increase in employee costs for health insurance. Estimates suggest that increased costs to employees can explain the entire decline in take-up rates in the 1990s.

Daily, Gretchen
TI Genetic Diversity and Interdependent Crop Choices in Agriculture. **AU** Arrow, Kenneth; Daily, Gretchen; Dasgupta, Partha; Ehrlich, Paul;

Dalgaard, Carl-Johan
PD March 2002. **TI** On the Empirics of Foreign Aid and Growth. **AU** Dalgaard, Carl-Johan; Hansen, Henrik; Tarp, Finn. **AA** Dalgaard: University of Copenhagen and EPRU. Hansen: University of Copenhagen and DERG. Tarp: University of Copenhagen, DERG, and University of Nottingham. **SR** University of Nottingham, CREDIT Research Paper: 02/08; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 26. **PR** no charge. **JE** F35, O40. **KW** Foreign Aid. Growth. Overlapping Generations Model.
AB This paper takes a fresh look at three issues in the aid effectiveness debate. First, we assess the theoretical case for foreign aid. Using an endogenous growth version of the standard overlapping generations model, we show that aid can be an effective policy tool in spurring growth in poor countries. This model also furnishes a theoretical foundation for the approach taken in many empirical studies. Second, we demonstrate that cross-country data, which underpin traditional cross-section based conclusions about the aid-growth link, are fully consistent with the positive evidence on aid effectiveness that emerge from recent panel-based regressions. Third, we reexamine the case for policy-based conditionality. Our empirical analysis suggests that aid is generally effective, even in "bad" environments. However, the degree to which aid enhances growth depends on climate- related circumstances.

Danthine, Jean-Pierre
PD October 2002. **TI** On the Consequences of State Dependent Preferences for the Pricing of Financial Assets. **AU** Danthine, Jean-Pierre; Donaldson, John B.; Giannikos,

Christos; Guirguis, Hany. **AA** Danthine: University of Lausanne, FAME and CEPR. Donaldson: Columbia University. Giannikos: Baruch College and City University of New York. Guirguis: Manhattan College. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/17; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e- cahiers.htm. **PG** 33. **PR** no charge. **JE** D91, E21, G11, G12. **KW** State Dependent Utility. Equity Premium. Equity Premium Puzzle.
AB This paper introduces state dependent utility into the standard Mehra and Prescott (1985) economy by allowing the representative agent's coefficient of relative risk aversion to vary with the underlying economy's growth rate. Existence of equilibrium is proved and its asymptotic properties analyzed. This generalization leads to level dependent marginal rates of substitution, a property that sharply distinguishes this model from the standard construct. For very low coefficients of relative risk aversion, the equilibrium risk free and risky security returns are demonstrated to have volatilities and an associated equity premium that substantially exceed what is found in the data. This provides a contrasting perspective on the classic "equity premium puzzle.".

PD June 2003. **TI** The Macroeconomics of Delegated Management. **AU** Danthine, Jean-Pierre; Donaldson, John B. **AA** Danthine: University of Lausanne, CEPR, and FAME. Donaldson: Columbia University. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 03/12; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e- cahiers.htm. **PG** 38. **PR** no charge. **JE** E32, E44. **KW** Business Cycles. Delegated Management. Contracting.
AB We are interested in the macroeconomic implications of the separation of ownership and control. We propose an alternative decentralized interpretation of the stochastic growth model, one where shareholders hire a self-interested manager who is in charge of the firm's hiring and investment decisions. Under imperfect monitoring and incomplete contracting, delegation gives rise to a conflict of interests between shareholders and managers. This conflict results from the different income base of both types of agents once aggregate market clearing conditions are taken into account. We derive the dynamic consequences of this divergence in intertemporal marginal rates of substitution and discuss the likelihood that appropriate incentive contracts offered to the manager will mitigate the consequences of this divergence.

Danzon, Patricia M.
TI Biotech-Pharmaceutical Alliances as a Signal of Asset and Firm Quality. **AU** Nicholson, Sean; Danzon, Patricia M.; McCullough, Jeffrey.

Dasgupta, Indraneel
TI Welfare Transfers and Intra-Household Trickle-Down: A Model with Evidence from the US Food Stamp Program. **AU** Breunig, Robert; Dasgupta, Indraneel.

PD January 2002. **TI** Class, Community, Inequality. **AU** Dasgupta, Indraneel; Kanbur, Ravi. **AA** Dasgupta: University of Nottingham. Kanbur: Cornell University and University of Nottingham. **SR** University of Nottingham, CREDIT Research Paper: 02/04; CREDIT Secretary, School of

Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 29. **PR** no charge. **JE** D31, D63, H41, I30. **KW** Inequality. Public Goods. Welfare. Income Redistribution.
AB We investigate how voluntary contributions to community-specific public goods affect (a) the relationship between inequality of incomes and inequality of welfare outcomes, and (b) individuals' material incentives for supporting income redistribution. We show that the nominal distribution of income could give quite a misleading picture of real inequality and tensions in society, both within and between communities. We also analyze the impact of alternative patterns of income growth on welfare inequality, and show that, somewhat paradoxically, individuals sometimes have incentives for opposing redistribution programs from which they themselves stand to receive income increments. This arises because of the complicating role of public goods, and has strong implications for class and community solidarity.

PD July 2002. **TI** Consistent Firm Choice and the Theory of Supply. **AA** University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 02/06; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/.
PG 12. **PR** no charge. **JE** D21, D24. **KW** Weak Axiom. Profit Maximization. Supply Inequality. Non-Reversibility.
AB This paper analyzes the problem of deriving predictions regarding supply behavior of a competitive firm from prior consistency postulates about input-output choices made by such a firm. It extends the literature by introducing a consistency postulate for firm behaviour, which is weaker than profit-maximization. This consistency postulate is nevertheless both necessary and sufficient for supply responses predicted by the standard theory of the firm based on the postulate of profit-maximization. Furthermore, our rationality postulate, in conjunction with another condition, is shown to be equivalent to firm choice behavior that can be rationalized in terms of profit maximization.

PD August 2002. **TI** How Workers Get Poor Because Capitalists Get Rich: A General Equilibrium Model of Labor Supply, Community, and the Class Distribution of Income. **AU** Dasgupta, Indraneel; Kanbur, Ravi. **AA** Dasgupta: University of Nottingham. Kanbur: Cornell University. **SR** University of Nottingham, CREDIT Research Paper: 02/12; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/.
PG 20. **PR** no charge. **JE** D30, D60, J22. **KW** General Equilibrium Model. Labor Supply. Income Distribution. Welfare.
AB We develop an integrated, general equilibrium, model of how the presence of vertical ties of "community" between sections of workers and sections of capitalists can critically affect the distribution of income between capitalists as a class and workers as a class, as well as between workers belonging to different communities. We show that an exogenous increase in the incomes of capitalists sets in motion community and market processes that subsequently (a) further increase capitalists' incomes, (b) can reduce workers' earnings as well as welfare, and (c) systematically influence earnings differentials between workers belonging to different communities.

Dasgupta, Partha
TI Genetic Diversity and Interdependent Crop Choices in Agriculture. **AU** Arrow, Kenneth; Daily, Gretchen; Dasgupta, Partha; Ehrlich, Paul;

Davis, Donald R.
PD June 2002. **TI** Technological Superiority and the Losses from Migration. **AU** Davis, Donald R.; Weinstein, David E. **AA** Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 8971; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 37. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F11, F16, F22, J61. **KW** Migration. Ricardian Model. Technological Superiority.
AB Two facts motivate this study. (1) The United States is the world's most productive economy. (2) The US is the destination for a broad range of net factor inflows: unskilled labor, skilled labor, and capital. Indeed, these two facts may be strongly related: All factors seek to enter the US because of US technological superiority. The literature on international factor flows rarely links these two phenomena, instead considering one-at-a-time analyses that stress issues of relative factor abundance. This is unfortunate, since the welfare calculations differ markedly. In a simple Ricardian framework, a country that experiences immigration of factors motivated by technological differences always loses from this migration relative to a free trade baseline, while the other country gains. We provide simple calculations suggesting that the magnitude of the losses for US natives may be as large as $72 billion dollars per year or 0.8 percent of GDP.

Daxhelet, O.
PD March 2003. **TI** Cross-Border Trade: A Two-Stage Equilibrium Model of the Florence Regulatory Forum Proposals. **AU** Daxhelet, O.; Smeers, Yves. **AA** Daxhelet: Electrabel (Department Risk Asset and Liability Management), Belgium. Smeers: Univeriste Catholique de Louvain. **SR** University of Cambridge, DAE Working Paper: 0315; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. **PG** 57. **PR** $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. **JE** F12, F14. **KW** Congestion. Florence Regulatory Forum. Transmission System.
AB We present a computable model that encompasses several proposals of the "Florence Regulatory Forum," initiated by the European Commission to deal with cross-border trade. Specifically, the model embeds both the access to the network and congestion issues analyzed by the Forum. Access charges reflect the mechanism devised by the Forum, and congestion at the interconnection is managed through the coordinated auction mechanism recently suggested by the European Association of Transmission System Operators. The model allows for various domestic regulation of the national non-eligible market, and different forms of competition in the eligible market. We illustrate this flexibility on a stylized but extensive numerical example with the view of showing that the model behaves properly, and identifying policy issues to be studied in a more realistic case study.

de Cordoba, Santiago Fernandez

AB Various proposals in the WTO non-agricultural market access negotiations are explained and analyzed using a global general equilibrium model. The results show that proposals involving deeper tariff cuts imply greater increases in imports and exports, but greater losses in tariff revenues that will need to be made up in some way. They also show greater welfare gains in the longer term, but there are several qualifications to this finding. First, the overall numbers conceal important adjustments in individual sectors and countries, and these adjustments will normally occur in the first several years of the implementation of the tariff changes, while the overall benefits only start to accrue later. Second, no account is taken of the potential benefits deriving from the use of tariffs for industrial policy purposes. Third, concomitant action is required on WTO rules and on market entry conditions to ensure that the potential benefits are realized. Under all proposals the greater adjustments would be made by developing countries, and it may well be that the proposals for deeper cuts entail going too far, too fast for many developing countries. If adjustment costs are too high, this could also endanger the reform process.

de Figueiredo, John M.

AB One of the central concerns about American policy-making institutions is the degree to which political outcomes can be influenced by interested parties. While the literature on interest group strategies in particular institutions -- legislative, administrative, and legal -- is extensive, there is little scholarship that examines how the interdependencies between institutions affects the strategies of groups. In this paper, we examine in a formal theoretical model how the opportunity to litigate administrative rulemaking in the courts affects the lobbying strategies of competing interest groups at the rulemaking stage. Using a resource-based view of group activity, we develop a number of important insights about each stage -- which cannot be observed by examining each one in isolation. We demonstrate that lobbying effort responds to the ideology of the court, and the responsiveness of the court to resources. In particular, 1) as courts become more biased toward the status quo, interest group lobbying investments become smaller, and may be eliminated all together, 2) as interest groups become wealthier, they spend more on lobbying, and 3) as the responsiveness of courts to resources decreases, the effect it has on lobbying investments depends on the underlying ideology of the court.

AB Despite a large literature on lobbying and information transmission by interest groups, no prior study has measured returns to lobbying. In this paper, we statistically estimate the returns to lobbying by universities for educational earmarks (which now represent 10 percent of federal funding of university research). The returns to lobbying approximate zero for universities not represented by a member of the Senate Appropriations Committee (SAC) or House Appropriations Committee (HAC). However, the average lobbying university with representation on the SAC receives an average return to one dollar of lobbying of $11- $17; lobbying universities with representation on the HAC obtain $20- $36 for each dollar spent. Moreover, we cannot reject the hypothesis that lobbying universities with SAC or HAC representation set the marginal benefit of lobbying equal to its marginal cost, although the large majority of universities with representation on the HAC and SAC do not lobby, and thus do not take advantage of their representation in Congress. On average, 45 percent of universities are predicted to choose the optimal level of lobbying. In addition to addressing questions about the federal funding of university research, we also discuss the impact of our results for the structure of government.

de Figueiredo, Rui J. P.

de Fiore, Fiorella

AB This paper shows that the conditions under which inflation-targeting interest rate rules lead to equilibrium uniqueness in a small open economy in general differ from those in a closed economy. As the monetary authority adjusts nominal interest rates in response to inflation, the real interest rate changes. The overall effect of this change on aggregate demand has important implications for equilibrium determinacy. In an open economy, an increase in the real interest rate is transmitted to aggregate demand through an intertemporal substitution effect, as in a closed economy, but also through a terms of trade effect that is absent in the closed economy. These effects move aggregate demand in opposite

directions. We find that, in a broad class of models, the conditions for local equilibrium uniqueness depend crucially on the degree of openness to international trade. Openness matters not only quantitatively, but also qualitatively.

Deaton, Angus
PD June 2002. TI A Model of Commodity Prices After Sir Arthur Lewis. AU Deaton, Angus; Laroque, Guy. AA Deaton: Princeton University. Laroque: CREST-INSEE. SR INSEE Documents de Travail du CREST: 2002/19; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 21. PR no charge. JE G12, Q11. KW Commodity Prices. Cointegration.
AB The long-run dynamics of commodity prices is studied through the interaction of supply and demand. Demand is driven by world wide income. The description of supply is based on Sir Arthur Lewis' (1954) famous paper on growth with unlimited quantities of labor. The model generates a stationary commodity price around the supply price while commodity supply and world income are cointegrated. It is fitted for six commodities, cocoa, coffee, rice, sugar, copper and tin, to annual data over (part of) the past century.

Dedecker, Jerome
PD September 2002. TI A New Covariance Inequality and Applications. AU Dedecker, Jerome; Doukhan, Paul. AA Dedecker: Universite Paris 6, LSTA. Doukhan: CREST-ENSAE. SR INSEE Documents de Travail du CREST: 2002/25; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 17. PR no charge. JE C19, C52. KW Weak Dependence. Mixingales. Strong Mixing. Covariance Inequalities. Weak Invariance Principle. Moment Inequalities.
AB We compare three dependence coefficients expressed in terms of conditional expectations, and we study their behavior in various situations. Next, we give a new covariance inequality involving the weakest of those coefficients, and we compare this bound to that obtained by Rio (1993) in the strongly mixing case. This new inequality is used to derive sharp limit theorems, such as Donsker's invariance principle and Marcinkiewicz's strong law. As a consequence of a Burkholder-type inequality, we obtain a deviation inequality for partial sums.

Dedola, Luca
TI Macroeconomics of International Price Discrimination. AU Corsetti, Giancarlo; Dedola, Luca.

Defrancesco, Edi
PD July 2002. TI Individual Travel Cost Method and Flow Fixed Costs. AU Defrancesco, Edi; Rosato, Paolo. AA Defrancesco: University of Padua. Rosato: University of Trieste and FEEM. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/56; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 16. PR no charge; available only on website. JE D10, D40, Q30. KW Travel Cost Method. Fixed Cost.
AB The paper proposes an approach for evaluating the effect of flow fixed costs on the evaluation of environmental benefits with travel cost method. On a full annual perspective when recreational users incur relevant annual direct fixed expenses, their behavior could be influenced by them. The approach introduces a) the notion of the minimal number of annual visits that justifies the annual fixed expenses incurred by the user and b) a method to estimate it. The estimate of this minimal number permits to forecast the user behavior on a full annual perspective, taking into account a more accurate estimate of the number of visits at different additional fees.

Dehejia, Rajeev
PD June 2002. TI Child Labor: The Role of Income Variability and Access to Credit Across Countries. AU Dehejia, Rajeev; Gatti, Roberta. AA Dehejia: Columbia University and NBER. Gatti: The World Bank. SR National Bureau of Economic Research Working Paper: 9018; 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 J22, O16. KW Child Labour. Credit Imperfections. Income Variability.
AB This paper examines the relationship between child labor and access to credit at a cross-country level. Even though this link is theoretically central to child labor, so far there has been little work done to assess its importance empirically. We measure child labor as a country aggregate, and credit constraints are proxied by the extent of financial development. These two variables display a strong negative relationship, which we show is robust to selection based on observables (by controlling for a wide range of variables such as GDP per capita, urbanization, initial child labor, schooling, fertility, legal institutions, inequality, and openness, and by allowing for a nonparametric functional form), and to selection on based unobservables (by allowing for fixed effects). We find that the magnitude of the association between our proxy of access to credit and child labor is large in the sub-sample of poor countries. Moreover, in the absence of developed financial markets, households appear to resort substantially to child labor to cope with income variability. This evidence suggests that policies aimed at widening households' access to credit could be effective in reducing the extent of child labor.

DeLeire, Thomas
TI Heat or Eat? Cold Weather Shocks and Nutrition in Poor American Families. AU Battacharya, Jayanta; DeLeire, Thomas; Haider, Steven; Currie, Janet.

Demirguc-Kunt, Asli
TI Law, Endowment, and Finance. AU Beck, Thorsten; Demirguc-Kunt, Asli; Levine, Ross.

Deniau, Nicolas
TI Wages, Productivity, and Worker Characteristics: A French Perspective. AU Crepon, Bruno; Deniau, Nicolas; Perez-Duarte, Sebastien.

Desai, Mihir A.
PD July 2002. TI Expectations and Expatriations: Tracing the Causes and Consequences of Corporate Inversions. AU Desai, Mihir A.; Hines, James R., Jr.. AA Desai: Harvard University and NBER. Hines: University of Michigan and NBER. SR National Bureau of Economic Research Working Paper: 9057; 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** F23, G34, H25, H87. **KW** Corporate Expatriations. Corporate Inversion. Foreign Subsidiaries.

AB This paper investigates the determinants of corporate expatriations. American corporations that seek to avoid U.S. taxes on their foreign incomes can do so by becoming foreign corporations, typically by "inverting" the corporate structure, so that the foreign subsidiary becomes the parent company and the U.S. parent company becomes a subsidiary. Three types of evidence are considered to understand this rapidly growing practice. First, an analysis of the market reaction to Stanley Works's expatriation decision implies that market participants expect its foreign inversion to be accompanied by a reduction in tax liabilities on U.S. source income. Second, statistical evidence indicates that large firms, those with extensive foreign assets, and those with considerable debt are the most likely to expatriate -- suggesting that U.S. taxation of foreign income, including the interest expense allocation rules, significantly affect inversions. Third, share prices rise by an average of 1.7 percent in response to expatriation announcements.

Desdoigts, Alain

PD January 2002. **TI** Neoclassical Convergence Versus Technological Catch-Up: A Contribution for Reaching a Consensus. **AA** EPEE, Universite d'Evry-Val d'Essonne. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/08; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 36. **PR** no charge; available only on website. **JE** O33, O40, O50. **KW** Schumpeterian Growth. Neoclassical Convergence. Technological Catch- Up. Income Dynamics.

AB New macro empirical evidence is provided to assess the relative importance of object and idea gaps in explaining the world income distribution dynamics over a benchmark period 1960-1985. Results are then extended through 1995. Formal statistical hypothesis tests allow us to discriminate between two competing growth models: (i) the standard neoclassical growth model similar to that employed by Mankiw, Romer, and Weil (1992), (ii) a Schumpeterian endogenous growth model closely related to the Nelson and Phelps' approach (1966) that emphasizes the importance of technology transfer in addition to factors accumulation as an opportunity to catch up. First, the latter can hardly be rejected and reveals itself to be a reliable either alternative or complementary model depending on the sample under study. Second, taking into consideration the impact of the technological catch-up phenomenon allows us to better capture and locally fit the pattern of income distribution dynamics that took place over the period.

DeYoung, Robert

TI Technological Progress and the Geographic Expansion of the Banking Industry. **AU** Berger, Allen N.; DeYoung, Robert.

Di Bartolomeo, Giovanni

PD July 2002. **TI** Staying Together or Breaking Apart: Policy-Makers' Endogenous Coalitions Formation in the European Economic and Monetary Union. **AU** Di Bartolomeo, Giovanni; Engwerda, Jacob; Plasmans, Joseph; van Arle, Bas. **AA** Bartolomeo: University of Antwerp and University of Rome. Engwerda: Tilburg University. Plasmans:

University of Antwerp and Tilburg University. van Aarle: University of Leuven and University of Nijmegen. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/60; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 19. **PR** no charge; available only on website. **JE** C70, E17, E58, E61, E63. **KW** Macroeconomic Stabilization. EMU. Coalition Formation.

AB In this paper, we analyze coordination of macroeconomic stabilization policies within the EMU by focusing, in a dynamic set-up, on asymmetries, externalities, and the existence of a multi-country context. We study how coalitions among fiscal and monetary authorities are formed and what are their effects on the stabilization of output and price. In particular, our attention is directed to study the consequences on these issues of different institutional contexts in which policy-makers may act. Among other results, we found that, in the presence of externalities, the occurrence of asymmetries is a necessary but not a sufficient condition for cooperation.

di Giovanni, Julian

PD January 2002. **TI** What Drives Capital Flows? The Case of Cross-Border M&A Activity and Financial Deepening. **AA** UC Berkeley. **SR** University of California, Berkeley, Center for International and Development Economics Research (CIDER) Working Paper: C02/122; UC Berkeley, IBER #1922, F502 Haas -- WP orders, Berkeley, CA 94720-1922. Website: iber.berkely.edu/wps/ciderwp.htm. **PG** 28. **PR** no charge to academics; single copies $3.50 U.S.; $7.50 International; make checks payable to UC Regents. **JE** F21, F23, G34. **KW** Mergers and Acquisitions. Cross-Border. Capital Flows. Financial Deepening.

AB What macroeconomic and financial variables play key roles in the foreign direct investment decision (FDI) of firms? This question is addressed in this paper using a large panel data set of cross-border Merger & acquisition (M&A) deals for the period 1990-1999. Various econometric specifications are built around the simple "gravity model" commonly used in the trade literature. Interestingly, financial variables and other institutional factors seem to play a significant role in M&A flows. In particular the size of financial markets, as measured by the stock market capitalization to GDP ratio and the credit provided to the private sector by financial institutions to GDP ratio in the domestic economy, have sizeable positive effects on the incentives for domestic firms to invest abroad.

Di Vita, Giuseppe

PD January 2002. **TI** Renewable Resources and Waste Recycling. **AA** University of Catania. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/09; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 10. **PR** no charge; available only on website. **JE** O41, Q20. **KW** Endogenous Growth. Renewable Resources. Secondary Materials. Waste Recycling.

AB In this paper we consider an endogenous growth model in which, among other inputs, we consider a renewable resource and secondary materials. Using this analytical framework we explain the effects of waste recycling on the growth rate of the economy. We also examine the effects of secondary materials production on the utility and dynamics of renewable resources. Furthermore, we consider how the tax and subsidy, levied on

natural resource and secondary materials respectively, influence the dynamics of the economy during the transitional phase and the stationary growth path. Finally, we discuss the validity of Hotelling's rule and the effects of waste recycling on labor productivity.

Diamantoudi, Effrosyni
PD January 2002. **TI** Stable International Environmental Agreements: An Analytical Approach. **AU** Diamantoudi, Effrosyni; Sartzetakis, Eftichios S. **AA** Diamantoudi: University of Athens. Sartzetakis: University College of Cariboo. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/07; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 14. **PR** no charge; available only on website. **JE** D72, Q58. **KW** Stability. International Agreements. Environmental Agreements.
AB In this paper we examine the formation of International Environmental Agreements (IEAs). We provide an analytical treatment of the main model used in the literature and offer a formal solution of it (which has not been available so far), while we clarify some misconceptions that exist in the literature. We find that the unique stable IEAs consist of either two, three or four signatories if the number of countries is greater than or equal to 5. Furthermore, we show that the welfare of the signatories of a stable IEA is very close to its lowest level vs. the welfare of signatories of other non-stable IEAs. While in our model countries' choice variable is emissions, we extend our results to the case where the choice variable is abatement efforts.

Diamond, Peter A.
PD August 2002. **TI** An Assessment of the Proposals of the President's Commission to Strengthen Social Security. **AU** Diamond, Peter A.; Orszag, Peter R. **AA** Diamond: MIT and NBER. Orszag: The Brookings Institution. **SR** National Bureau of Economic Research Working Paper: 9097; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 47. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H55, J14. **KW** Social Security Reform. President's Commission.
AB The President's Commission to Strengthen Social Security proposed three reform plans. Two restore actuarial balance in the absence of individual accounts. We conduct a detailed analysis of these two plans for their fiscal impact and incidence.

Dijkstra, Bouwe R.
PD October 2002. **TI** Time Consistency and Investment Incentives in Environmental Policy. **AA** University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 02/12; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 22. **PR** no charge. **JE** D62, Q28. **KW** Environmental Policy. Instruments. Commitment. Time Consistency.
AB We study environmental policy for a polluting firm that can invest in extra capacity. The optimal levels of allowed output as well as the tax rate are increasing in investment. With divisible investment, and under direct regulation and taxation,

commitment is efficient. Time- consistent policy results in overinvestment with direct regulation and underinvestment with taxation. Commitment is also efficient with indivisible investment and direct regulation in the absence of taxation. With taxation, however, commitment may not lead be efficient and time consistency can lead to higher welfare. This remarkable result occurs because the firm can influence the tax rate.

PD November 2002. **TI** Samaritan vs. Rotten Kid: Another Look. **AA** University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 02/13; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 24. **PR** no charge. **JE** C72, D64. **KW** Altruism. Rotten Kid Theorem. Samaritan's Dilemma.
AB We set up a two-stage game with sequential moves by one altruistic agent and n selfish agents. The Rotten Kid theorem states that the altruist can only reach her first best when the selfish agents move before the altruist. The Samaritan's dilemma, on the other hand, states that the altruist can only reach her first best when she moves before the selfish agents. We find that in general, the altruist can reach her first best when she moves first, if and only if a selfish agent's action marginally only affects his own payoff. The altruist can reach her first best when she moves last if and only if a selfish agent cannot manipulate the price of his payoff. When the altruist cannot reach her first best when she moves last, the outcome is not Pareto efficient either.

DiNardo, John
PD June 2002. **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: University of California, Berkeley and NBER. **SR** National Bureau of Economic Research Working Paper: 8993; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 38. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** J51, M59. **KW** Unionization. Employer Survival Rates.
AB Using data on more than 27,000 establishments (1983-1999) in the United States, this paper produces estimates of the causal effect of unionization of employer closure by exploiting the fact that most employers become 'unionized' as a partial consequence of a secret ballot election among the workers. If employers where unions barely won the election (e.g., by one vote) are ex ante comparable in all other ways to employers where unions barely lost (by one vote), differences in their subsequent outcomes should represent the true impact of union recognition. The regression discontinuity analysis finds little or no union effect on short- and long-run employer survival rates over 1- to 18-year horizons. We thus conclude that evidence of large effects of unions would more likely be found 1) along the within-employer (intensive margin) of employment and/or 2) in analyses of union threat effects.

Disney, Richard
PD October 1998. **TI** Does it Pay to Work in the Public Sector? **AU** Disney, Richard; Gosling, Amanda. **AA** Disney: University of Nottingham. Gosling: University of Essex and Institute for Fiscal Studies. **SR** University of

Nottingham, Discussion Paper in Economics: 98/18; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 26. PR no charge. JE J31, J45. KW Public Sector Pay. Pay Inequality. Quantile Regression. Panel Data.
AB The paper examines the trend in public sector / private sector wage differentials in the 1980s and 1990s, using a variety of econometric methods. It argues that background economic trends, such as the sharp rise in pay inequality in the private sector, and government policies, such as privatization and compulsory competitive tendering (CCT) have had identifiable effects on the average public sector "premium" and on the inequality of public sector pay. Panel data methods are used to examine whether these findings are attributable to unobservables that correlate with sectoral affiliation. An agenda for further research is identified.

Dixon, Huw D.
TI Entry Dynamics, Capacity Utilisation, and Productivity in a Dynamic Open Economy. AU Aloi, Marta; Dixon, Huw D.

do Rosario Jorge, Maria
PD October 2002. TI An Integrated Approach to Understanding Territorial Dynamics: The Coastal Alentejo (Portugal). AU do Rosario Jorge, Maria; Lourenco, Nelson; Machado, Carlos Russo; Rodrigues, Luis. AA do Rosario Jorge, Machado, and Rodrigues: Universidade Atlantica. Lourenco: Universidade Nova de Lisboa. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/84; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 25. PR no charge; available only on website. JE Q24, Q25. KW Integrated Analysis. Coastal Areas. Land-Use. Agents of Change.
AB This paper aims at presenting an integrated, multi-disciplinary framework for the study of territorial dynamics in coastal areas. The use of Geographic Information Systems made possible the association of land cover data and socio-economic data using different levels of spatial analysis. The Coastal Alentejo (Portugal) is used as case study to identify territorial dynamics.

Dobson, Stephen
PD January 2003. TI Why Do Rates of Convergence Differ? A Meta-Regression Analysis. AU Dobson, Stephen; Ramlogan, Carlyn; Strobl, Eric. AA Dobson and Ramlogan: University of Otago. Strobl: CORE, Universite Catholique de Louvain. SR University of Nottingham, CREDIT Research Paper: 03/01; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 16. PR no charge. JE O40. KW Convergence Hypotheses. Meta-Regression Analysis.
AB There have been many tests of the convergence hypothesis yielding many different estimates of beta (the speed of convergence). Narrative reviews of the convergence literature hint at possible reasons for the study-to-study variation in the value of beta, but such reviews are selective and informal. In contrast, meta-regression analysis provides a more formal and objective review of the literature. It is shown that study design and methodology are important determinants

of the reported convergence rate, especially in cross-national studies. There is also evidence of general misspecification in the literature.

Doherty, Neil
PD July 2002. TI Moral Hazard in Reinsurance Markets. AU Doherty, Neil; Smetters, Kent. AA Doherty: University of Pennsylvania. Smetters: University of Pennsylvania and NBER. SR National Bureau of Economic Research Working Paper: 9050; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 19. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D82, G22. KW Reinsurance. Price Controls. Moral Hazard.
AB This paper attempts to identify moral hazard in the traditional reinsurance market. We build a multi-period principle agent model of the reinsurance transaction from which we derive predictions on premium design, monitoring, loss control and insurer risk retention. We then use panel data on U.S. property liability reinsurance to test the model. The empirical results are consistent with the model's predictions. In particular, we find evidence for the use of loss sensitive premiums when the insurer and reinsurer are not affiliates (i.e., not part of the same financial group), but little or no use of monitoring. In contrast, we find evidence for the use of monitoring when the insurer and reinsurer are affiliates, where monitoring costs are lower, but little use of price controls.

Donaldson, John B.
TI On the Consequences of State Dependent Preferences for the Pricing of Financial Assets. AU Danthine, Jean-Pierre; Donaldson, John B.; Giannikos, Christos; Guirguis, Hany.

TI The Macroeconomics of Delegated Management. AU Danthine, Jean-Pierre; Donaldson, John B.

Dorrucci, Ettore
PD October 2002. TI European Integration: What Lessons for Other Regions? The Case of Latin America. AU Dorrucci, Ettore; Firpo, Stefano; Fratzscher, Marcel; Mongelli, Francesco Paolo. AA Dorrucci, Fratzscher, and Mongelli: European Central Bank. Firpo: San Paolo IMI. SR European Central Bank Working Paper: 185; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 40. PR no charge. JE E42, F15, F33, F41. KW Regional Integration. Europe Integration. Latin America. Intra-Regional. Exchange Rate Variability.
AB This paper tests for the hypothesis that institutional integration interacts with economic integration at the regional level. In particular, we ask what lessons can be drawn from the European experience with regional integration for Latin America. Several indicators of institutional and economic integration for both the EU and Latin America are presented. We find that Latin America is currently less economically integrated not only than the European Union today, but in some cases even than the EU at the beginning of its regional integration process. A cluster analysis illustrates that the link between institutional and economic integration has worked both ways throughout the whole EU experience. The more institutional integration went beyond the creation of a customs union and moved towards a common market as well as a monetary union, the deeper the economic integration. Increasing economic integration in turn corroborated and

Doukhan, Paul

TI A New Covariance Inequality and Applications. AU Dedecker, Jerome; Doukhan, Paul.

PD September 2002. TI Asymptotics for the Lp-Deviation of the Variance Estimator of a Diffusion. AU Doukhan, Paul; Leon, Jose R. AA Doukhan: CREST-ENSAE. Leon: Universidad Central de Caracas. SR INSEE Documents de Travail du CREST: 2002/26; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 18. PR no charge. JE C13, C49. KW Variance Estimator. Diffusion Process. Kernel. Lp-Deviation. Central Limit Theorem.
AB We consider a diffusion process Xt regularized with (small) sampling parameter ?. As in Berzin, Leon, and Ortega (2001), we consider a kernel estimate with window h(?) of a function ? of its variance. In order to demonstrate global tests of hypothesis, we derive here central limit theorems for the Lp deviations.

Downing, Chris

PD August 2002. TI Trading Activity and Price Volatility in the Municipal Bond Market. AU Downing, Chris; Zhang, Frank. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/39; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 30. PR no charge. JE G10, G18, G20, G28. KW Municipal Bond. Price. Volatility. Volume.
AB Utilizing a comprehensive database of transactions in municipal bonds, we investigate the volume-volatility relationship in the muni market. We find a positive relationship between the number of transactions and a bond's price volatility. In contrast to previous studies, we find a negative relationship between average deal size and price volatility. These results are found to be robust throughout the sample. Our results are inconsistent with current theoretical models of the volume-volatility relationship. These inconsistencies may arise because current models fail to account for the effects of overall market liquidity on the costs of large transactions.

TI Insolvency or Liquidity Squeeze? Explaining Very Short-Term Corporate Yield Spreads. AU Covitz, Daniel M.; Downing, Chris.

Drabek, Zdenek

PD October 2001. TI Can Trade Policy Help Mobilize Financial Resources for Economic Development? AU Drabek, Zdenek; Laird, Sam. AA Drabek: WTO and UNCTAD. Laird: WTO and University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 01/16; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 38. PR no charge. JE F10, F21, F35, O19. KW Trade Policy. Resource Mobilization. Economic Development.
AB The linkages between trade and resource mobilization are complex and not well defined in theory. To what extent does trade policy affect resource mobilization and what are the mechanisms? A critical issue in this respect is that trade policy affects the current account imbalance without necessarily affecting the fundamental balance between aggregate savings and investment. Trade restrictions may, therefore, only be used to correct short-term disequilibria. However, trade policy can be used to mobilize resources via the static and dynamic gains from trade. The effect on the supply of financial resources also operates through several channels including through linkages of trade policy with foreign investment, government revenues, income distribution, and foreign aid. The paper looks at direct and indirect as well as the short- and long-term effects of different trade strategies. We also briefly review trade barriers in goods and services affecting developing countries and the potential gains from further trade liberalization. The long-term gains from trade liberalization are substantial, but they may have to be set against short-term adjustments. Such costs may be substantial, although they could be reduced by effective institutional and tax reforms.

Duarte, Margarida

PD September 2002. TI Regional Inflation in a Currency Union: Fiscal Policy vs. Fundamentals. AU Duarte, Margarida; Wolman, Alexander L. AA Federal Reserve Bank of Richmond. SR European Central Bank Working Paper: 180; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 42. PR no charge. JE E31, E32, F41. KW Currency Union. Fiscal Policy. Inflation Differentials. Productivity Differentials. Nominal Rigidities.
AB We develop a general equilibrium model of a two-region currency union. There are two types of goods: non-traded goods, and traded goods for which markets are segmented. Monetary policy is set by a central monetary authority and is non-neutral due to nominal price rigidities. Fiscal policy is determined at the regional level by each region's government. We find that productivity shocks alone generate significant variation in inflation across the two countries. Government spending shocks, in contrast, do not account for a significant portion of inflation variation. Varying relative country size, we find that smaller countries experience higher variability of their inflation differential in response to shocks to productivity growth. Moreover, we show that regional governments can suppress incipient inflation differentials associated with shocks to productivity growth by letting the income tax rate respond negatively to inflation differentials.

Duggan, Mark

PD August 2002. TI Does Contracting Out Increase the Efficiency of Government Programs? AA University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 9091; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 31. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H51, H57, H72, I11, I18, L33. KW HMO. Efficiency. Contracting Out.
AB State governments contract with health maintenance organizations (HMOs) to coordinate medical care for nearly 20 million Medicaid recipients. Identifying the causal effect of HMO enrollment on government spending and health care quality is difficult if, as is often the case, recipients have the option to enroll in a plan. To estimate the average effect of HMO enrollment, this paper exploits county-level mandates

introduced during the last several years in the state of California that required most Medicaid recipients to enroll in a managed care plan. The empirical results demonstrate that the resulting switch from fee-for-service to managed care was associated with a substantial increase in government spending but no observable improvement in health outcomes, thus apparently reducing the efficiency of this large government program. The findings cast doubt on the hypothesis that HMO contracting has reduced the strain on government budgets.

Duncan, Alan

PD December 2001. TI Price and Quality in the UK Childcare Market. AU Duncan, Alan; Paull, Gillian; Taylor, Jayne. AA Duncan: University of Nottingham. Paull and Taylor: Institute for Fiscal Studies. SR University of Nottingham, Discussion Paper in Economics: 01/13; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 28. PR no charge. JE D12, J13. KW Childcare. Unit Values. Quality.
AB Childcare subsidies are typically advocated as a means to making paid employment profitable for mothers, but they also have important ramifications for the use and quality of paid childcare. Even if one is concerned primarily with the quantity aspect, the quality dimension cannot be ignored. This paper provides an exposition of the potential biases in estimates of price elasticities with respect to quantity that do not allow for quality variation or for the possibility of non-linear pricing structures. Using an approach developed in the demand estimation literature, a price measure addressing these issues is derived and the importance of using this measure is tested using British data. Price is found to have a negative impact on the use of formal paid care, the hours purchased, and the quality chosen. However, failure to control for quality effects and non-linearities in the price measure is shown to generate significant overestimates of the price elasticities.

TI Aggregating Labour Supply and Feedback Effects in Microsimulation. AU Creedy, John; Duncan, Alan.

Dunne, Peter G.

PD August 2002. TI Defining Benchmark Status: An Application using Euro-Area Bonds. AU Dunne, Peter G.; Moore, Michael J.; Portes, Richard. AA Dunne and Moore: Queen's University of Belfast. Portes: London Business School and NBER. SR National Bureau of Economic Research Working Paper: 9087; 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 F36, G12. KW Benchmark Bond. Euro Area. Integrated Bond Market.
AB The introduction of the euro on 1 January 1999 created the conditions for an integrated government bond market in the euro area. Using a unique data set from the electronic trading platform Euro-MTS, we consider the question of what is the "benchmark" in this market. We develop and apply two definitions of benchmark status that differ from the conventional view that the benchmark is the security with lowest yield at a given maturity. Using Granger-causality and cointegration methods, we find a complex pattern of benchmark status in euro-area government bonds.

Durham, J. Benson

PD July 2002. TI The Extreme Bounds of the Cross-Section of Expected Stock Returns. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/34; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 46. PR no charge. JE C51, G12. KW Asset Pricing. Extreme Bound Analysis. Stock Returns.
AB Several empirical studies report violations of the asset-pricing model of Sharpe (1964), Lintner (1965), and Black (1972). But, there is no consensus on specification in this literature, as such studies typically consider only a limited number of explanatory variables and do not satisfactorily control for previous findings. Extreme bound analysis (EBA), an imperfect but useful remedy for model uncertainty, suggests that comparatively few factors are robust. Given the cross-section of expected stock returns from July 1963 through December 2000, three of 23 variables -- market size as well as short and medium run lagged return -- pass the traditional EBA decision rule given all possible 3-, 4-, and 5-factor models of monthly stock returns. This paper also explores several potential improvements to EBA, including explicit consideration of possible multicollinearity, which largely does not affect the results, as well as sample divisions, which suggest that fewer variables are sturdy correlates of returns.

Echenique, Federico

PD May 2002. TI Mixed Equilibria in Games of Strategic Complements Are Unstable. AU Echenique, Federico; Edlin, Aaron. AA Echenique: Unversidad Torcuato Di Tella and Unversidad de la Republica. Edlin: UC Berkeley. SR University of California, Berkeley, Department of Economics Working Paper: 02/316; University of California, Berkeley, WP orders, F502 Haas Building #1922, Berkeley, CA 94720-1922. Website: iber.berkeley.edu/wps/econwp.html. PG 21. PR $3.50 U.S. and Canada; $7.50 International; make checks payable to "Regents of the University of California". JE C72, C79. KW Mixed-Strategy Equilibrium. Learning. Supermodular Games. Strategic Complements. Equilibrium Selection.
AB In games with strict strategic complementarities, properly mixed Nash equilibria -- equilibria that are not in pure strategies -- are unstable for a broad class of learning dynamics.

Edge, Rochelle M.

PD October 2002. TI Taxation and the Taylor Principle. AU Edge, Rochelle M.; Rudd, Jeremy. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/51; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 30. PR no charge. JE E43, E52. KW Taylor Rule. Taylor Principle. Equilibrium Determinacy.
AB We add a nominal tax system to a sticky-price monetary business cycle model. When nominal interest income is taxed, the coefficient on inflation in a Taylor-type monetary policy rule must be significantly larger than one in order for the model economy to have a determinate rational expectations equilibrium. When depreciation is treated as a charge against

taxable income, an even larger weight on inflation is required in the Taylor rule in order to obtain a determinate and stable equilibrium. These results have obvious implications for assessing the historical conduct of monetary policy.

Edison, Hali J.
PD   August 2002. TI   Capital Account Liberalization and Economic Performance: Survey and Synthesis. AU   Edison, Hali J.; Klein, Michael W.; Ricci, Luca; Sloek, Torsten. AA   Edison, Ricci, and Sloek: IMF. Klein: Tufts University and NBER. SR   National Bureau of Economic Research Working Paper: 9100; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   38. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   F32, F33, F36. KW   Capital Account. Liberalization. Economic Growth.
AB   This paper reviews the literature on the effects of capital account liberalization and stock market liberalization on economic growth. The various empirical measures used to gauge the presence of controls on capital account transactions as well as indicators of stock market liberalization are discussed. We compare detailed measures of capital account controls that attempt to capture the intensity of enforcement with others that simply capture whether or not controls are present. Our review of the literature shows the contrasting results that have been obtained. These differences may reflect differences in country coverage, sample periods and indicators of liberalization. In order to reconcile these differences, we present new estimates of the effects on growth of capital account liberalization and stock market liberalization. We find some support for a positive effect of capital account liberalization on growth, especially for developing countries.

Edlin, Aaron
TI   Mixed Equilibria in Games of Strategic Complements Are Unstable. AU   Echenique, Federico; Edlin, Aaron.

Egli, Hannes
PD   April 2002. TI   Are Cross-Country Studies of the Environmental Kuznets Curve Misleading? New Evidence From Time Series Data for Germany. AA   University of Greifswald. SR   Fondazione Eni Enrico Mattei Note di Lavoro: 2002/25; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG   20. PR   no charge; available only on website. JE   Q01, Q25, Q53, Q56. KW   Kuznets Curve. Time Series Data. Error Correction Model.
AB   In recent years, extensive literature on the Environmental Kuznets Curve (EKC) leading to optimistic policy conclusions has attracted great attention. However, the underlying cross-section estimations are not very reliable. Accordingly, this contribution uses time series data for a single country with good data quality: Germany. With a specification that includes all theoretical variations and different appropriate estimation procedures, it is found that only for a few pollutants can the typical EKC pattern be confirmed. For the majority, however, it is concluded that the doubts about the suitability of the EKC approach are well-founded.

Ehrenberg, Randy A.
TI   Why Do School District Budget Referenda Fail? AU   Ehrenberg, Ronald G.; Ehrenberg, Randy A.; Smith,

Christopher L.; Zhang, Liang.

Ehrenberg, Ronald G.
PD   August 2002. TI   Why Do School District Budget Referenda Fail? AU   Ehrenberg, Ronald G.; Ehrenberg, Randy A.; Smith, Christopher L.; Zhang, Liang. AA   Ehrenberg, R. G.: Cornell University and NBER. Ehrenberg, R. A.: North Colonie Central School District. Smith and Zhang: CHERI. SR   National Bureau of Economic Research Working Paper: 9088; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   23. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   H42, H72, I22, I23, P16. KW   School District Budgets. New York State. Voting Outcomes.
AB   Our paper analyzes historical data for New York State on the percentage of school budget proposals that are defeated each year as well as panel data we have collected on budget vote success for individual school districts in the state. We find that changes in state aid matter, but not as much as one might expect. Defeating a budget proposal in one year neither increases nor decreases the likelihood that voters will defeat a proposal the next year. Districts whose school board members have longer terms have lower probabilities of having their budget proposals defeated. Finally, measures of school district educational and financial performance do not appear to influence budget vote outcomes.

Ehrlich, Paul
TI   Genetic Diversity and Interdependent Crop Choices in Agriculture. AU   Arrow, Kenneth; Daily, Gretchen; Dasgupta, Partha; Ehrlich, Paul;

TI   Genetic Diversity and Interdependent Crop Choices in Agriculture. AU   Arrow, Kenneth; Daily, Gretchen; Dasgupta, Partha; Ehrlich, Paul;

Ellison, Glenn
PD   February 2003. TI   Knife-Edge or Plateau: When Do Market Models Tip? AU   Ellison, Glenn; Fudenberg, Drew. AA   Ellison: MIT. Fudenberg: Harvard University. SR   MIT, Department of Economics Working Paper: 03/07; Linda Woodbury, MIT Department of Economics, E52-251, 50 Memorial Drive, Cambridge, MA 02142. Website: ssrn.com/abstract_id=380061. PG   23. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE   R11, R12. KW   Tipping. Agglomeration. Two-Sided Markets. Network Externalities. Increasing Returns.
AB   This paper studies whether agents must agglomerate at a single location in a class of models of two-sided interaction. In these models there is an increasing returns effect that favors agglomeration, but also a crowding or market-impact effect that makes agents prefer to be in a market with fewer agents of their own type. We show that such models do not tip in the way the term is commonly used. Instead, they have a broad plateau of equilibria with two active markets, and tipping occurs only when one market is below a critical size threshold. Our assumptions are fairly weak, and are satisfied in Krugman's [1991b] model of labor market pooling, a heterogeneous-agent version of Pagano's [1989] asset market model, and Ellison, Fudenberg, and Mobius's [2002] model of competing auctions.

Elsasser, Robert
TI   Treasury Inflation-Indexed Debt: A Review of the U.S. Experience. AU   Sack, Brian; Elsasser, Robert.

Emerson, Peter M.
TI   Marine Protected Areas: Economic and Social Implications. AU   Sanchirico, James N.; Cochran, Kathryn A.; Emerson, Peter M.

Engel, Charles
PD   June 2002. TI   Expenditure Switching and Exchange Rate Policy. AA   University of Wisconsin and NBER. SR   National Bureau of Economic Research Working Paper: 9016; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA   02138-5398.   Website: www.nber.org. PG   37. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   F31, F41. KW   Sticky Prices. Expenditure Switching. Nominal Exchange Rates.
AB   Nominal exchange rate changes can lead to "expenditure switching" when they change relative international prices. A traditional argument for flexible nominal exchange rates posits that when prices are sticky in producers' currencies, nominal exchange rate movements can change relative prices between home and foreign goods. But if prices are fixed ex ante in consumers' currencies, nominal exchange rate flexibility cannot achieve any relative price adjustment. In that case nominal exchange rate fluctuations have the undesirable feature that they lead to deviations from the law of one price. The case for floating exchange rates is weakened if prices are sticky in this way. The empirical literature appears to support the notion that prices are sticky in consumers' currencies. Here, additional support for this conclusion is provided. We then review some new approaches in the theoretical literature that imply an important expenditure-switching role even when consumer prices are sticky in consumers' currencies. Further empirical research is needed to resolve the quantitative importance of the expenditure-switching role for nominal exchange rates.

Engwerda, Jacob
TI   Staying Together or Breaking Apart: Policy-Makers' Endogenous Coalitions Formation in the European Economic and Monetary Union. AU   Di Bartolomeo, Giovanni; Engwerda, Jacob; Plasmans, Joseph; van Arle, Bas.

Erceg, Christopher J.
PD   September 2002. TI   Optimal Monetary Policy with Durable Goods and Non-Durable Goods. AU   Erceg, Christopher J.; Levin, Andrew T. AA   Federal Reserve Board. SR   European Central Bank Working Paper: 179; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG   38. PR   no charge. JE   E31, E52. KW   VAR Analysis. DGE Models. Sectoral Disaggregation.
AB   The durable goods sector is much more interest sensitive than the non-durables sector, and these sectoral differences have important implications for monetary policy. In this paper, we perform VAR analysis of quarterly US data and find that a monetary policy innovation has a peak impact on durable expenditures that is roughly five times as large as its impacts on non-durable expenditures. We then proceed to formulate and calibrate a two-sector dynamic general equilibrium model that roughly matches the impulse response functions of the data. While the social welfare function involves sector-specific

output gaps and inflation rates, we find that performance of the optimal policy rule can be closely approximated by a simple rule that targets a weighted average of aggregate wage and price inflation rates. In contrast, some commonly-prescribed policy rules (such as strict price inflation targeting and Taylor's rule) perform poorly in terms of social welfare.

Eyckmans, Johan
PD   June 2002. TI   Is Kyoto Fatally Flawed? An Analysis with MacGEM. AU   Eyckmans, Johan; van Regemorter, Denise; van Steenberghe, Vincent. AA   Eyckmans and van Regemorter: Katholieke Universiteit Leuven and CES. van Steenberghe: Katholieke Universiteit Leuven and CORE. SR   Fondazione Eni Enrico Mattei Note di Lavoro: 2002/43; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG   25. PR   no charge; available only on website. JE   Q54, Q58. KW   Environmental Economics. Climate Change. Permit Trade. Kyoto Protocol. Carbon Sinks.
AB   In this paper we present some numerical simulations with the MacGEM model to evaluate the consequences of the recent Marrakesh agreements and the defection of the USA for the Kyoto Protocol. MacGEM is a global marginal abatement cost model for carbon emissions from fossil fuel use based on the GEM-E3-World general equilibrium. Nonparticipation of the USA causes the equilibrium carbon price in Annex B countries to fall by approximately 50% since an important share of permit demand falls out. Carbon sinks enhancement activities enable Parties to fulfill their reduction commitment at lower compliance costs and cause the equilibrium permit price to decrease by 40%. Finally, it is shown that the former Soviet Union and central European countries have substantial monopoly power in the Kyoto carbon permit market. We conclude that the recent accords completely eroded the Kyoto Protocol's emission targets but that they saved the international climate change negotiation framework.

Faia, Ester
PD   October 2002. TI   Monetary Policy in a World with Different Financial Systems. AA   New York University. SR   European Central Bank Working Paper: 183; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG   52. PR   no charge. JE   E32, E42, E44, E52, F31, F41. KW   Financial Diversity. Monetary Regimes. Transmission Mechanism. Financial Stability. Welfare Losses.
AB   Major currency areas are characterized by important differences in financial structure that are clear in microeconomic data. Surprisingly, this fact is seldom discussed in the analysis of the international transmission of shocks. This paper attempts to fill this gap. First, I show some stylized facts about financial differences and cyclical correlations. Second, using a two-country model calibrated to US and euro area data, I analyze the international transmission of shocks with different degrees of financial fragility in the two economies. I find, first, that financial diversity accounts for heterogeneous business cycle fluctuations. Differential responses occur with independent monetary policies even with low degrees of economic and financial openness. Credible pegs help to increase the synchronization of cycles. Secondly, differences in the persistence of interest rates help to explain substantial persistence in the real exchange rate. Finally, weak financial

systems can result in large welfare losses under symmetric and correlated shock.

Faminow, Merle D.

PD January 2002. TI Using Conjoint Analysis to Estimate Farmer's Preferences for Cattle Traits in West Africa. AU Faminow, Merle D.; Kamuanga, Mulumba; Swallow, Brent; Tano, Kouadio. AA Faminow and Swallow: ICRAF. Kamuanga: ILRI and CIRDES. Tano: CIRES. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/01; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. PG 17. PR no charge; available only on website. JE Q12, Q19. KW Animal Traits. Breeds. Farmer Preferences. Conjoint Analysis. West Africa.

AB This paper estimates the preferences of farmers for cattle traits in southern Burkina Faso using Conjoint analysis, a survey-based system for measuring preferences for multiple-attribute goods. Here the technique is used in the context of a West African country where literacy is low, where cattle perform multiple functions, where low- input management is the norm, and where cattle are exposed to a number of tropical diseases and other environmental stresses. The results reflect the production practices of the region, suggesting that important traits in developing breed improvement programs should include disease resistance, fitness for traction and reproductive performance. Beef and milk production are less important traits. The study shows the potential usefulness of conjoint analysis for quantifying preferences in less developed countries for livestock and for the wide variety of other multiple-attribute goods. Distinguishing differences in preferences between groups of respondents in connection with specific locations and production systems can be used to promote conservation-through-use of breeds at risk of extinction.

Farzin, Y. Hossein

PD June 2002. TI Can an Exhaustible Resource Economy be Sustainable? AA University of California, Davis. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/47; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. PG 16. PR no charge; available only on website. JE D63, O21, Q01, Q32. KW Sustainability. Resource Stock Value. Optimal Consumption Path. Green Accounting.

AB I focus on two alternative concepts of sustainability dominating the literature: (i) maximum permanently maintainable consumption level (Fisherian income) and (ii) the amount of consumption that leaves the total value of wealth intact (Hicksian income). In the context of a pure exhaustible resource economy, I derive an explicit relationship between the two sustainability criteria and show that while such an economy is not sustainable in the former sense, it is in the latter sense provided social preferences are represented by a logarithmic utility function. I also derive the implications of the two concepts for greening of national income. Finally, I show the range of values of the parameters of the model for which the utilitarian optimal path can be close to paths satisfying the alternative sustainability criteria, suggesting that such outcomes are less likely for very poor resource- dependent countries than for rich ones.

PD July 2002. TI Sustainability and Hamiltonian Value.

AA University of California, Davis. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/48; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 17. PR no charge; available only on website. JE C61, D63, Q01, Q32. KW Sustainability. Current-Value Hamiltonian. Net National Product.

AB The relationships among the Hamiltonian, NNP, and the level of sustainable consumption/utility have been widely misunderstood. This paper dispels the misconceptions and provides further insight into these relationships. We show generally that for autonomous dynamic optimizing economies, a necessary and sufficient condition for sustainability is the stationarity of the current-value Hamiltonian. For autonomous cases, this stationarity condition generalizes Dixit et al.'s (1980) "zero-net-aggregate-investment" rule of sustainability, which in turn generalizes Solow-Hartwick's sustainability rule. For non-autonomous cases, however, except when the net "pure time effect" is constant over time, the stationarity condition is unfulfilled. In non-autonomous cases, Weitzman's (1976) "stationary equivalence" result does not hold, and the current-value Hamiltonian will underestimate (overestimate) the true welfare level when the net "pure time effect" is positive (negative). However, for the special non-autonomous case of a time-dependent utility discount rate we obtain a condition on the discount rate function that upholds the results obtained for autonomous cases. In turn, this condition extends Michel's (1982) transversality condition for the infinite-horizon autonomous control problems to problems with time dependent discount rates.

Faust, Jon

PD August 2002. TI Identifying the Effects of Monetary Policy Shocks on Exchange Rates Using High Frequency Data. AU Faust, Jon; Rogers, John H.; Swanson, Eric; Wright, Jonathan H. AA Board of Governors of the Federal Reserve System. SR European Central Bank Working Paper: 167; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 52. PR no charge. JE C32, E52, F31, F37. KW High Frequency Data. Identification. Vector Autoregression. Exchange Rates. Monetary Policy.

AB This paper proposes a new approach to identifying the effects of monetary policy shocks in an international vector autoregression. Using high-frequency data on the prices of eurodollar contracts, we measure the impact of the surprise component of the FOMC-day Federal Reserve policy decision on financial variables, such as the exchange rate and the foreign interest rate. We show how this information can be used to achieve identification without having to make the usual strong assumption of a recursive ordering.

Favard, Pascal

TI Input Use and Capacity Constraint Under Uncertainty: The Case of Irrigation. AU Bontems, Philippe; Favard, Pascal.

Feeny, Simon

PD May 2002. TI Modelling Inter-Temporal Aid Allocation. AU Feeny, Simon; McGillivray, Mark. AA United Nations University in Helsinki and University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 02/10; CREDIT Secretary, School of

Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 18. PR no charge. JE F35. KW Foreign Aid. Developing Countries. AB This paper models the inter-temporal allocation of bilateral foreign development aid to developing countries. A formal theoretical framework is developed, in which aid is treated as a private good of the donor country bureaucratic group responsible for bilateral aid allocation. This model is applied to data for 10 principal recipients of bilateral official development assistance over the period 1968 to 1999. A feature of this application is that it caters for the joint determination of aid allocations to individual recipient countries. Results indicate that both recipient need and donor interest variables determine the amount of foreign aid to developing countries. These results differ from many of those previously reported, which reject recipient need as a determinant of aid allocation.

Feinberg, Max
TI Evaluation of Food Risk Exposure Based on Extreme Value Theory: Application to Heavy Metals from Sea Products. AU Bertail, Patrice; Crepet, Amelie; Feinberg, Max; Tressou, Jessica.

Filatotchev, Igor
TI Endogenous Ownership Structure: Factors Affecting the Post- Privatisation Equity in Largest Hungarian Firms. AU Bishop, Kate; Filatotchev, Igor; Mickiewicz, Tomasz.

Finkelstein, Amy
PD July 2002. TI The Interaction of Partial Public Insurance Programs and Residual Private Insurance Markets: Evidence from the U.S. Medicare Program. AA NBER. SR National Bureau of Economic Research Working Paper: 9031; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 24. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H42, I18. KW Insurance. Medicare. Adverse Selection.
AB A ubiquitous form of government intervention in insurance markets is to provide compulsory, but partial, public insurance coverage and to allow voluntary purchases of supplementary insurance on the private market. Yet we know little about the effects of such programs on total insurance coverage and on welfare. A primary concern is that the compulsory public insurance program -- designed to counter the effects of adverse selection in the private insurance market -- may in fact exacerbate adverse selection pressures in the residual private insurance market. Theoretically, however, these programs may either improve or impair the functioning of the residual private insurance market. To examine this question empirically, this paper investigates the effect of the U.S. Medicare program -- which provides partial public health insurance to individuals aged 65 and over -- on the private insurance market for prescription drugs, a benefit not provided by the public program. The results suggest that Medicare does not have substantial spillover effects on residual private insurance markets. In particular, there is no evidence that Medicare is associated with increased adverse selection problems in the residual private health insurance market.

PD July 2002. TI When Can Partial Public Insurance Produce Pareto Improvements? AA NBER. SR National Bureau of Economic Research Working Paper: 9035; 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 D82, H42. KW Insurance. Pareto Improvements. Adverse Selection. Public Policy.
AB Wilson (1977) provided the striking result that the government can always Pareto dominate a pooling equilibrium in a private insurance market with adverse selection by providing the pooling policy as a compulsory public policy and allowing individuals to buy supplementary private insurance. This paper shows that this Pareto improving role for the government does not derive from its unique capacity to compel participation in a public insurance program. Rather, it stems from the fact that, with the introduction of the public policy, individuals may now hold multiple insurance policies: one public and one private. If, instead, we relax the assumption of the Wilson model that individuals may only hold one private insurance policy, the private market equilibrium is always second best Pareto efficient and there is no possibility of Pareto improvement through government intervention. Whether in fact individuals are restricted to purchasing only one private insurance policy -- and hence whether there is scope for Pareto improvement through government policy in this model -- varies in a predictable manner across different insurance markets.

Finon, Dominique
PD March 2003. TI Introducing Competition in the French Electricity Supply Industry: The Destabilisation of a Public Hierarchy in an Open Institutional Environment. AA Instiut d'Economie et de Politique de l'Energie, CNRS and Grenoble University. SR University of Cambridge, DAE Working Paper: 0314; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. PG 22. PR $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. JE L14, L22, L51, L94, L98. KW Regulation. Electricity. France.
AB The French electricity supply industry is characterized by a vertically integrated monopoly and public ownership and when the government introduced market rules, it was with the aim of preserving the integration of the public incumbent as a national champion. This had two paradoxical effects in favor of competition development and the building of safeguards for entrants: 1) the creation of a credible regulatory governance structure with effective power of control on network access which promoted market-rules, and the creation of a power exchange for balancing the incumbent's dominant position; 2) the credibility of the regulatory framework by the self-control of the incumbent in the use of its dominant position and on the capture of the regulator. These two effects result from the influence of the European institutional environment, in particular the intensive scrutiny of the European Commission, which is superimposed on the national one.

Firpo, Stefano
TI European Integration: What Lessons for Other Regions? The Case of Latin America. AU Dorrucci, Ettore; Firpo, Stefano; Fratzscher, Marcel; Mongelli, Francesco Paolo.

Fischer, Carolyn
PD May 2002. TI The Complex Interaction of Markets for Endangered Species Products. AA Resources for the

Future. SR Resources for the Future Discussion Paper: 02/21; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 37. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE D11, K42, Q21. KW Endangered Species. Black Markets. CITES. Poaching. Stigma.

AB Economic models of trade in endangered species products often do not incorporate four focal arguments in the policy debate over trade bans: 1) law-abiding consumers may operate in another market, separate from illegal consumers, that trade would bring online; 2) legal trade reduces stigma, which affects demand of law-abiding consumers; 3) laundering may bring illegal goods to legal markets when trade is allowed 4) legal sales may affect illegal supply costs. This paper analyzes systematically which aspects of these complicated markets, separately or in combination, are important for determining whether limited legalized trade in otherwise illegal goods can be helpful for achieving policy goals like reducing poaching.

PD May 2002. TI Determining Project-Based Emissions Baselines with Incomplete Information. AA Resources for the Future. SR Resources for the Future Discussion Paper: 02/23; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 28. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE D82, Q54. KW Climate Policy. Clean Development Baseline Emissions. Asymmetric Information.

AB Project-based mechanisms for emissions reductions credits, like the Clean Development Mechanism, pose important challenges for policy design because of several inherent characteristics. Participation is voluntary. Evaluating reductions requires assigning a baseline for a counterfactual that cannot be measured. Some investments have both economic and environmental benefits and might occur anyway. Uncertainty surrounds both emissions and investment returns. Parties to the project are likely to have more information than the certifying authority. The certifying agent is limited in its ability to design a contract that would reveal investment intentions. As a result, rules for baseline determination may be systematically biased to overallocate, and they also risk creating inefficient investment incentives. This paper evaluates, in a situation with asymmetric information, the efficacy of the main baseline rules currently under consideration: historical emissions, average industry emissions, and expected emissions.

PD May 2002. TI Multilateral Trade Agreements and Market-Based Environmental Policies. AU Fischer, Carolyn; Hoffmann, Sandra A.; Yoshino, Yutaka. AA Fischer and Hoffmann: Resources for the Future. Yoshino: University of Virginia. SR Resources for the Future Discussion Paper: 02/28; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 24. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE F18, Q56, Q58. KW Trade. Environment. WTO. GATT. Market-Based Policies.

AB We review the legal provisions of the WTO regime that have important implications for national, market-based environmental policies. We evaluate those provisions for their effects on a member country's ability and incentives to design economically efficient environmental policies. International trade institutions do not recognize the polluter pays principle, posing some challenges for unilateral policies addressing cross-border pollutants and leakage. Nor do they recognize the economic equivalence of emission tax and permit regimes, leading to different potential constraints on policy design and leaving some environmental policies open to influence by protectionist motives. As many legality issues have yet to be disputed and resolved, opportunities exist to help the WTO and environmental institutions evolve in ways to enable and encourage good policymaking.

PD June 2002. TI Multinational Taxation and International Emissions Trading. AA Resources for the Future. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/38; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 21. PR no charge; available only on website. JE F23, H21, Q54, Q58. KW Emissions Permits. Transfer Pricing. Taxation. Multinational Corporations.

AB In this paper I explore the interaction between multinational taxation and abatement activities under an international emissions permit trading scheme. Four types of plans are considered: (1) a single domestic permit system with international offsets; (2) separate national permit systems without trade; (3) separate national permit systems with limited offsets; and (4) an inter-national permit trading system. For each plan, I model the incentives for the multinational firm to choose abatement activities at home and abroad and to transfer emissions credits between parent and subsidiary. Limits on trading across countries restrict efficiency gains from abatement, as is well known. But I show that, furthermore, if available offset opportunities are limited to actual abatement activities, those activities are more susceptible to distortions from incentives to shift taxable income. Transfer pricing rules can limit but not always eliminate these distortions. In a system of unlimited international trading, abatement is efficiently allocated across countries, but tax shifting can still be achieved through intra-firm transfer pricing. On the basis of efficiency in both environmental and tax policies, the best design is an international permit trading system with transparent, enforceable transfer pricing rules.

PD July 2002. TI Optimal Investment in Clean Production Capacity. AU Fischer, Carolyn; Toman, Michael; Withagen, Cees. AA Fischer and Toman: Resources for the Future. Withagen: Free University and Tilburg University. SR Resources for the Future Discussion Paper: 02/38; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 24. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE Q42, Q52. KW Pollution Accumulation. Clean Technology. Capacity Investment.

AB For the mitigation of long-term pollution threats, one must consider that both the process of environmental degradation and the switchover to new and cleaner technologies are dynamic. We develop a model of a uniform good that can be produced by either a polluting technology or a clean one; the latter is more expensive and requires investment in capacity. We derive the socially optimal pollution stock accumulation and creation of nonpolluting production capacity, weighing the tradeoffs among consumption, investment and

adjustment costs, and environmental damages. We consider the effects of changes in the pollution decay rate, the capacity depreciation rate, and the initial state of the environment on both the steady state and the transition period. The optimal transition path looks quite different with a clean or dirty initial environment. With the former, investment is slow and the price of pollution may overshoot the long-run optimum before converging. With the latter capacity may overshoot.

TI How Large Are the Welfare Gains from Technological Innovation Induced by Environmental Policies? **AU** Parry, Ian W. H.; Pizer, William A.; Fischer, Carolyn.

PD January 2003. **TI** Output-Based Allocation of Environmental Policy Revenues and Imperfect Competition. **AA** Resources for the Future. **SR** Resources for the Future Discussion Paper: 02/60; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. **PG** 29. **PR** domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. **JE** H21, H23, Q28. **KW** Emission Tax. Permit Allocation. Earmarking.
AB Environmental policies with output-based refunding of revenues effectively combine a tax on emissions with a subsidy to output. Three similar forms exist: tradable performance standards, an emissions tax with rebates, and tradable permits with output-based allocation. Two arguments for including an output subsidy are imperfect competition, in which environmental regulation alone could exacerbate output underprovision, and imperfect participation, in which imposing a regulation on a subset of polluters could cause output to shift to exempt firms. However, both these scenarios imply that output shares among program participants are most likely significant. In this situation, output-allocated permits offer less of a subsidy than a fixed rebate, and they can lead to inefficient shifting of production among participants. These result hold in a Cournot duopoly model whether emission rates are determined simultaneously or strategically in a two-stage model.

Fisher, Anthony C.
TI Fishery Management Under Multiple Uncertainty. **AU** Costello, Christopher; Fisher, Anthony C.; Hanemann, W. Michael; Karp, Larry; Sethi, Gautam.

PD July 2002. **TI** Global Warming, Endogenous Risk, and Irreversibility. **AU** Fisher, Anthony C.; Narain, Urvashi. **AA** Fisher: University of California, Berkeley. Urvashi: Resources for the Future. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 908R; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. **PG** 31. **PR** $7.75 domestic; $15.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** Q25. **KW** Global Warming. Endogenous Risk. Irreversibility. Uncertainty.
AB This paper develops two-period analytical and numerical models to study the question: given a stock of greenhouse gases that poses a risk of future damages of unknown magnitude, and the possibility of learning about damages, how do sunk abatement capital and a nondegradable stock of greenhouse gases affect optimal first-period investment? We show that both

affect investment, the former negatively and the latter positively. Additionally, endogenous risk -- the risk of damages dependent on the stock of gases -- results in an increase in optimal investment for any level of capital "sunkness" or greenhouse gas degradability. Quantitatively, though, the effect of sunk capital is much stronger than the effect of greenhouse gas irreversibility or that of endogenous risk.

PD September 2002. **TI** Uncertainty, Learning, and the Irreversibility Effect. **AU** Fisher, Anthony C.; Hanemann, W. Michael; Narain, Urvashi. **AA** Fisher and Hanemann: University of California, Berkeley. Narain: Resource for the Future. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 935; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. **PG** 19. **PR** $5 domestic; $10 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** D80, D81, D83. **KW** Uncertainty. Risk. Decision-Making. Investment.
AB The well-known investment irreversibility effect states that investment is optimally delayed if future benefits are uncertain, the investment decision is irreversible, and there is no possibility of learning about future benefits. An unresolved question is whether this effect holds if the benefit function is nonlinear and investment is a continuous choice variable. Contrary to some earlier results which suggest that the effect does not hold widely under these conditions, we show that it does. We show, first, that necessary and sufficient conditions in the literature are only sufficient and not necessary; second, that the irreversibility effect holds for a case in which it is apparently violated; and third, that two cases in which the effect is violated are somewhat special and probably not empirically important.

PD September 2002. **TI** The Impact of Global Warming on U.S. Agriculture: An Econometric Analysis. **AU** Fisher, Anthony C.; Hanemann, W. Michael; Schlenker, Wolfram. **AA** University of California, Berkeley. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 936; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. **PG** 53. **PR** $13.25 domestic; $26.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** C50, Q10, Q20, Q54. **KW** Agriculture. Climate Changes. Global Warming.
AB Differences in estimates of the impact of climate change on U.S. agriculture can be explained by the failure to adequately allow for differences between rain-fed and irrigated agriculture as well as urban influences. We derive feasible GLS weights to obtain an efficient estimator and unbiased test statistics. A Bayesian outlier analysis shows that irrigated and urban counties can not be pooled with dryland counties. When we limit the analysis to dryland and non-urban counties, the different damage estimators from previous studies overlap and the confidence intervals are cut by .up to half. Dryland agriculture is unambiguously damaged under the CO2 doubling scenario.

Fisher, Eric

PD September 2002. **TI** Funded Pensions, Labor Market Participation, and Economic Growth. **AU** Fisher, Eric; Roberts, Mark A. **AA** Fisher: Ohio State University. Roberts: University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 02/09; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 21. **PR** no charge. **JE** E62, H55, J14, J21. **KW** Social Welfare State. Labor Force Participation. Economic Growth.
AB This paper analyses a model of overlapping generations in which agents who do not participate in the labor market are unable to borrow. Thus an increase in a fully funded pension raises aggregate savings even with a fixed participation rate, since private savings are not crowded out one-for-one. When labor force participation is determined endogenously, a rise in the level of fully funded pensions increases aggregate employment. This rise in employment augments growth, directly by raising per capita savings and indirectly by affecting tax and interest rates.

Flamm, Kenneth

TI The Role of Semiconductor Inputs in IT Hardware Price Decline: Computers vs. Communications. **AU** Aizcorbe, Ana; Flamm, Kenneth; Khurshid, Anjum.

Florio, Massimo

TI Privatizations as Price Reforms: Evaluating Consumers' Welfare Changes in the UK. **AU** Brau, Rinaldo; Florio, Massimo.

PD October 2002. **TI** The Abnormal Returns of UK Privatisations: From Underpricing to Outperformance. **AU** Florio, Massimo; Manzoni, Katiuscia. **AA** Florio: University of Milan. Manzoni: City University Business School. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/83; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 32. **PR** no charge; available only on website. **JE** G14, H32, L33. **KW** Privatization. Regulation. Abnormal Returns.
AB This paper offers a review and discussion of the evidence concerning the underpricing and long run performance of British PIPOs (Privatization Initial Public Offerings) between 1977-1996, i.e., from the first privatization under a Labor Government (British Petroleum), until the last one by a Conservative Government (Railtrack). We exclude more recent years because the change of government, the introduction of a windfall tax on excess profits of regulated utilities, and changes in the regulatory regime, mark a totally different landscape as compared with the previous twenty years. We find evidence that underpricing was not followed by underperformance, as is usually observed with IPOs, but rather strong outperformance. We decompose this trend by subgroups within a 55 observations sample, and conclude that lax regulation was probably the main driving force between abnormal returns of British PIPOs.

Forbes, Kristin J.

PD July 2002. **TI** Cheap Labor Meets Costly Capital: The Impact of Devaluations on Commodity Firms. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 9053; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 23. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F23, F31. **KW** Devaluations. Cost of Labour. Cost of Capital.
AB This paper examines how devaluations affect the relative costs of labor and capital and therefore influence production, profitability, investment, and stock returns for firms in the "crisis" country as well as competitors in the rest of the world. After developing these ideas in a small, open-economy model, the paper performs a series of empirical tests using information for about 1,100 firms in 10 commodity industries between 1996 and 2000. The empirical tests support the model's main predictions: 1) Immediately after devaluations, commodity firms in the crisis country have output growth rates about 10%-20% higher than competitors in other countries; 2) Immediately after devaluations, commodity firms in the crisis country have operating- profit growth rates about 15%-25% higher than competitors in other countries; 3) The effect of devaluations on fixed capital investment and stock returns (and therefore expected long-run output and profits) is determined by capital/labor ratios and changes in the cost of capital. For example, crisis-country firms have higher rates of capital growth and better stock performance after devaluations if they had lower capital/labor ratios and there was no substantial increase in their interest rates.

PD August 2002. **TI** How Do Large Depreciations Affect Firm Performance? **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 9095; 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** F23, F31, F36. **KW** Depreciations. Firm Performance.
AB This paper examines how 12 "major depreciations" between 1997 and 2000 affected different measures of firm performance in a sample of over 13,500 companies from around the world. Results suggest that in the year after depreciations, firms have significantly higher growth in market capitalization, but significantly lower growth in net income (when measured in local currency). Firms with a higher share of foreign sales exposure have significantly better performance after depreciations, according to a range of indicators. Firms with higher debt ratios tend to have lower net income growth, but there is no robust relationship between debt exposure and the other performance variables. Larger firms frequently have worse performance than smaller firms, although the significance and robustness of this result fluctuates across specifications.

Forte, Gianfranco

PD November 2002. **TI** Forecasting Volatility in European Stock Markets With Non-Linear GARCH Models. **AU** Forte, Gianfranco; Manera, Matteo. **AA** Forte: Bocconi University. Manera: Bocconi University, University of Milan-Bicocca, and FEEM. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/98; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 18. **PR** no charge; available only on website. **JE** C22, C52, G10. **KW** Volatility. GARCH. Forecast Evaluation.

AB This paper investigates the forecasting performance of three popular variants of the non-linear GARCH models, namely VS-GARCH, GJR-GARCH and Q-GARCH, with the symmetric GARCH (1, 1) model as a benchmark. The application involves ten European stock price indexes. Forecasts produced by each non-linear GARCH model and each index are evaluated using a common set of classical criteria, as well as forecast combination techniques with constant and non-constant weights. With respect to the standard GARCH specification, the non-linear models generally lead to better forecasts in terms of both smaller forecast errors and lower biases. In-sample forecast combination regressions are better than those from single Mincer-Zarnowitz regressions. The out-of- sample performance of combining forecasts is less satisfactory, irrespective of the type of weights adopted.

Fougere, Denis

TI Interfirm Mobility, Wages, and the Returns to Seniority and Experience in the U.S. AU Buchinsky, Moshe; Fougere, Denis; Kramarz, Francis; Tchernis, Rusty.

PD September 2002. TI Bayesian Inference for the Mover-Stayer Model in Continuous Time With an Application to Labour Market Transition Data. AU Fougere, Denis; Kamionka, Thierry. AA Fougere: CNRS, CREST-INSEE, CEPR, and IZA. Kamionka: CNRS, CREST- INSEE, and IDEI. SR INSEE Documents de Travail du CREST: 2002/23; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 18. PR no charge. JE C11, C49, J63. KW Bayesian Inference. Mover-Stayer Model. Sampling Algorithms. French Labour Market.

AB This paper presents Bayesian inference procedures for the continuous time mover-stayer model applied to labor market transition data collected in discrete time. These methods allow us to derive the probability of nesting of the discrete-time modeling with the continuous-time one. A special emphasis is put on two alternative procedures, namely the importance sampling algorithm and a new Gibbs sampling algorithm. Transition intensities, proportions of stayers, and functions of these parameters are then estimated with the Gibbs sampling algorithm for individual transition data coming from the French Labor Force Surveys collected over the period 1986-2000.

Fragnelli, Vito

PD October 2002. TI Environmental Pollution Risk and Insurance. AU Fragnelli, Vito; Marina, Maria Erminia. AA Fragnelli: Universita del Piemonte Orientale. Marina: Universita di Genova. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/87; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 11. PR no charge; available only on website. JE C71, Q52, Q59. KW Environmental Risk. Cooperative Game. Insurance.

AB We consider environmental risks that are evaluated as too risky for a single insurance company, but they can be insured by n companies which a premium is assigned to. This is precisely the Italian scenario where a pool of companies co-insures these risks. Under a game theoretic approach we start by analyzing how they should split the risk and the premium in order to be better off. Under suitable hypotheses, there exists an optimal decomposition of the risk, that allow us to define a cooperative game whose properties and some particular solutions are analyzed.

Frame, W. Scott

TI Credit Scoring and the Availability, Price, and Risk of Small Business Credit. AU Berger, Allen N.; Frame, W. Scott; Miller, Nathan H.

Franckx, Laurent

PD October 2002. TI Environmental Enforcement With Endogenous Ambient Monitoring. AA Royal Military Academy. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/88; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 20. PR no charge; available only on website. JE K42, Q53, Q58. KW Environmental Enforcement. Ambient Inspections. Commitment.

AB We consider an inspection game between "n" polluting firms and an environmental enforcement agency. If the cost of monitoring ambient pollution is low enough, the optimal inspection policy consists of imposing the maximal possible fine, and mixing between observing ambient pollution and not conducting any inspection at all. However, with stringent upper limits on the fine, the agency mixes between observing ambient pollution and inspecting all firms. The observation of ambient pollution is always followed by sequentially rational firm inspections. Comparisons with Franckx (2002a, 2002b) show that commitment power has a very strong impact on the value of prior information.

Fratzscher, Marcel

TI European Integration: What Lessons for Other Regions? The Case of Latin America. AU Dorrucci, Ettore; Firpo, Stefano; Fratzscher, Marcel; Mongelli, Francesco Paolo.

TI European Integration: What Lessons for Other Regions? The Case of Latin America. AU Dorrucci, Ettore; Firpo, Stefano; Fratzscher, Marcel; Mongelli, Francesco Paolo.

Fredriksson, Per G.

PD June 2002. TI Chasing the Smokestack: Strategic Policymaking with Multiple Instruments. AU Fredriksson, Per G.; List, John A.; Millimet, Daniel L. AA Fredriksson and Millimet: Southern Methodist University. List: University of Maryland. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/45; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 18. PR no charge; available only on website. JE C33, H77. KW Political Economy. Resource Competition. Strategic Policymaking. Yardstick Competition.

AB Recent studies suggest a considerable amount of horizontal strategic interaction amongst governments exists. The empirical approach in these studies typically relies on estimating reaction functions in a uni- dimensional policy framework, where a nonzero slope estimate suggests strategic interactions exist. While this framework may be useful within certain contexts, it is potentially too restrictive; for example, in models of resource competition, locales may use multiple instruments to attract agents, leading to strategic interaction across policy instruments. In this study, we develop a theoretic construct that includes yardstick competition in a world of

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multi-dimensional policies to show that while a zero-sloped reaction function may exist for any particular policy, this does not necessarily imply the absence of strategic interactions. We empirically examine the implications of the model using US state-level panel data over the period 1977-1994. Empirical results suggest important cross-policy strategic interactions exist, lending support to the multi-dimensional framework.

Fried, Jesse M.

TI Managerial Power and Rent Extraction in the Design of Executive Compensation. AU Bebchuk, Lucian Arye; Fried, Jesse M.; Walker, David I.

Friedman, Benjamin M.

PD June 2002. TI The Use and Meaning of Words in Central Banking: Inflation Targeting, Credibility, and Transparency. AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 8972; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 19. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E52, E58. KW Inflation Targeting. Democracy.
AB Inflation targeting offers the promise of introducing to monetary policy a logic and consistency that some central banks' deliberations sorely missed in the past. At least in today's inherited monetary policymaking context, however, inflation targeting also serves two further objectives that are of more questionable import, and while seemingly contradictory, the two are ultimately related: By forcing participants in the monetary policy debate to conduct the discussion in a vocabulary pertaining solely to inflation, inflation targeting diminishes over time concerns for real outcomes. In the meantime, inflation targeting hides from public view whatever concerns for real outcomes policymakers do maintain. Both objectives are understandable. Whether either is desirable on economic grounds is an open question. Neither is very consistent with the role of monetary policy in a democracy.

Froot, Kenneth A.

PD July 2002. TI Decomposing the Persistence of International Equity Flows. AU Froot, Kenneth A.; Tjornhom, Jessica D. AA Froot: Harvard University and NBER. Tjornhom: State Street Associates. SR National Bureau of Economic Research Working Paper: 9079; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 21. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F21, G11, G15. KW Asynchronism. Informed Trader. Investor Herding.
AB The portfolio flows of institutional investors are widely known to be persistent. What is less well known, however, is the source of this persistence. One possibility is the "informed trading hypothesis": that persistence arises from autocorrelated trades of investors who believe they have information about value and who face an imperfectly liquid market. Another possibility is that there are asynchronisms regarding investment decisions across funds, investments, or both. These asynchronisms could be due to wealth effects (across investments for a single fund), investor herding (across funds for a single investment), or generalized contagion (across funds and across investments). We use daily data on institutional flows into 21 developed countries by 471 funds to measure and

decompose aggregate flow persistence. We find that the informed trading hypothesis explains about 75% of total persistence, and that the remaining amount is attributable entirely to cross-fund own-country persistence. In other words, we find statistically and economically significant flow asynchronisms across funds investing in the same country. There are no meaningful asynchronisms across countries. The cross-fund flow lags we identify might result from different fund investment processes, or from some funds mimicking others' decisions. We reject the hypothesis that wealth effects explain persistence.

PD July 2002. TI Currency Returns, Institutional Investor Flows, and Exchange Rate Fundamentals. AU Froot, Kenneth A.; Ramadorai, Tarun. AA Froot: Harvard University and NBER. Harvard University. SR National Bureau of Economic Research Working Paper: 9080; 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 F21, F31, G11, G15. KW Institutional Investors. Currency Flows. Exchange Rate Fundamentals.
AB We explore the interaction between exchange rates, institutional investor currency flows and exchange-rate fundamentals. We find that these flows are highly correlated with contemporaneous and lagged exchange rate changes, and that they carry information for future excess currency returns. This information, however, is not strongly linked to future fundamentals. Flows are important in understanding transitory elements of excess returns, which include short-run underreaction and long-run overreaction. However, flows have a zero or negative correlation with permanent components of excess returns. We find that measured fundamentals -- not flows -- seem important in understanding permanent elements of excess returns. We conclude that investor flows are important for understanding deviations of exchange rates from fundamentals, but not for understanding the long-run currency values.

Fryer, Roland G., Jr.

PD June 2002. TI Understanding the Black-White Test Score Gap in the First Two Years of School. AU Fryer, Roland G., Jr.; Levitt, Steven D. AA Fryer: American Bar Foundation and University of Chicago. Levitt: University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 8975; 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 I21, J15. KW Test Score Gap. Racial Inequality. Early Childhood.
AB In previous research, a substantial gap in test scores between White and Black students persists, even after controlling for a wide range of observable characteristics. Using a newly available data set (Early Childhood Longitudinal Study), we demonstrate that in stark contrast to earlier studies, the Black-White test score gap among incoming kindergartners disappears when we control for a small number of covariates. Over the first two years of school, however, Blacks lose substantial ground relative to other races. There is suggestive evidence that differences in school quality may be an important part of the explanation. None of the other hypotheses we test to explain why Blacks are losing ground receive any empirical backing. The difference between our findings and previous research is consistent with real gains made by recent cohorts of

https://doi.org/10.1017/S0951007900006124 Published online by Cambridge University Press

Blacks, although other explanations are also possible.

Fudenberg, Drew
TI Knife-Edge or Plateau: When Do Market Models Tip?
AU Ellison, Glenn; Fudenberg, Drew.

Fullerton, Don
TI The Distribution of Tax Burdens: An Introduction.
AU Metcalf, Gilbert E.; Fullerton, Don.

Gagliardini, Patrick
PD May 2002. TI Duration Time Series Models with Proportional Hazard. AU Gagliardini, Patrick; Gourieroux, Christian. AA Gagliardini: Universita della Svizzera Italiana. Gourieroux: CREST- INSEE and University of Toronto. SR INSEE Documents de Travail du CREST: 2002/21; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 32. PR no charge. JE C14, C22, C41. KW Duration. Copula. ACD Model. Nonparametric Estimation. Proportional Hazard. Nonparametric Efficiency.
AB The analysis of liquidity in financial markets is generally performed by means of the dynamics of the observed intertrade durations (possibly weighted by price or volume). Various dynamic models for such duration data have been introduced in the literature, the most famous being the ACD (Autoregressive Conditional Duration) model. However these models are often excessively constrained, introducing for example a deterministic link between conditional expectation and variance in the case of the ACD model. Moreover the stationarity properties and the potential forms of the stationary distributions are not satisfactorily known. The aim of this paper is to solve these difficulties by considering the properties of a duration time series satisfying the proportional hazard property. We describe in detail this class of dynamic models, discuss various representations, and give ergodicity conditions. The proportional hazard copula can be specified either parametrically or nonparametrically. We discuss estimation methods in both contexts, and explain why they are efficient - that is, they reach the parametric or nonparametric efficiency bounds.

PD July 2002. TI Constrained Nonparametric Copulas. AU Gagliardini, Patrick; Gourieroux, Christian. AA Gagliardini: Universita della Svizzera Italiana. Gourieroux: CREST- INSEE and University of Toronto. SR INSEE Documents de Travail du CREST: 2002/20; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 35. PR no charge. JE C14, C51. KW Nonlinear Dependence. Copula. Nonparametric Estimation. Efficiency.
AB In this paper we introduce models with constrained nonparametric. dependence, for which the copula is characterized by a one-dimensional functional parameter. They provide an appropriate specification for the analysis of non-linear dependence in financial applications, as an intermediate case between standard parametric specifications (which are in general too restrictive) and a totally unrestricted approach (which incurs in the curse of dimensionality). A natural nonparametric estimator is defined by minimizing a chi-square distance between the constrained densities in the family and an unconstrained kernel estimator of the density. We derive the

asymptotic properties of this estimator and of its linear functionals. We show that, under an appropriate choice of the functional parameter, the expected nonparametric one-dimensional rate of convergence of the estimator is obtained. Finally we derive the nonparametric efficiency bound and show that the minimum chi-square estimator is nonparametrically efficient.

Gajdos, Thibault
PD May 2003. TI Multidimensional Generalized Gini Indices. AU Gajdos, Thibault; Weymark, John A. AA Gajdos: CNRS-CREST. Weymark: Vanderbilt University. SR INSEE Documents de Travail du CREST: 2003/16; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 29. PR no charge. JE D30, D63. KW Generalized Gini. Multidimensional Inequality.
AB The axioms used to characterize the generalized Gini social evaluation orderings for one-dimensional distributions are extended to the multidimensional attributes case. A social evaluation ordering is shown to have a two-stage aggregation representation if these axioms and a separability assumption are satisfied. In the first stage, the distributions of each attribute are aggregated using generalized Gini social evaluation functions. The functional form of the second-stage aggregator depends on the number of attributes and on which version of a comonotonic additivity axiom is used. The implications of these results for the corresponding multidimensional indices of relative and absolute inequality are also considered.

Galeotti, Marzio
PD January 2002. TI Rockets and Feathers Revisited: An International Comparison on European Gasoline Markets. AU Galeotti, Marzio; Lanza, Alessandro; Manera, Matteo. AA Galeotti: University of Bergamo and FEEM. Lanza: Eni S.p.A., FEEM, and CRENos. Manera: Bocconi University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/06; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 18. PR no charge; available only on website. JE C22, D43, Q41. KW Gasoline Prices. Speed of Adjustment. Asymmetric Adjustment. Exchange Rate.
AB This paper re-examines the issue of asymmetries in the transmission of shocks to crude oil prices onto the retail price of gasoline. Relative to the previous literature, the distinguishing features of the present paper are: i) use of updated and comparable data to carry out an international comparison of gasoline markets; ii) two-stage modeling of the transmission of oil price shocks to gasoline prices (first refinery stage and second distribution stage), in order to assess possible asymmetries at either one or both stages; iii) use of asymmetric error correction models to distinguish between asymmetries that arise from short-run deviations in input prices and from the speed at which the gasoline price reverts to its long-run level; iv) explicit, possibly asymmetric, role of the exchange rate, as crude oil is paid for in dollars whereas gasoline sells for different sums of national currencies; v) bootstrapping of F tests of asymmetries to overcome the low-power problem of conventional testing procedures. In contrast to several previous findings, the results generally point to widespread differences in both adjustment speeds and short-run responses when input

prices rise or fall.

AB   The purpose of this paper is to develop a model that
integrates inventory and labor decisions. We extend a model of
inventory behavior to include a detailed specification of the
role of labor input in the production process and of the costs
associated with it. In particular, we distinguish between
employment, hours per worker, and effort per worker, and allow
for adjustment costs associated with employment changes. We
assume that the requirement function for effective hours has a
general trans-logarithmic form, and derive an estimable system
of Euler equations for inventories and employment with
implied cross- equation restrictions. The econometric results
shed light on several important topics, including the shape of
the marginal cost of output and the role of labor hoarding as an
explanation of procyclical productivity and the persistence of
inventory stocks. Moreover, they raise questions about the
adequacy of commonly used specifications such as Cobb-
Douglas approximations to the production process and the
definition of labor input as the product of employment and
effective hours worked per worker.

Garcimartin, Carlos

Gatti, Roberta

Gautherat, Emmanuelle
AB   This paper presents some results on the estimation of the
distribution of the signal input in a noisy blind deconvolution
problem with an unknown level noise. We focus on the case
where the input sequence is drawn from a distribution with
finite support (digital deconvolution). This work unifies
different studies using different contrast functions in
deconvolution models and mixture population model. The main
goal of this work is to derive an estimator of the finite
distribution of the input signal: support and mass. These
estimators are strongly consistent in a non-parametric setting.
In a parametric context, we obtain the exact asymptotic
distribution. These results are obtained also with a dependent

structure. The study of asymptotic distribution gives the precise
contribution of the inverse filter, of the cardinality of the
support and of the choice of the contrast function considered in
the analysis. This paper is written in French.

Gemmell, Norman
AB   This paper examines a public choice model of fiscal
illusion in the demand for local government goods applied to
local government expenditures in Britain. Data for two fiscal
years, 1991/92 and 1993/94, are used reflecting two very
different local tax regimes -- the Community Charge in 1991/92
and the Council Tax in 1993/94. The principal evidence for
fiscal illusion is the flypaper effect under both tax regimes: a
unit increase in grant is associated with a larger increase in per
capita local expenditure (about 0.75 of a unit) than is a
comparable unit increase in average income (less than 0.2 of a
unit). There is no consistent evidence of renter illusion. In
comparing the two tax regimes we find that both taxes achieved
the same degree of accountability, so that a flat rate tax is not
necessary for accountability. We find evidence that taxpayers
on higher incomes appear willing to pay higher taxes, even if
the higher expenditures benefit those will lower incomes. The
Community Charge stifled this desire for equity. As the Council
Tax appears as accountable and more equitable than the
Community Charge, we conclude that it is, on public choice
grounds, a better local tax.

Genberg, Hans

Georgellis, Yannis

Gerlagh, Reyer
AB   In this paper we develop a simple endogenous growth
model with two competing production technologies and
learning spillover effects between firms that use the same
technology. Investments are directed to the technology with
highest current and expected returns. Since current investments

increase future returns through learning, the economy will usually lock in, that is specialize in one of the two technologies. In case the economy has selected a relative polluting technology, sustainable growth requires a transition towards the clean technology. We analyze the scope for policies that induce such a transition.

Gertner, Robert H.
TI Intellectual Property, Antitrust and Strategic Behavior. **AU** Carlton, Dennis W.; Gertner, Robert H.

Giannikos, Christos
TI On the Consequences of State Dependent Preferences for the Pricing of Financial Assets. **AU** Danthine, Jean-Pierre; Donaldson, John B.; Giannikos, Christos; Guirguis, Hany.

TI On the Consequences of State Dependent Preferences for the Pricing of Financial Assets. **AU** Danthine, Jean-Pierre; Donaldson, John B.; Giannikos, Christos; Guirguis, Hany.

Giavazzi, Francesco
TI Current Account Deficits in the Euro Area: The End of the Feldstein Horioka Puzzle? **AU** Blanchard, Olivier; Giavazzi, Francesco.

Gilchrist, Simon
PD September 2002. **TI** Monetary Policy and the Financial Accelerator in a Monetary Union. **AU** Gilchrist, Simon; Hairault, Jean-Olivier; Kempf, Hubert. **AA** Gilchrist: Boston University. Hairault and Kempf: Universite Paris-I Pantheon-Sorbonne. **SR** European Central Bank Working Paper: 175; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 44. **PR** no charge. **JE** E52, F31, F33. **KW** Financial Accelerator. Exchange Rate Policy.
AB In this paper, we consider the effect of a monetary union in a model with a significant role for financial market imperfections. We do so by introducing a financial accelerator into a stochastic general equilibrium macro model of a two country economy. We show that financial market imperfections introduce important cross-country transmission mechanisms to asymmetric shocks to supply and demand. Within this framework, we study the likely costs and benefits of monetary union. We also consider the effects of cross-country heterogeneity in financial markets. Both the presence of financial frictions and the use of a single currency have significant impacts on the international propagation of exogenous shocks. The introduction of asymmetries in the financial contract widens the differences in cyclical behavior of national economies in a monetary union, but financial integration compensates the loss of policy instruments.

Giovannetti, Emanuele
PD January 2003. **TI** How Different is Wireless Access? Implications for Internet Mergers. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0307; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. **PG** 24. **PR** $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. **JE** L13, L86, L96. **KW** Mergers. Internet. Network Industries. Wireless Access.

AB Network hierarchies in the Internet are often not fixed: two providers can be simultaneously input supplier and retailer in a routing process, while being horizontally competing in another. We introduce a stylized network model capturing these aspects of the Internet to study the impact of differentiation introduced by wireless access on prices and profits. We then study the incentives for, and welfare impact of, a merger between the wireless provider and a local bottleneck fixed access one. These effects crucially depend on the degree of differentiation between the wireless and fixed Internet access modalities. Pricing, at each router, follows the motor-way toll metaphor.

Girma, Sourafel
PD January 2002. **TI** When Does Food Stop Being a Luxury? Evidence from Quadratic Engel Curves With Measurement Error. **AU** Girma, Sourafel; Kedir, Abbi M. **AA** University of Nottingham. **SR** University of Nottingham, CREDIT Research Paper: 02/03; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 14. **PR** no charge. **JE** D60, I12. **KW** Ethiopia. Welfare. Food.
AB Using quadratic Engel curves with measurement errors, we identify the proportion of urban households in Ethiopia for whom food exhibits the characteristics of a luxury commodity. The threshold welfare level beyond which food ceases to be a luxury is found to lie between the 35th and 47th percentiles of the total expenditure distribution. This suggests that policy aimed at reducing food poverty should target nearly half of urban households. In sharp contrast, estimates which erroneously neglect the problem of measurement error in expenditure data imply that no more than a quarter of the urban population suffers from food poverty. This demonstrates the potential for serious policy distortions resulting from a lack of careful statistical analysis.

TI Aid and Growth in Sub-Saharan Africa: Accounting for Transmission Mechanisms. **AU** Gomanee, Karuna; Girma, Sourafel; Morrissey, Oliver.

Giupponi, Carlo
PD April 2002. **TI** Multi-Criteria Analysis and Decision-Support for Water Management at the Catchment Scale: An Application to Diffuse Pollution Control in the Venice Lagoon. **AU** Giupponi, Carlo; Rosato, Paolo. **AA** Giupponi: University of Padova. Rosato: University of Trieste. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/31; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 22. **PR** no charge; available only on website. **JE** Q15, Q25, Q30. **KW** Venice Lagoon. Multi-Criteria Analysis. Catchment.
AB Water pollution in the Venice Lagoon and its catchment is a major environmental issue. In Italy public funds are made available by specific national and regional regulations to support the realization of initiatives for the abatement of pollutant loads that travel from the catchment into the lagoon. The decisional context of the present study was determined by a given amount of public funds made available by the regional administration, to be used in an optimal way by choosing what to do (within a list of possible interventions like flow

regulation, plantation of riparian vegetation, etc.) and where (within the surface water network of the district). A multi-stage multi- criteria evaluation approach was developed, which subdivided the decisional problem into two operational phases. The results of the application of the proposed method to the case study demonstrated the potentials of collaborative multi-criteria analysis in supporting the activity of operational agencies during the whole process of development of proposals, plans for interventions, and projects.

Glachant, Jean-Michel

PD March 2003. TI Nordic Electricity Congestion's Arrangement as a Model for Europe: Physical Constraints or Operators' Opportunism? AU Glachant, Jean-Michel; Pignon, Virginie. AA Glachant: Universite Paris XI. Pignon: Universite Paris I. SR University of Cambridge, DAE Working Paper: 0313; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. PG 26. PR $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. JE D23, K23, L94. KW Congestion. Power Grids. Incentives.
AB Congestion on power grids appears to be an easily checked fact, but in this paper we suggest that congestion signals may be distorted by transmission system operators (TSOs). TSOs share the revenue produced by congestion's pricing, so giving them an incentive to distort congestion signals. When lines cross borders, settlement of this incentive problem necessitates a high degree of co-ordination between countries with differing regulatory mechanisms. Congestion threatens the collapse of interconnected grids and "capacity constrained situations" have to be avoided. Norms for secure capacity are not stable and invariable because some flexibility is needed by the very nature of the power flows and because the physical capacity of lines are not constant. Therefore TSOs are defining the congestion signal on a variable, complex, and non-transparent basis. In Nordic countries the "Light Handed Regulation" makes opportunistic behavior more likely. We need a more effective congestion regulatory mechanism.

Glachant, Matthieu

PD November 2002. TI The Political Economy of Emission Tax Design in Environmental Policy. AA CERNA. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/96; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. PG 27. PR no charge; available only on website. JE D72, D78, H23, Q28. KW Environmental Tax. Political Economy. Earmarking. Tax Design. Common Agency Politics. Lobbying. Public Choice.
AB In actual environmental policy, the design of pollution emission taxes differs significantly from the optimal Pigovian tax. In particular, earmarking prevails and actual taxes are usually combined with regulation. Furthermore tax rates are generally too low to significantly influence polluters' behavior. The paper develops a political economy model to explain these design parameters: the tax rate, earmarking pattern and whether the tax is combined with a regulation. An incumbent government selects these parameters under the influence of green and polluters' lobby groups. An earmarked tax is introduced in equilibrium with a lower rate than the regulatory shadow price when the status quo regulation is imperfectly

enforced and if the green lobby is sufficiently weak.

Goerg, Holger

PD May 2001. TI The Incidence of Visible Underemployment: Evidence for Trinidad and Tobago. AU Goerg, Holger; Strobl, Eric. AA Goerg: University of Nottingham. Strobl: University College, Dublin. SR University of Nottingham, CREDIT Research Paper: 01/10; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 24. PR no charge. JE J22, J60. KW Underemployment. Trinidad. Tobago.
AB This paper presents an empirical analysis of the incidence of visible underemployment in Trinidad and Tobago. Visible underemployment consists of workers who work less than the normal duration of working hours but are willing and available to work more. We find that compared to other groups of the labor force the visibly underemployed tend to be less educated and are more likely to work in the private sector. We also find that their revealed behavior is consistent with their desire for more hours. Relative to the jobs of the visibly underemployed, full-time jobs would, in addition to providing more hours, be more attractive because of greater employment stability and higher returns to job specific attributes, although the personal characteristics of the visibly underemployed are better rewarded in their own jobs. Only about 50 per cent of the visibly underemployed are able to find full- time employment within three months and little except firm size helps predict who will.

PD November 2001. TI Relative Wages, Openness and Skill-Biased Technological Change in Ghana. AU Goerg, Holger; Strobl, Eric. AA Goerg: University of Nottingham. Strobl: University College, Dublin. SR University of Nottingham, CREDIT Research Paper: 01/18; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 13. PR no charge. JE F16, O33. KW Wages. Technological Change. Ghana.
AB Standard neo-classical trade theory predicts that trade liberalization should cause a fall in wage inequality in developing countries through a decrease in the relative demand for skilled labor. Recent studies of a number of developing countries, however, find evidence to the contrary. Using a panel of manufacturing firms in the 1990s we investigate whether skill-biased technological change induced through imports of technology-intensive capital goods or export activity may provide an explanation for the increase in relative wages of skilled workers in Ghana. Estimates of a skilled worker relative demand equation based on a translog cost function show that changes in technology through a greater inflow of foreign machinery is found to be indeed consistent with skill-biased technological change in Ghana.

Goeschl, Timo

PD October 2002. TI Lost Horizons: The Noncooperative Management of an Evolutionary Biological System. AU Goeschl, Timo; Swanson, Timothy M. AA Goeschl: University of Cambridge. Swanson: University College London. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/89; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/

Publications/Wpapers/default.htm. **PG** 27. **PR** no charge; available only on website. **JE** I12, I18, O31, O34. **KW** Resource Management. Intellectual Property. Evolution. Resistance. Antibiotics.

AB This paper studies the interaction between two dynamic domains, (1) an evolutionary biological system ('the environment') whose behavior determines the availability of a resource stock, and (2) an industry where access to the resource stock is determined by the outcome of a patent race. The specific setting of the model is that of managing microbial resistance to antibiotics. Here, resistance develops in response to the use of antibiotics above a threshold level. We show that the optimal policy from society's point of view is to generate through R&D a diversified portfolio of antibiotics that maintains a steady-state of resistance. In practice, however, the management of the resistance stock is left to an industry operating under a system of intellectual property rights (IPR). We show that a multi-firm industry operating under an IPR-based incentive mechanism is unlikely to generate the socially optimal number of antibiotics because IPR systems (1) create incentives for sequential rather than simultaneous innovation; (2) generate incentives that decline with the number of previous (shelved) discoveries; and (3) generate incentives that respond perversely to increases in biological system velocity.

Gokhale, Jagadeesh

PD August 2002. **TI** Does It Pay to Work? **AU** Gokhale, Jagadeesh; Kotlikoff, Laurence J.; Sluchynsky, Alexi. **AA** Gokhale: The Federal Reserve Bank of Cleveland. Kotlikoff: Boston University and NBER. Sluchynsky: Kosovo Ministry of Economy and Finance. **SR** National Bureau of Economic Research Working Paper: 9096; 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** H22, H23, H24, H31, J22. **KW** ESPlanner. Incentives to Work. Progressivity of Taxes.

AB This study uses ESPlanner, a financial planning software program, to study the net work tax levied on workers with different earnings capacities. ESPlanner smoothes households' living standards subject to their capacities to borrow. In so doing, it makes highly detailed, year-by-year federal and state income tax and Social Security benefit calculations. We report eight findings. First, our fiscal system is highly progressive at the bottom end of the income distribution. Second, progressivity is primarily restricted to the bottom end of the income distribution. Third, while the poor face negative average taxes, they face significant positive marginal net taxes on working. Fourth, low-wage workers face confiscatory tax rates on switching from part-time to full-time work. Fifth, the same is true of secondary earnings spouses in low-wage households with low incomes. Six, the marginal net tax on working is particularly high for young households with low incomes. Seventh, average and marginal net work tax rates are relatively insensitive to the assumed rate of real wage growth and the discount rate. Finally, major tax reforms, such as switching from income to consumption taxation, can have a significant effect on the fiscal system's overall progressivity.

Goldin, Claudia

PD June 2002. **TI** A Pollution Theory of Discrimination: Male and Female Differences in Occupations and Earnings. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8985; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 32. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** J24, J71, N32. **KW** Sex-Based Discrimination. Occupational Choice. Prestige.

AB Occupations are segregated by sex today, but were far more segregated in the early to mid-twentieth century when married women began to enter the labor force in large numbers. It is difficult to rationalize sex segregation and "wage discrimination" on the basis of men's taste for distance from women in the same way differences between other groups in work and housing have been explained. Rather, this paper constructs a "pollution" theory model of discrimination in which new female hires may reduce the prestige of a previously all-male occupation. The predictions of the model concern the range of segregated and integrated occupations with respect to a productivity characteristic and how occupational segregation changes as the characteristic distributions become more similar by sex. The historical record reveals numerous cases of the model's predictions. Occupations that were more segregated by sex, for both men and women, contained individuals with higher levels of the productivity characteristic. "Credentialization," the shattering of old stereotypes, and information about individual women's productivities can help expunge "pollution.".

Gomanee, Karuna

PD February 2002. **TI** Aid and Growth in Sub-Saharan Africa: Accounting for Transmission Mechanisms. **AU** Gomanee, Karuna; Girma, Sourafel; Morrissey, Oliver. **AA** University of Nottingham. **SR** University of Nottingham, CREDIT Research Paper: 02/05; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 20. **PR** no charge. **JE** E22, F35, O40. **KW** Africa. Foreign Aid. Growth. Transmission Mechanisms. Investment.

AB This paper is a contribution to the literature on aid and growth. Despite an extensive existing empirical literature in this area, studies have not paid much attention to the importance of transmission mechanisms in determining the influence of aid inflows on growth rates. In other words, existing studies have failed to specify the mechanisms via which aid should affect growth. We identify investment as the most significant transmission mechanism, and also consider effects of aid via government spending and imports. With the use of residual generated regressors, we estimate the total effect of aid on growth, accounting for the effect via investment. Pooled panel results for a sample of Sub-Saharan African countries over the period 1970 to 1997 point to a highly significant positive effect of foreign aid on growth. On average, each one percentage point increase in the aid/GNP ratio adds one-third of one percentage point to the growth rate. The results are robust to issues of endogeneity, outliers and country-specific effects. Africa's poor growth record should not therefore be attributed to aid ineffectiveness.

PD February 2003. **TI** Aid, Pro-Poor Government Spending and Welfare. **AU** Gomanee, Karuna; Morrissey, Oliver; Mosley, Paul; Verschoor, Arjan. **AA** Gomanee: Oxford Brookes University. Morrissey: University of Nottingham. Mosley and Verschoor: University of Sheffield. **SR** University of Nottingham, CREDIT Research Paper:

AB Our objective is to test the hypothesis that aid can improve the welfare of the poor. Part of this effect is direct, if aid is targeted on the poor, and part is indirect, via the transmission channel of aid- financed public spending on social services -- sanitation, education and health. This indirect part is represented in an index of pro-poor public expenditures (PPE). As comparative data on poverty levels are scarce, we use two indicators of the welfare of the poor, namely infant mortality and the Human Development Index (HDI). We use a residual generated regressor to obtain a coefficient on the aid variable that includes the indirect effects through public expenditure allocation induced by aid. Estimation is based on a pooled panel of 39 countries over the period 1980 to 1998. We obtain results in support of our hypothesis that "pro-poor" public expenditure is associated with increased levels of welfare, and we find evidence that aid is associated with improved values of the welfare indicators because aid finances pro-poor spending. In this way, aid potentially benefits the poor.

Goolsbee, Austan

AB Despite the interest in measuring price sensitivity of online consumers, most academic work on Internet commerce is hindered by a lack of data on quantity. In this paper we use publicly available data on the sales ranks of about 20,000 books to derive quantity proxies at the two leading online booksellers. Matching this information to prices, we can directly estimate the elasticities of demand facing both merchants as well as create a consumer price index for online books. The results show significant price sensitivity at both merchants but demand at Barnes and Noble is much more price-elastic than is demand at Amazon. The data also allow us to estimate the magnitude of retail outlet substitution bias in the CPI due to the rise of Internet sales. The estimates suggest that prices online are much more variable than the CPI, which understates inflation by more than double in one period and gets the sign wrong in another.

AB In an effort to alleviate the perceived growth of a digital divide, the U.S. government enacted a major subsidy for Internet and communications investment in schools starting in 1998. The program subsidized spending by 20-90 percent, depending on school characteristics. Using new data on school technology usage in every school in California from 1996 to 2000 as well as application data from the E-Rate program, this paper shows that the subsidy did succeed in significantly increasing Internet investment. The implied first-dollar price elasticity of demand for Internet investment is between -0.9 and -2.2 and the greatest sensitivity shows up among urban schools and schools with large black and Hispanic student populations. Rural and predominantly white and Asian schools show much less sensitivity. Overall, by the final year of the sample there were about 66 percent more Internet classrooms than there would have been without the subsidy. Using a variety of test score results, however, it is clear that the E-Rate program, at least so far, has been restricted to the increase in access. The increase in Internet connections has had no measurable impact on any measure of student achievement.

Gordon, David B.

AB We consider price level determination from the perspective of portfolio choice. Arbitrages among money balances, bonds, and investment goods determine their relative demands. Returns to real balance holdings (transactions services), the nominal interest rate, and after-tax returns on investment goods determine the relative values of nominal and real assets. Since expectations of government policies ultimately determine the expected returns on both nominal and real assets, monetary and fiscal policies jointly determine the price level. Special cases of the fiscal and monetary policies considered produce the quantity theory of money and the fiscal theory of the price level.

Gordon, Roger H.

Gordy, Michael B.

AB When economic capital is calculated using a portfolio model of credit value-at-risk, the marginal capital requirement for an instrument depends, in general, on the properties of the

portfolio in which it is held. By contrast, ratings-based capital rules, including both the current Basel Accord and its proposed revision, assign a capital charge to an instrument based only on its own characteristics. This paper demonstrates that ratings-based capital rules can be reconciled with the general class of credit VaR models. Contributions to VaR are portfolio-invariant only if (a) there is only a single systematic risk factor driving correlations across obligors, and (b) no exposure in a portfolio accounts for more than an arbitrarily small share of total exposure. Analysis of rates of convergence to asymptotic VaR leads to a simple and accurate portfolio-level add-on charge for undiversified idiosyncratic risk. There is no similarly simple way to address violation of the single factor assumption.

Gorton, Gary

PD August 2002. TI Bank Panics and the Endogeneity of Central Banking. AU Gorton, Gary; Huang, Lixin. AA Gorton: University of Pennsylvania and NBER. Huang: University of Pennsylvania. SR National Bureau of Economic Research Working Paper: 9102; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 32. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E58, G21. KW Lender of Last Resort. Liquidity Provision. Endogeneity. Banking System.
AB Central banking is intimately related to liquidity provision to banks during times of crisis - this is the lender of last resort function. This activity arises endogenously in certain banking systems. Depositors lack full information about the value of bank assets so that during macroeconomic downturns they monitor their banks by withdrawing in a banking panic. The likelihood of panics depends on the industrial organization of the banking system. Banking systems with many small, undiversified banks, are prone to panics and failures, unlike systems with a few big banks that are heavily branched and well diversified. Systems of many small banks are more efficient if the banks form coalitions during times of crisis. We provide conditions under which the industrial organization of banking leads to incentive compatible state contingent bank coalition formation. Such coalitions issue money that is a kind of deposit insurance and examine and supervise banks. Bank coalitions of small banks, however, cannot replicate the efficiency of a system of big banks.

Gosling, Amanda

TI Does it Pay to Work in the Public Sector? AU Disney, Richard; Gosling, Amanda.

Gourieroux, Christian

PD March 2002. TI Affine Term Structure Models. AU Gourieroux, Christian; Monfort, Alain; Polimenis, Vassilis. AA Gourieroux: CREST-INSEE, CEPREMAP, and University of Toronto. Monfort: CNAM and CREST-INSEE. Polimenis: University of California, Riverside. SR INSEE Documents de Travail du CREST: 2002/49; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 35. PR no charge. JE C51, E43, G12. KW Interest Rate. Term Structure. Autoregressive Process. Affine Process. Laplace Transform. Nonparametric Pricing.
AB This paper gives a general presentation of affine term structure in discrete time. By assuming a compound autoregressive (affine) dynamics of the state variables and an exponential affine stochastic discount factor, it is possible to derive the risk neutral distribution and to check that the term structure is affine. We discuss several examples of one or multifactor models of this type, which can assume discrete or continuous state spaces, and can be parametric or nonparametric. We provide the derivative pricing formulas and discuss the implementation.

TI Duration Time Series Models with Proportional Hazard. AU Gagliardini, Patrick; Gourieroux, Christian.

TI Constrained Nonparametric Copulas. AU Gagliardini, Patrick; Gourieroux, Christian.

PD January 2003. TI Pricing with Splines. AU Gourieroux, Christian; Monfort, Alain. AA Gourieroux: CREST-INSEE, CEPREMAP, and University of Toronto. Monfort: CNAM and CREST. SR INSEE Documents de Travail du CREST: 2002/50; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 25. PR no charge. JE C19, C53, G12. KW Stochastic Discount Factor. Laplace Distributions. Derivative Pricing. Splines. Markov Chain.
AB We apply the exponential affine pricing principle to the family of skewed Laplace historical distributions. The risk-neutral distribution is shown to belong to the same family and a closed form pricing formula for a European option is derived. This formula is a direct competitor of the Black-Scholes formula and involves location and tail parameters. This approach is extended to exponential affine splines and to a multiperiod framework.

PD March 2003. TI Equidependence in Qualitative and Duration Models with Application to Credit Risk. AU Gourieroux, Christian; Monfort, Alain. AA Gourieroux: CREST-INSEE, CEPREMAP, and University of Toronto. Monfort: CNAM and CREST. SR INSEE Documents de Travail du CREST: 2002/51; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 32. PR no charge. JE C33, C41, G21. KW Equidependence. Exchangeability. Durations. Factor Model. Credit Risk. Default Correlation.
AB The aim of this paper is to introduce factor models for joint analysis of interdependent individual defaults. The default can be characterized either by its occurrence, or by the date of default. In the first case we introduce multivariate dependent models for dichotomous 0-1 variables, whereas multivariate duration models are considered in the second framework. We study the stochastic process counting the number of defaults and discuss statistical inference.

Graddy, Kathryn

TI Art Auctions: A Survey of Empirical Studies. AU Ashenfelter, Orley; Graddy, Kathryn.

Graff, Gregory D.

PD August 2001. TI Agricultural Biotechnology's Complementary Intellectual Assets. AU Graff, Gregory D.; Rausser, Gordon C.; Small, Arthur A. AA Graff and Rausser: University of California, Berkeley. Small: Columbia

University. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 925; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. PG 37. PR $9.25 domestic; $18.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE L22, O32, Q16. KW Agricultural Biotechnology. Intellectual Assets. Genetically Modified Organisms.

AB We formulate and test a hypothesis for the dramatic restructuring that the plant breeding and seed industry has recently undergone: the reorganization can be explained in part by the desire to exploit complementarities between intellectual assets needed to create genetically modified organisms. This hypothesis is tested using data on agricultural biotechnology patents, notices for field tests of genetically modified organisms, and firm characteristics. The presence of complementarities is identified with a positive covariance in the unexplained variation of asset holdings. Results indicate that coordination of complementary assets have increased under the consolidation of the industry.

Grafton, R. Quentin

PD April 2001. TI Social Divergence and Economic Performance. AU Grafton, R. Quentin; Knowles, Stephen; Owen, P. Dorian. AA Grafton: University of Ottawa. Knowles: University of Otago and University of Nottingham. Owen: University of Otago. SR University of Nottingham, CREDIT Research Paper: 01/08; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 23. PR no charge. JE C20, O40, P00. KW Social Divergence. Total Factor Productivity.

AB The paper introduces the concept of social divergence, defined as the social barriers to communication and exchange between individuals and groups of individuals within a society. Social divergence is determined by the characteristics of a society, including the distribution of income, ethnolinguistic diversity, religious diversity, educational distance, and other factors. The hypothesis is that social divergence reduces the degree of interaction between individuals that stimulates innovation and leads to the diffusion of productivity- enhancing ideas. Using a cross-section of 31 developing countries, total factor productivity (TFP) is regressed on measures of social divergence. The results indicate that, separate from any effects due to factor accumulation, higher levels of social divergence result in lower levels of economic performance.

Greenstone, Michael

TI Using Mandated Speed Limits to Measure the Value of a Statistical Life. AU Ashenfelter, Orley; Greenstone, Michael.

TI Using Mandated Speed Limits to Measure the Value of a Statistical Life. AU Ashenfelter, Orley; Greenstone, Michael.

Griffin, John M.

PD June 2002. TI Daily Cross-Border Equity Flows: Pushed or Pulled? AU Griffin, John M.; Nardari, Federico; Stulz, Rene M. AA Griffin and Nardari: Arizona State University. Stulz: Ohio State University and NBER. SR National Bureau of Economic Research Working Paper: 9000; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 36. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F21, F32, G11, G15. KW Home Bias. Foreign Investors. Domestic Investors. Equity Flows.

AB In a model that is consistent with the existence of a home bias and with foreign investors that are less informed than domestic investors, we show that unexpectedly high worldwide returns lead to net equity inflows into small countries. In addition, a small country experiences net equity inflows when its stocks earn unexpectedly high returns. We investigate these predictions using daily data on net equity flows for nine emerging market countries and find that equity flows are positively related to host country stock returns as well as market performance abroad. Both our theoretical model and our empirical analysis show that global stock return performance is an important factor in understanding equity flows.

Gromb, Denis

PD June 2002. TI Entrepreneurship in Equilibrium. AU Gromb, Denis; Scharfstein, David. AA Gromb: London Business School. Scharfstein: MIT and NBER. SR National Bureau of Economic Research Working Paper: 9001; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 33. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G32, O31. KW Intrapreneurship. Entrepreneurship.

AB This paper compares the financing of new ventures in start-ups (entrepreneurship) and in established firms (intrapreneurship). Intrapreneurship allows established firms to use information on failed intrapreneurs to redeploy them into other jobs. By contrast, failed entrepreneurs must seek other jobs in an imperfectly informed external labor market. While this external labor market leads to ex post inefficient allocations, it provides entrepreneurs with high-powered incentives ex ante. We show that two types of equilibria can arise (and sometimes coexist). In a low entrepreneurship equilibrium, the market for failed entrepreneurs is thin, making internal labor markets and intrapreneurship particularly valuable. In a high entrepreneurship equilibrium, the active labor market reduces the value of internal labor markets and encourages entrepreneurship. We also show that there can be too little or too much entrepreneurial activity. There can be too little because entrepreneurs do not take into account their positive effect on the quality of the labor market. There can be too much because a high quality labor market is bad for entrepreneurial incentives.

Grosskopf, Martin P.

PD November 2002. TI Towards a More Appropriate Method for Determining the Optimal Scale of Production Units. AA Independent Researcher, Pretoria, South Africa. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/93; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 13. PR no charge; available only on website. JE D24, Q01, Q56. KW Optimal Scale. Sustainable Production. Market Areas.

AB This paper asserts that beyond certain scale thresholds

several factors contribute to diseconomies of scale for individual production units, particularly with regard to the costs of non-renewable resource consumption. Economic instruments such as environmental taxes may induce a shift towards marginally more sustainable production levels for a plant of a given size, but they are not designed to affect the plant size itself. This paper suggests a methodology for determining optimal scale more appropriately. The results show that establishing the scale of production units at a social optimum rather than a private one implies a significant decrease in scale for most economic activities. Downscaling also has significant economic welfare and environmental advantages. Incentives linked to the factors which determine the social optimum are put forward as measures for inducing a shift towards an optimal size for production units.

Gruener, Hans Peter

PD October 2002. TI Should Central Banks Really Be Flexible? AA University of Mannheim, IZA, and CEPR. SR European Central Bank Working Paper: 188; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 26. PR no charge. JE E52, E58. KW Central Bank Flexibility. Central Bank Credibility. Optimum Currency Area. AB In this paper I show that central bank flexibility may not be desirable when it encourages trade unions to behave more aggressively. The argument is based on a model where risk averse trade unions interact with a central bank. A flexible central bank stabilizes economic shocks and reduces output volatility. This enables trade unions to realize higher real wages without risking the unemployment of some inside workers. Risk averse insiders demand higher real wages, generate more inflation and more unemployment. The overall effect on welfare may be negative. A conservative central bank instead increases output and employment on average but raises output volatility. The argument also sheds new light on the issue of optimum currency areas. Wage claims are lower and employment is higher in a currency union if national trade unions expect the central bank to do less to secure employment of insider workers in their country.

Gruenspecht, Howard

PD September 2002. TI Regulatory Tailoring, Reliability, and Price Volatility with Stochastic Breakdowns. AA Resources for the Future. SR Resources for the Future Discussion Paper: 02/37; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 26. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE Q41, Q48. KW Reliability. Boutique Fuels. Gasoline Price Spikes. Stochastic Failures. Environmental Regulation. Tailored Regulation. AB Although real-world energy supply systems are subject to stochastic failures, the impacts of proposed regulations affecting these systems have typically been evaluated using non-stochastic models. This paper develops an energy market model that explicitly allows for stochastic failures and demonstrates they play an important, or even dominant, role in determining the market impacts of environmental regulations that tailor product specifications to address local or regional conditions, such as fuel-formulation requirements specific to certain regional markets within the United States. While

traditional non- stochastic analyses view the tailoring of regulatory requirements by location as an efficiency-enhancing alternative to a "one size fits all" regulatory approach, they fail to consider the adverse impact on reliability in all market segments resulting from the loss of product fungibility due to tailoring. We show that regulatory impact estimates developed without explicit consideration of reliability considerations may be highly inaccurate.

Guencavdi, Oener

PD November 2002. TI Adjustment, Stabilization and the Analysis of the Employment Structure in Turkey: An Input-Output Approach. AU Guencavdi, Oener; Kuecuekcifci, Suat; McKay, Andrew. AA Guencavdi and Kuecuekcifci: Istanbul Technical University. McKay: University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 02/24; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 16. PR no charge. JE F16. KW Employment. Turkey. Stabilization. Foreign Trade. AB The aim of the paper is to examine the effects on employment of the large-scale structural adjustment program undertaken by Turkey from the early 1980s onwards. In this respect, we particularly analyze how appropriate the choices of factor intensity after structural adjustment program have been in the domestic production in comparison with the availability of domestic factor endowment. Our findings show that foreign trade in intermediate goods creates extra use of domestic labor, which can be considered as the labor cost of importing intermediate goods. This is the case in the majority of industries in the pre- and post-liberalization period in Turkey. However, the capacity of using extra labor as a result of importing intermediate goods appeared to have decreased in the post-liberalization period.

Guertin, Chantal

TI Nodal Pricing and Transmission Losses: An Application to a Hydroelectric Poser System. AU Bernard, Jean-Thomas; Guertin, Chantal.

Gundermann, Marco

TI Stabilizations, Crises and the "Exit" Problem -- A Theoretical Model. AU Bleaney, Michael; Gundermann, Marco.

Gurkaynak, Refet S.

PD August 2002. TI Market-Based Measures of Monetary Policy Expectations. AU Gurkaynak, Refet S.; Sack, Brian; Swanson, Eric. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/40; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 39. PR no charge. JE E52, G14. KW Monetary Policy Expectations. Monetary Policy Shocks. AB A number of recent papers have used short-maturity financial instruments to measure expectations of the future course of monetary policy, and have used high-frequency changes in these instruments around FOMC dates to measure monetary policy shocks. This paper evaluates the empirical

success of a variety of market instruments in predicting the future path of monetary policy. We find that federal funds futures dominate other market-based measures of monetary policy expectations at horizons of several months. For longer horizons, the predictive power of many of the instruments considered is very similar. In addition, we present evidence that monetary policy shocks computed using the current-month federal funds futures contract are influenced by changes in the timing of policy actions that do not influence the expected course of policy beyond a horizon of about six weeks. We propose alternative shock measures that capture changes in market expectations of policy over slightly longer horizons.

Guryan, Jonathan
TI The Impact of Internet Subsidies in Public Schools.
AU Goolsbee, Austan; Guryan, Jonathan.

Gust, Christopher
TI Monetary Policy in a Financial Crisis. AU Christiano, Lawrence J.; Gust, Christopher; Roldos, Jorge.

Gustman, Alan L.
PD July 2002. TI The New Social Security Commission Personal Accounts: Where Is the Investment Principal? AU Gustman, Alan L.; Steinmeier, Thomas L. AA Gustman: Dartmouth College and NBER. Steinmeier: Texas Tech University. SR National Bureau of Economic Research Working Paper: 9045; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 16. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D31, H55, I38, J14, J26. KW Social Security. Personal Account. Payroll Tax.
AB The President's Commission to Strengthen Social Security suggests three plans for reforming Social Security. These plans divert various amounts of the payroll tax to a personal account if the worker chooses to participate in the account. In return, Social Security benefits are offset using accounts with real returns ranging from 2% to 3.5%. In addition, the second and third plans proposed by the Commission include features that are designed to balance the finances of the system by reducing the rate of growth of benefits relative to the levels prescribed under current law, to make the system more redistributive, and to make other changes. Our analysis describes the account as a financial instrument equivalent to a bet that the real return will exceed the level of offset specified in the plan. As a result, the reduction in political risk fostered by the Commission's proposals comes mainly from the improvement in the financial status of the system fostered by other provisions of the recommended plans. Measures to improve the benefits of low income individuals, widows and widowers and to enhance the rewards to retirement all create incentive effects that are also discussed in the paper.

Guzman, Mark G.
PD July 2002. TI Coyote Crossings: The Role of Smugglers in Illegal Immigration and Border Enforcement. AU Guzman, Mark G.; Haslag, Joseph H.; Orrenius, Pia M. AA Guzman and Orrenius: Federal Reserve Bank of Dallas. Haslag: University of Missouri. SR Federal Reserve Bank of Kansas City Research Working Paper: RWP02/04; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 25. PR no charge. JE F22, J61, O15. KW Smuggling. Illegal Immigration. Border Enforcement. Economic Growth.
AB Illegal immigration and border enforcement in the United States have increased concomitantly for over thirty years. One interpretation is that U.S. border policies have been ineffective. We offer an alternative view, extending the current immigration-enforcement literature by incorporating both the practice of people smuggling and a role for non-wage income into a two-country, dynamic general equilibrium model. We state conditions under which two steady state equilibria exist: one with a low level of capital and high amount of illegal immigration and the other with a high level of capital but relatively little migration. We then analyze two shocks: a positive technology shock to smuggling services and an increase in border enforcement. In the low-capital steady state, the capital-labor ratio declines with technological progress in smuggling while illegal immigration increases. In the high-capital steady state, a technology shock causes the capital-labor ratio to rise while the effect on migration is indeterminate. We show that an increase in border enforcement is qualitatively equivalent to a negative technology shock to smuggling. Finally we show that a developed country would never choose small levels of border enforcement over an open border.

Haddad, Lawrence
TI Reducing Child Malnutrition: How Far Does Income Growth Take Us? AU Alderman, Harold; Appleton, Simon; Haddad, Lawrence; Song, Lina; Yohannes, Yisehac.

Haeringer, Guillaume
PD April 2002. TI On the Stability of Cooperation Structures. AA Warwick University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/20; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 12. PR no charge; available only on website. JE C71, C72. KW Cooperation Structure. Graph. Myerson Value. Stability. Potential.
AB This paper studies the payoff structure of stable cooperation structures in link formation games. Players choose non-cooperatively with whom they want to form a link, and the payoffs are given by the Myerson value of the cooperation structure obtained. We characterize the class of TU-games that ensure the stability of the full cooperation structure, which turns out to be much larger than the class of superadditive TU-games. We then provide an exact characterization of the Moderer and Shapley potential of the link formation game, and establish its equivalence with the potential as defined by Hart and Mas-Colell (1989). We use this result to show that stable but Pareto dominated graphs can emerge under simple best-response dynamics.

Haider, Steven
TI Food Insecurity or Poverty? Measuring Need-Related Dietary Adequacy. AU Battacharya, Jayanta; Currie, Janet; Haider, Steven.

TI Heat or Eat? Cold Weather Shocks and Nutrition in Poor American Families. AU Battacharya, Jayanta; DeLeire, Thomas; Haider, Steven; Currie, Janet.

Haines, Michael R.

PD   July 2002.   TI   Ethnic Differences in Demographic Behavior in the United States: Has There Been Convergence? AA   Colgate University and NBER.   SR   National Bureau of Economic Research Working Paper: 9042; 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   J11, J12, J13, N30.   KW   Demographics. Fertility. Mortality. Marriage.

AB   This paper looks at the fertility, mortality, and marriage experience of racial, ethnic, and nativity groups in US from the 19th to the late 20th centuries. The first part consists of a description and critique of the racial and ethnic categories used in the federal census and in the published vital statistics. The second part looks at these three dimensions of demographic behavior. There has been both absolute and relative convergence of fertility across groups. This has not been true for mortality. The black population has experienced absolute convergence but relative deterioration in mortality, in contrast to the Amerindian and Asian-origin populations. Finally, there was a trend toward earlier and more extensive marriage from about 1900 up to the 1960s. At this point, coincident with the end of the 'Baby Boom,' there has been a movement to later marriage for both males and females among whites, blacks, and the Hispanic-origin populations. This trend has been more extreme in the black population, especially among females. There has also been a significant rise in proportions never-married at ages 45-54 among blacks and, to a lesser extent, among Hispanics. So here too, there has been some divergence.

Hairault, Jean-Olivier

TI   Monetary Policy and the Financial Accelerator in a Monetary Union.   AU   Gilchrist, Simon; Hairault, Jean-Olivier; Kempf, Hubert.

Hall, Brian J.

PD   July 2002.   TI   Managing Option Fragility.   AU   Hall, Brian J.; Knox, Thomas A.   AA   Hall: Harvard University and NBER. Knox: Harvard University.   SR   National Bureau of Economic Research Working Paper: 9059; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org.   PG   34.   PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   G12,   J33.   KW   Option   Fragility.   Executive Compensation.

AB   We analyze and explore option fragility, the notion that option incentives are fragile due to their non-linear payoff structure. We build a detailed data set on executives' portfolios of stock and options and find that executive options are frequently underwater, even when average stock returns have been high. We find that the incentives provided by options are quite sensitive to stock price changes, especially on the downside. The dominant mechanism through which companies manage option fragility is larger option grants following stock price declines. Option repricings are far less prevalent. Interestingly, we find that for positive stock returns, higher returns lead to larger option grants, which raise incentives further. Thus, option grants are largest when companies do very poorly or very well. Executive exercising behavior also affects option fragility. Since executives are much less likely to exercise options following stock price decreases, the natural declines in incentives due to exercises are attenuated on the

downside, leading executives to "manage their own incentives" in a way that augments company management of option fragility.

Hall, Bronwyn H.

PD   January 2002.   TI   The Financing of Research and Development.   AA   UC Berkeley, NBER, and Institute of Fiscal Studies.   SR   University of California, Berkeley, Department of Economics Working Paper: 02/311; University of California, Berkeley, WP orders, F502 Haas Building #1922, Berkeley,   CA   94720-1922.   Website: iber.berkeley.edu/wps/econwp.html.   PG   17.   PR $3.50 U.S. and Canada; $7.50 International; make checks payable to "Regents of the University of California".   JE   G32, O32, O38.   KW   Financing Constraints. R&D. Venture Capital. Leverage. Innovation.

AB   Evidence on the "funding gap" for R&D is surveyed. The focus is on financial market reasons for underinvestment in R&D that persist even in the absence of externality-induced underinvestment. The conclusions are that 1) small and new innovative firms experience high costs of capital that are only partly mitigated by the presence of venture capital; 2) evidence for high costs of R&D capital for large firms is mixed, although these firms do prefer internal funds for financing these investments; 3) there are limits to venture capital as a solution to the funding gap, especially in countries where public equity markets are not highly developed; and 4) further study of governmental seed capital and subsidy programs using quasi-experimental methods is warranted.

Hancock, Diana

TI   Market Discipline in Banking Reconsidered: The Roles of Deposit Insurance Reform, Funding Manager Decisions and Bond Market Liquidity.   AU   Covitz, Daniel M.; Hancock, Diana; Kwast, Myron L.

Hanemann, W. Michael

TI   One-and-One-Half-Bound   Dichotomous   Choice Contingent Valuation.   AU   Cooper, Joseph C.; Hanemann, W. Michael; Signorello, Giovanni.

TI   Muffled Price Signals: Household Water Demand Under Increasing-Block   Prices.   AU   Cavanagh,   Sheila   M.; Hanemann, W. Michael; Stavins, Robert N.

TI   Fishery Management Under Multiple Uncertainty. AU   Costello, Christopher; Fisher, Anthony C.; Hanemann, W. Michael; Karp, Larry; Sethi, Gautam.

TI   Uncertainty, Learning, and the Irreversibility Effect. AU   Fisher, Anthony C.; Hanemann, W. Michael; Narain, Urvashi.

TI   The Impact of Global Warming on U.S. Agriculture: An Econometric Analysis.   AU   Fisher, Anthony C.; Hanemann, W. Michael; Schlenker, Wolfram.

PD   October 2002.   TI   The Central Arizona Project. AA   University of California, Berkeley.   SR   University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 937; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html.   PG   11. PR $5 domestic; $10 international surface rate; not available after publication; make checks payable to "Regents of the

University of California". **JE** Q21, Q25. **KW** Water Transfers. Water Supply. Groundwater. Supply and Demand. **AB** The Central Arizona Project (CAP) is the largest and most expensive water transfer project ever constructed in the United States. This paper gives a brief history of CAP, states some lessons from the history of CAP, and tries to explain how representative the CAP experience is.

Hanh, Robert W.

TI National Environmental Policy During the Clinton Years. **AU** Cavanagh, Sheila M.; Hanh, Robert W.; Stavins, Robert N.

Hansen, Henrik

TI On the Empirics of Foreign Aid and Growth. **AU** Dalgaard, Carl-Johan; Hansen, Henrik; Tarp, Finn.

PD December 2002. **TI** The Impact of Aid and External Debt on Growth and Investment. **AA** University of Copenhagen, DERG, and University of Nottingham. **SR** University of Nottingham, CREDIT Research Paper: 02/26; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 24. **PR** no charge. **JE** E22, F34, F35, O40. **KW** Foreign Aid. Debt. Growth. Investment. **AB** What happens if HIPC debt relief resources are not additional? We seek to answer this question by quantifying the impact of debt service payments and aid flows in cross-country growth and investment regressions. Based on the regressions we assess the likely impact of debt relief with and without changes in the aid flows. The result is that one-for-one changes in debt service payments and official aid flows leave the growth rate unchanged, i.e., there seems to be no growth without additionality. When we use a measure of effective aid developed by the World Bank staff we find that if decreases in debt service payments are accompanied by falling grant levels, there may even be a negative impact on growth.

Hansmann, Henry

PD June 2002. **TI** Ownership Form and Trapped Capital in the Hospital Industry. **AU** Hansmann, Henry; Kessler, Daniel; McClellan, Mark. **AA** Hansmann: Yale University. Kessler: Stanford University and NBER. McClellan: Council of Economic Advisers and NBER. **SR** National Bureau of Economic Research Working Paper: 8989; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 24. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H42, I11, L31, L33. **KW** Hospital Ownership. Acute Care. **AB** Over the past 20 years, demand for acute care hospital services has declined more rapidly than has hospital capacity. This paper investigates the extent to which the preponderance of the nonprofit form in this industry might account for this phenomenon. We test whether rates of exit from the hospital industry differ significantly across the different forms of ownership, and especially whether secular nonprofit hospitals reduce capacity more slowly than do other types of hospitals. We estimate the effect of population changes (a proxy for changes in demand) at the zip-code level between 1985 and 1994 on changes in the capacity of for-profit, secular nonprofit, religious nonprofit, and public hospitals over the same period, holding constant metropolitan statistical area (MSA) fixed

effects and other 1985 baseline characteristics of residential zip codes. We find that for-profit hospitals are the most responsive to reductions in demand, followed in turn by public and religiously affiliated nonprofit hospitals, while secular nonprofits are distinctly the least responsive of the four ownership types.

Hanson, Gordon H.

PD July 2002. **TI** The Home Market Effect and Bilateral Trade Patterns. **AU** Hanson, Gordon H.; Xiang, Chong. **AA** Hanson: UCSD and NBER. Xiang: Purdue University. **SR** National Bureau of Economic Research Working Paper: 9076; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F11, F12. **KW** Home Market Effect. Gravity Model. Bilateral Trade. Difference-in-difference. **AB** We test for home-market effects using a difference-in-difference gravity specification. The home-market effect is the tendency for large countries to be net exporters of goods with high transport costs and strong scale economies. It is predicted by models of trade based on increasing returns to scale but not by models of trade based on comparative advantage. In our estimation approach, we select pairs of exporting countries that belong to a common preferential trade area and examine their exports of goods with high transport costs and strong scale economies relative to their exports of goods with low transport costs and weak scale economies. We find that home-market effects exist and that the nature of these effects depends on industry transport costs. For industries with very high transport costs, it is national market size that determines national exports. For industries with moderately high transport costs, it is neighborhood market size that matters. In this case, national market size plus market size in nearby countries determine national exports.

Hanushek, Eric A.

PD July 2002. **TI** The Failure of Input-Based Schooling Policies. **AA** Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 9040; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 36. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H41, I21, I28, J44. **KW** Education. Quality. Resources. **AB** In an effort to improve the quality of schools, governments around the world have dramatically increased the resources devoted to them. By concentrating on inputs and ignoring the incentives within schools, the resources have yielded little in the way of general improvement in student achievement. This paper provides a review of the United States and international evidence on the effectiveness of such input policies. It then contrasts the impact of resources with that of variations in teacher quality that are not systematically related to school resources. Finally, alternative performance incentive policies are described.

PD July 2002. **TI** The Long Run Importance of School Quality. **AA** Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 9071; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 20. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H42, I21, J24, J31. **KW** School Quality. Income

Distribution. Economic Growth.

AB Research demonstrates that school quality has a strong impact on individual earnings, on the distribution of income, and on overall economic growth. In contrast to these long run factors, today's school quality has little to do with current business cycles or unemployment rates. This paper emphasizes the importance of school quality -- measured by math and science test scores -- on economic growth. While U.S. growth has been strong over the 20th century, it has not been the result of high quality schooling relative to that in other countries. Instead, other factors such as open labor markets and high quality colleges and universities appear to have masked the mediocre performance by U.S. students.

Harrington, Winston
TI Technology Adoption and Aggregate Energy Efficiency.
AU Pizer, William A.; Harrington, Winston; Kopp, Raymond J.; Morgenstern, Richard D.; Shih, Jhih-Shyang.

Hartley, Roger
TI Asymmetric Contests with General Technologies.
AU Cornes, Richard; Hartley, Roger.

TI Disguised Aggregative Games. **AU** Cornes, Richard; Hartley, Roger.

TI Dissipation in Rent-Seeking Contests with Entry Costs.
AU Cornes, Richard; Hartley, Roger.

TI Aggregative Public Good Games. **AU** Cornes, Richard; Hartley, Roger.

Harvey, Andrew C.
TI Testing for Drift in a Time Series. **AU** Busetti, Fabio; Harvey, Andrew C.

PD December 2002. **TI** Multivariate Unit Root Tests and Testing for Convergence. **AU** Harvey, Andrew C.; Bates, David. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0301; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. **PG** 43. **PR** $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. **JE** C32, O40. **KW** Balanced Growth. Spatial Dependence. Dickey-Fuller Test. Initials Conditions. Power Envelope. Stationarity Tests.
AB We examine the properties of a multivariate Dickey-Fuller t- statistic designed to test for a unit root in a panel while taking into account cross-sectional dependence. The asymptotic distribution is presented and critical values are provided. When intercepts are present, a modification along the lines of Elliot, Rothenberg, and Stock (1996) can be implemented. The tests have invariance properties and can be carried out even if the number of series exceeds the number of time periods. Non-zero initial conditions actually boost the power of the (unmodified) Dickey-Fuller tests confirming that they are useful for testing the hypothesis that the series are in the process of converging. Typical applications are for a moderate number of series observed over a reasonably long period of time. The example given is for the per capita incomes of six US regions observed annually from 1950 to 1999.

PD January 2003. **TI** Cyclical Components in Economic Time Series: A Bayesian Approach. **AU** Harvey, Andrew C.; Trimbur, Thomas M.; van Dijk, Herman K. **AA** Harvey and Trimbur: University of Cambridge. van Dijk: Erasmus University. **SR** University of Cambridge, DAE Working Paper: 0302; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. **PG** 48. **PR** $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. **JE** C11, C32, E32. **KW** Band Pass Filter. Gibbs Sampler. Kalman Filter. Markov Chain. Monte Carlo. State Space. Unobserved Components.
AB Cyclical components in economic time series are analyzed in a Bayesian framework, thereby allowing prior notions about periodicity to be used. The method is based on a general class of unobserved component models that allow relatively smooth cycles to be extracted. Posterior densities of parameters and smoothed cycles are obtained using Markov chain Monte Carlo methods. An application to estimating business cycles in macroeconomic series illustrates the viability of the procedure for both univariate and bivariate models.

Haslag, Joseph H.
TI Coyote Crossings: The Role of Smugglers in Illegal Immigration and Border Enforcement. **AU** Guzman, Mark G.; Haslag, Joseph H.; Orrenius, Pia M.

PD June 2003. **TI** Optimality of the Friedman Rule in Overlapping Generations Model with Spatial Separation. **AU** Haslag, Joseph H.; Martin, Antoine. **AA** Haslag: University of Missouri-Columbia. Martin: Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP03/03; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. **PG** 17. **PR** no charge. **JE** E52, E58. **KW** Friedman Rule. Overlapping Generations. Spatial Separation.
AB Recent papers suggest that when intermediation is analyzed seriously, the Friedman rule does not maximize social welfare in overlapping generations model in which money is valued because of spatial separation and limited communication. These papers emphasize a trade-off between productive efficiency and risk sharing. We show financial intermediation or a trade-off between productive efficiency and risk sharing are neither necessary nor sufficient for that result. We give conditions under which the Friedman rule maximizes social welfare and show any feasible allocation such that money grows faster than the Friedman rule is Pareto dominated by a feasible allocation with the Friedman rule. The key to the results is the ability to make intergenerational transfers.

Hasselmann, Klaus
TI Integrated Assessment Modeling: Modules for Cooperation. **AU** Carraro, Carlo; Hasselmann, Klaus; Hourcade, Jean-Charles; Jaeger, Carlo C.; Keeler, Andrew; Klein, Rupert; Leimbach, Marian.

Hatton, Timothy J.
TI Where Do U.S. Immigrants Come From, and Why?
AU Clark, Ximena; Hatton, Timothy J.; Williamson, Jeffrey G.

He, Ruimin
TI The World Bank of the Future. **AU** Banerjee, Abhijit

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V.; He, Ruimin.

Heal, Geoffrey

PD November 2002. TI Bundling Biodiversity. AA Columbia Business School. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/99; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 8. PR no charge; available only on website. JE H41, Q57, Q58. KW Local Public Goods. Bundling. Price Discrimination. Monopoly. Environment. Urban Development.
AB Biodiversity provides essential services to human societies. Many of these services are provided as public goods, such that they will typically be underprovided both by market mechanisms (because of the impossibility of excluding non-payers from using the services) and by government-run systems (because of the free rider problem). I suggest here that in some cases the public goods provided by biodiversity conservation can be bundled with private goods and their value to consumers captured in the price realized by the private goods. This may lead to an efficient level of provision.

PD November 2002. TI Biodiversity and Globalization. AA Columbia Business School. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/101; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 14. PR no charge; available only on website. JE Q56, Q57. KW Biodiversity. Public Goods. Globalization. Bundling.
AB Reduction of the earth's biodiversity as a result of human activities is a matter of great concern to prominent scientists. What are the economic aspects of this loss? In economic terms, what is biodiversity and why might it matter? And is the loss of biodiversity in any way connected with globalization of the economy?.

Heavner, D. Lee

PD June 2002. TI Social Networks and the Aggregation on Individual Decisions. AU Heavner, D. Lee; Lochner, Lance. AA Heavner: Economic Analysis LLC. Lochner: University of Rochester and NBER. SR National Bureau of Economic Research Working Paper: 8979; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 18. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D85, Z13. KW Social Networks. Social Capital. Participation.
AB This paper analyzes individual decisions to participate in an activity and the aggregation of those decisions when individuals gather information about the outcomes and choices of (a few) others in their social network. In this environment, aggregate participation rates are generally inefficient. Increasing the size of social networks does not necessarily increase efficiency and can lead to less efficient long-run outcomes. Both subsidies for participation and penalties for non-participation can increase participation rates, though not necessarily by the same amount. Punishing non-participation has much greater effects on participation rates than rewarding participation when current rates are very low. A program that provides youth with mentors who have participated themselves can increase participation rates, especially when those rates are low. Finally, communities plagued by the flight of successful

participants will experience lower short- and long-run participation rates.

Heckman, James J.

PD June 2002. TI The Performance of Performance Standards. AU Heckman, James J.; Heinrich, Carolyn; Smith, Jeffrey. AA Heckman: University of Chicago and NBER. Heinrich: University of North Carolina. Smith: University of Maryland and NBER. SR National Bureau of Economic Research Working Paper: 9002; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 36. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE C31, H83. KW JTPA Performance System. Cream Skimming. Government Organizations.
AB This paper examines the performance of the JTPA performance system, a widely emulated model for inducing efficiency in government organizations. We present a model of how performance incentives may distort bureaucratic decisions. We define cream skimming within the model. Two major empirical findings are (a) that the short run measures used to monitor performance are weakly, and sometimes perversely, related to long run impacts and (b) that the efficiency gains or losses from cream skimming are small. We find evidence that centers respond to performance standards.

TI The Evidence on Credit Constraints in Post-Secondary Schooling. AU Carneiro, Pedro; Heckman, James J.

PD July 2002. TI Learning-By-Doing Vs. On-the-Job Training: Using Variation Induced by the EITC to Distinguish Between Models of Skill Formation. AU Heckman, James J.; Lochner, Lance; Cossa, Ricardo. AA Heckman University of Chicago and NBER. Lochner: University of Rochester and NBER. Cossa: University of Chicago. SR National Bureau of Economic Research Working Paper: 9083; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 33. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H24, J24, J31. KW Wage Subsidies. Learning-by-Doing. Skill Formation. On-the-Job Training. EITC.
AB This paper investigates the impact of wage subsidies on skill formulation. We analyze two prototypical models of skill formation: (a) a learning-by-doing model and (b) an on-the-job training model. We develop conditions on the pricing of jobs under which the two models are equivalent. In general they are different and have different implications of wage subsidies on skill formation. On-the-job training models predict that wage subsidies reduce skill formation. Learning-by- doing models predict the opposite. The provisional evidence favors the learning-by-doing model. We apply our estimates to investigate the impact of the EITC on skill formation. We estimate that the EITC reduces the long term wages of participants with low levels of education.

Heinrich, Carolyn

TI The Performance of Performance Standards. AU Heckman, James J.; Heinrich, Carolyn; Smith, Jeffrey.

Heitfield, Erik

PD September 2002. TI The Geographic Scope of Retail Deposit Markets. AU Heitfield, Erik; Prager, Robin A. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System,

Finance and Economics Discussion Paper Series: 2002/49; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 28. **PR** no charge. **JE** D40, G21, L40. **KW** Banking. Markets. Antitrust.
AB In the United States, antitrust authorities rely heavily on numerical measures of local banking market concentration such as the Herfindahl Hirschmann Index to assess the likely competitive effects of proposed bank mergers and acquisitions. This approach to antitrust enforcement relies on two important assumptions: (1) that markets for at least some types of banking products are local in scope, and (2) that market concentration measures can serve as effective proxies for banks' abilities to extract monopoly rents. This paper uses balance sheet data from most banks operating in the United States in 1988, 1992, 1996, and 1999 to test these assumptions.

Hellerstein, Judith K.

PD July 2002. **TI** Ethnicity, Language, and Workplace Segregation: Evidence from a New Matched Employer-Employee Data Set. **AU** Hellerstein, Judith K.; Neumark, David. **AA** Hellerstein: University of Maryland and NBER. Neumark: Michigan State University and NBER. **SR** National Bureau of Economic Research Working Paper: 9037; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 44. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** J70. **KW** Segregation. Ethnicity. Language Proficiency. Wages.
AB We describe the construction and assessment of a new matched employer-employee data set (the Decennial Employer-Employee Dataset, or DEED) that we have undertaken as a part of a broad research agenda to study segregation in the U.S. labor market. We examine the role of segregation by Hispanic ethnicity and language proficiency, contributing new, previously unavailable descriptive information on segregation along these lines, and evidence on the wage premia or penalties associated with this segregation. The DEED is much larger and more representative across regional and industry dimensions than previous matched data sets for the United States, and improvements along both of these dimensions are essential to isolating the importance of segregation by language and ethnicity in the workplace. Our empirical results reveal considerable segregation by Hispanic ethnicity and by English language proficiency. We find that Hispanic workers, but not white workers, suffer wage penalties from employment in a workplace with a large share of Hispanic workers, and even more so a large share of Hispanic workers with poor English language proficiency. In addition, we find that segregation of Hispanic workers among other Hispanics with similar English language proficiency does not reduce the penalties associated with poor own language skills.

Hellerstein, Walter

TI Does Sales-Only Apportionment of Corporate Income Violate the GATT? **AU** McLure, Charles E., Jr..; Hellerstein, Walter.

Helliwell, John F.

PD July 2002. **TI** How's Life? Combining Individual and National Variables to Explain Subjective Well-Being. **AA** University of British Columbia and NBER.

SR National Bureau of Economic Research Working Paper: 9065; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 33. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** I31, Z00, Z13. **KW** Subjective Well-Being. Individual Well-Being. Societal Well-Being.
AB This paper attempts to explain international and interpersonal differences in subjective well-being over the final fifth of the twentieth century. The empirical work makes use of data from three waves of the World Values survey covering about fifty different countries. The analysis proceeds in stages. First there is a brief review of some reasons for giving a key role to subjective measures of well-being. This is followed by a survey of earlier empirical studies, a description of the main variables used, a report of results and tests, and discussion of the links among social capital, education, income, and well-being. The main innovation of the paper, relative to earlier studies of subjective well-being, lies in its use of large international samples of data combining individual and societal level variables, thus permitting the simultaneous identification of individual-level and societal-level determinants of well-being. This is particularly useful in identifying the direct and indirect linkages between social capital and well-being.

Hendel, Igal

PD July 2002. **TI** Sales and Consumer Inventory. **AU** Hendel, Igal; Nevo, Aviv. **AA** Hendel: University of Wisconsin and NBER. Nevo: UC Berkeley and NBER. **SR** National Bureau of Economic Research Working Paper: 9048; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 31. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** D11, D12. **KW** Sales. Demand Elasticities. Temporary Price Reductions. Consumer Inventory. Stockpiling.
AB Temporary price reductions (sales) are common for many goods and naturally result in large increases in the quantity sold. We explore whether the data support the hypothesis that these increases are, at least partly, due to dynamic consumer behavior: at low prices consumers stockpile for future consumption. This effect, if present, renders standard static demand estimates misleading, which has broad economic implications. We construct a dynamic model of consumer choice, use it to derive testable predictions and test these predictions using two years of scanner data on the purchasing behavior of a panel of households. The results support the existence of household stockpiling behavior and suggest that static demand estimates, which neglect dynamics, may overestimate price sensitiveness by up to a factor of 2 to 6.

Henry, Peter Blair

TI Risk Sharing and Asset Prices: Evidence From a Natural Experiment. **AU** Chari, Anusha; Henry, Peter Blair.

Hess, Peter

TI Developing a Methodology for Assessing the Economic Impacts of Large Scale Environmental Regulations. **AU** Berck, Peter; Hess, Peter.

TI Estimation of Household Demand for Goods and Services in California's Dynamic Revenue Analysis Model. **AU** Berck, Peter; Hess, Peter; Smith, Bruce D.

Hiebert, Paul

PD October 2002. TI Debt Reduction and Automatic Stabilisation. AU Hiebert, Paul; Perez, Javier J.; Rostagno, Massimo. AA Hiebert and Rostagno: European Central Bank. Perez: CentrA and Universidad Pablo de Olavide de Sevilla. SR European Central Bank Working Paper: 189; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 48. PR no charge. JE E62, E63, H31, H63. KW Public Debt. Automatic Stabilization. Borrowing Constraints. Consumption.

AB This paper presents an optimal fiscal policy response to address the basic trade-off between the automatic stabilization properties of budgets and the long run fiscal position. The framework is an overlapping generations model a la Weil (1989), extended to account for stochastic endowments and borrowing constrained households. A benign government chooses the optimal degree of responsiveness of net taxes to individual incomes, an optimal measure of long-run public debt, or both, to smooth households' consumption across states of nature. In the presence of a deficit constraint for the government, the results unambiguously point to the desire for lower debt levels than those currently prevailing to enable a more effective hedging of personal income uncertainty by means of more active fiscal stabilizers. Citizens in economies exhibiting more pronounced cycles will favor less automatic stabilization combined with a more aggressive policy of debt reduction.

Hillberry, Russell

PD June 2002. TI Explaining Home Bias in Consumption: The Role of Intermediate Input Trade. AU Hillberry, Russell; Hummels, David. AA Hillberry: U.S. Intl. Trade Commission. Hummels: Purdue University and NBER. SR National Bureau of Economic Research Working Paper: 9020; 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 F12, F15, R32, R34. KW Home Bias. Consumption. Intermediate Inputs.

AB We show that "home bias" in trade patterns will arise endogenously due to the co-location decisions of intermediate and final goods producers. Our model identifies four implications of home bias arising out of specialized industrial demands. Regions absorb different bundles of goods. Buyers and sellers of intermediate goods co-locate. Intermediate input trade is highly localized. The effect of spatial frictions on trade are magnified. These implications are examined and confirmed using a unique data source that matches the detailed subnational geography of shipments to the characteristics of the shipping establishments. Our results broaden the measurement and interpretation of home bias, and provide new evidence on the role of intermediate inputs in concentrating production.

PD June 2002. TI Intra-national Home Bias: Some Explanations. AU Hillberry, Russell; Hummels, David. AA Hillberry: U.S. Intl. Trade Commission. Hummels: Purdue University and NBER. SR National Bureau of Economic Research Working Paper: 9022; 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 F15, R12. KW Home Bias.

AB Wolf (2000) demonstrates that trade within the U.S.

appears substantially impeded by state borders. We revisit this finding with improved data. We show that much intra-national home bias can be explained by wholesaling activity. Shipments by wholesalers are much more localized within states than shipments from manufacturing establishments. Controlling for relative prices and the use of actual, rather than imputed, shipment distances also reduces home bias estimates.

Hines, James R., Jr.

TI Expectations and Expatriations: Tracing the Causes and Consequences of Corporate Inversions. AU Desai, Mihir A.; Hines, James R., Jr..

Ho, Mun S.

TI The Near-Term Impacts of Carbon Mitigation Policies on Manufacturing Industries. AU Morgenstern, Richard D.; Ho, Mun S.; Shih, Jhih-Shyang; Zhang, Xuehua.

TI Projecting Productivity Growth: Lessons from the U.S. Growth Resurgence. AU Jorgenson, Dale W.; Ho, Mun S.; Stiroh, Kevin J.

Hoffmann, Sandra A.

TI Multilateral Trade Agreements and Market-Based Environmental Policies. AU Fischer, Carolyn; Hoffmann, Sandra A.; Yoshino, Yutaka.

Hofkes, Marjan W.

TI Escaping Lock-In: The Scope for a Transition Towards Sustainable Growth? AU Gerlagh, Reyer; Hofkes, Marjan W.

Holthausen, Cornelia

PD October 2002. TI Efficient Pricing of Large Value Interbank Payment Systems. AU Holthausen, Cornelia; Rochet, Jean-Charles. AA Holthausen: European Central Bank. Rochet: Universite des Sciences Sociales, Toulouse. SR European Central Bank Working Paper: 184; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 36. PR no charge. JE D42, D43, E58, G21. KW Payment Systems. Non-Linear Pricing. Public Monopoly. Mixed Duopoly.

AB This paper studies the efficient pricing of large-value payment systems in the presence of unobservable heterogeneity about banks' future payment volumes. It is shown that the optimal pricing scheme for a public monopoly system involves quantity discounts in the form of a decreasing marginal fee. This is also true when the public system competes with a private system characterized by a lower marginal cost. However in this case, optimal marginal fees in the public system are lower than its marginal cost, and fixed fees have to be levied. We also study the case of competition between several public systems. The structure of the optimal tariff depends on the willingness of central banks to allow by-pass.

Horbach, Jens

PD November 2002. TI Structural Change and the Environmental Kuznets Curves. AA University of Applied Sciences Anhalt. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/92; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano,, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 17. PR no charge; available only on website.

JE C22, O13, Q56. KW Structural Change. Kuznets Curve. Environmental Policy.

AB The Environmental Kuznets Curve hypothesis (EKC) postulates an inverted u-shaped curve between important pollutants and per capita GDP analogous to the relationship between in-come inequality and income per capita which Kuznets postulated in 1955. The article focuses on an empirical analysis of structural change between branches as one major determinant of EKC's. The results of cointegration analysis show that, amongst other determinants, the decline of environmentally intensive branches in Germany during the last decades can be econometrically explained by the development of energy prices and the so-called Fourastie hypothesis.

Hourcade, Jean-Charles

TI Integrated Assessment Modeling: Modules for Cooperation. AU Carraro, Carlo; Hasselmann, Klaus; Hourcade, Jean-Charles; Jaeger, Carlo C.; Keeler, Andrew; Klein, Rupert; Leimbach, Marian.

TI Integrated Assessment Modeling: Modules for Cooperation. AU Carraro, Carlo; Hasselmann, Klaus; Hourcade, Jean-Charles; Jaeger, Carlo C.; Keeler, Andrew; Klein, Rupert; Leimbach, Marian.

Hsieh, Eric

TI Transmission Pricing of Distributed Multilateral Energy Transactions to Ensure System Security and Guide Economic Dispatch. AU Ilic, Marija; Hsieh, Eric; Ramanan, Prasad.

Huang, Kevin X. D.

PD December 2002. TI Implementing Arrow-Debreu Equilibria by Trading Infinitely-Lived Securities. AU Huang, Kevin X. D.; Werner, Jan. AA Huang: Federal Reserve Bank of Kansas City. Werner: University of Minnesota. SR Federal Reserve Bank of Kansas City Research Working Paper: RWP02/08; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 19. PR no charge. JE D50, E44, G12. KW Arrow-Debreu Equilibrium. Asset Markets Equilibrium. Price Bubbles. Transfers.

AB We show that Arrow-Debreu equilibria with countably additive prices in infinite-time economy under uncertainty can be implemented by trading infinitely-lived securities in complete sequential markets under two different portfolio feasibility constraints: a wealth constraint, and essentially bounded portfolios. Sequential equilibria with no price bubbles implement Arrow-Debreu equilibria, while those with price bubbles implement Arrow-Debreu equilibria with transfers. Transfers are equal to price bubbles on initial portfolio holdings. Price bubbles arise in sequential equilibrium under the wealth constraint if some securities are in zero supply or negative prices are permitted, but cannot arise with essentially bounded portfolios.

PD December 2002. TI Why Does the Cyclical Behavior of Real Wages Change Over Time? AU Huang, Kevin X. D.; Liu, Zheng; Phaneuf, Louis. AA Huang: Federal Reserve Bank of Kansas City. Liu: Emory University. Phaneuf: University of Quebec at Montreal. SR Federal Reserve Bank of Kansas City Research Working Paper: RWP02/09; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 24. PR no charge. JE E31, E32, E52. KW Real Wage Cyclicality. Staggered Price Setting. Staggered Wage Setting. Input-Output Structure.

AB This paper seeks to understand the evolution of the cyclical behavior of U.S. real wage rates from the interwar period to the post World War II period using a dynamic general equilibrium model that emphasizes demand-driven business cycle fluctuations. In the model, changes in the cyclical behavior of real wages arise endogenously from the interactions between nominal wage and price rigidities and an evolving input-output structure.

Huang, Lixin

TI Bank Panics and the Endogeneity of Central Banking. AU Gorton, Gary; Huang, Lixin.

Hummels, David

TI Explaining Home Bias in Consumption: The Role of Intermediate Input Trade. AU Hillberry, Russell; Hummels, David.

TI Intra-national Home Bias: Some Explanations. AU Hillberry, Russell; Hummels, David.

PD June 2002. TI Shipping the Good Apples Out? An Empirical Confirmation of the Alchian-Allen Conjecture. AU Hummels, David; Skiba, Alexandre. AA Hummels: Purdue University and NBER. Skiba: Purdue University. SR National Bureau of Economic Research Working Paper: 9023; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 22. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F10, F13, F15. KW Quality. Differentiated Goods. Demand. Alchian Allen Hypothesis.

AB We model demand for quality differentiated goods to derive a relationship between trade costs and the quality composition of trade. Detailed data on traded goods' prices, quantities and shipping costs for many importers and exporters are used to test these predictions. These data provide a strong rejection of the iceberg assumption on transportation costs and a strong confirmation of the classical Alchian Allen hypothesis. Within a narrowly defined commodity classification, exporters charge destination-varying prices that co-vary positively with shipping costs and negatively with tariffs. Shipping costs operate as a quantitative restriction similar to quotas.

Hwang, Min

PD March 2002. TI Price Discovery in Time and Space: The Course of Condominium Prices in Singapore. AU Hwang, Min; Quigley, John M. AA UC Berkeley. SR University of California, Berkeley, Department of Economics Working Paper: 02/315; University of California, Berkeley, WP orders, F502 Haas Building #1922, Berkeley, CA 94720-1922. Website: iber.berkeley.edu/wps/econwp.html. PG 19. PR $3.50 U.S. and Canada; $7.50 International; make checks payable to "Regents of the University of California". JE C23, E31, R31. KW Housing. Real Estate. Price Determination. Economics.

AB There is increasing evidence that aggregate housing price are predictable. Despite this, a random walk in time and independence in space are two maintained hypotheses in the empirical models for housing price measurement used by government agencies as well as commercial companies. This

paper examines the price discovery process in individual dwellings over time and space by relaxing both assumptions, using a unique body of data from the Singapore private condominium market. We develop a model that tests directly the hypotheses that the prices of individual dwellings follow a random walk over time and that the price of an individual dwelling is independent of the price of a neighboring dwelling. The model is general enough to include other widely used models of housing price determination, such as Bailey, Muth, and Nourse (1963), case support mean reversion in housing prices, and diffusion of innovations over space. Our estimates of the level of housing prices, derived from a generalized repeat sales model, suggest that serial and spatial correlation matters in the computation of price indices and the estimation of price levels. We also examine whether housing prices are forecastable using a variety of models.

Ilic, Marija
PD March 2003. **TI** Transmission Pricing of Distributed Multilateral Energy Transactions to Ensure System Security and Guide Economic Dispatch. **AU** Ilic, Marija; Hsieh, Eric; Ramanan, Prasad. **AA** Institute of Electrical and Electronics Engineers, Inc. **SR** University of Cambridge, DAE Working Paper: 0311; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. **PG** 7. **PR** $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. **JE** D43, L94. **KW** Electricity Markets. Transmission Pricing. Transmission Markets. Service Providers. Co-ordination. Decentralization.
AB In this paper we provide a simulation-based demonstration of a hybrid electricity market that combines the distributed competitive advantages of decentralized markets with the system security guarantees of centralized markets. In this market, the transmission service provider (TSP) guides an electricity market towards the optimal power flow (OPF) solution, even when maximizing its own revenue. End users negotiate with each other to determine an energy price and then submit separate bids for transmission to the TSP. The TSP returns with prices for transmission, allowing end users to respond. In simulations, this hybrid-decentralized market approaches the near-optimal results of fully coordinated and constrained markets. Additionally, this market exhibits properties that remove incentives for the TSP to withhold capacity. This hybrid market leads a market towards the optimum while allowing the TSP and the end users to act out of self-interest.

Jaffe, Adam B.
PD April 2002. **TI** Environmental Policy and Technological Change. **AU** Jaffe, Adam B.; Newell, Richard G.; Stavins, Robert N. **AA** Jaffe: Brandeis University and NBER. Newell: Resources for the Future. Stavins: Harvard University and Resources for the Future. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/26; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 21. **PR** no charge; available only on website. **JE** O33, O38, Q55, Q58. **KW** Technological Change. Environmental Policy.
AB Our central purpose in this article is to provide environmental economists with a useful guide to research on technological change and the analytical tools that can be used to explore further the interaction between technology and the environment. In Part One of the article, we provide an overview of analytical frameworks for investigating the economics of technological change, highlighting key issues for the researcher. In Part Two, we turn our attention to theoretical analysis of the effects of environmental policy on technological change, and in Part Three, we focus on issues related to the empirical analysis of technology innovation and diffusion. Finally, we conclude in Part Four with some additional suggestions for research.

Jakus, Paul
PD October 2002. **TI** The Benefits and Costs of Fish Consumption Advisories for Mercury. **AU** Jakus, Paul; McGuinness, Meghan; Krupnick, Alan. **AA** Jakus: Utah State University. McGuinness and Krupnick: Resources for the Future. **SR** Resources for the Future Discussion Paper: 02/55; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. **PG** 116. **PR** domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. **JE** I18, Q22, Q25, Q26, Q53. **KW** Fisheries. Mercury. Advisories. Recreation. Health Benefits.
AB Mercury contamination of the Chesapeake Bay is a concern to health authorities in the region. We evaluate the economic and health effects of postulated recreational and commercial fishing advisories for striped bass on the Maryland portion of the bay. Awareness of and response to the advisory is estimated using a meta-analysis of the literature. Three values are estimated: welfare losses to recreational anglers, welfare losses in the commercial striped bass fishery, and health benefits. An estimate of percentage of consumer surplus loss is applied to the value of all fishing days in the bay to estimate recreational welfare loss. Welfare losses to the commercial fishery are estimated based on a model of supply and demand. Health benefits are estimated using estimated exposure and epidemiological relationships, and while potentially large, are highly uncertain. Results also suggest most individuals are below advisory standards ex ante, such that advisories should target high-frequency consumers.

Jamasb, Tooraj
PD March 2003. **TI** Strategic Behaviour Under Regulation Benchmarking. **AU** Jamasb, Tooraj; Nillesen, Paul; Pollitt, Michael. **AA** Jamasb and Pollitt: University of Cambridge. Nillesen: REMU NV, The Netherlands. **SR** University of Cambridge, DAE Working Paper: 0312; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. **PG** 28. **PR** $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. **JE** L51, L94. **KW** Gaming. Strategic Behavior. Regulation. Benchmarking. Electricity.
AB Liberalization of generation and supply activities in the electricity sectors is often followed by regulatory reform of distribution networks. In order to improve the efficiency of distribution utilities, some regulators have adopted incentive regulation schemes that rely on performance benchmarking. Although regulation benchmarking can influence the

"regulation game", the subject has received limited attention. This paper discusses how strategic behavior can result in inefficient behavior by firms. We also present a survey of issues encountered by electricity regulators. We then use the Data Envelopment Analysis (DEA) method with US utility data to examine implications of selected cases of strategic behavior. The results show that gaming can have significant effects on the measured performance and profitability of firms.

Jametti, Mario
PD March 2003. TI Assessing the Efficiency of an Insurance Provider -- A Measurement Error Approach. AU Jametti, Mario; von Ungern-Sternberg, Thomas. AA University of Lausanne. SR Universite de Lausanne, Cahiers de Recherches Economiques: 03/05; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e-cahiers.htm. PG 24. PR no charge. JE C21, D21, L84. KW Insurance. Public and Private. Efficiency. Claims/Premium Ratio. Measurement Error. CALS.
AB The purpose of this paper is to compare the cost efficiency of private and public property insurance providers in Switzerland. The most commonly used measure for this kind of exercise is the Claims/Premium ratio. We argue that this measure may give strongly biased results. We develop a simple model to test whether the elasticity of premiums with respect to claims is less than unity. We address the fact that premium income is relatively stable across time, while claims are not, using estimation techniques that correct for measurement error. We develop tools to cope with heteroskedasticity in such measurement errors and apply the model to a data set on 19 firms in housing insurance markets in Switzerland. We show that the public insurance providers are about 20% more efficient than their private counterparts.

Jensen, Henrik
TI Monetary and Fiscal Policy Interactions in a Micro-Founded Model of a Monetary Union. AU Beetsma, Roel M. W. J.; Jensen, Henrik.

Jensen, J. Bradford
TI The Deaths of Manufacturing Plants. AU Bernard, Andrew B.; Jensen, J. Bradford.

Jermann, Urban
PD July 2002. TI Stock Market Boom and the Productivity Gains of the 1990s. AU Jermann, Urban; Quadrini, Vincenzo. AA Jermann: University of Pennsylvania and NBER. Quadrini: NYU and NBER. SR National Bureau of Economic Research Working Paper: 9034; 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 E23, G14, G32, J23. KW Productivity. Stock Market Boom. Financial Frictions.
AB Together with a sense of entering a New Economy, the US experienced in the second half of the 1990s an economic expansion, a stock market boom, a financing boom for new firms and productivity gains. In this paper, we propose an interpretation of these events within a general equilibrium model with financial frictions and decreasing returns to scale in production. We show that the mere prospect of high future productivity growth can generate sizable gains in current

productivity, as well as the other above mentioned events.

Jin, Hehui
PD January 2002. TI Endogenous Fluctuations and the Role of Monetary Policy. AU Jin, Hehui; Kurz, Mordecai; Motolese, Maurizio. AA Jin and Kurz: Stanford University. Motolese: Catholic University of Milan. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/11; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 40. PR no charge; available only on website. JE E32, E44, E52. KW Rational Beliefs. Rational Expectations. Voltility.
AB This paper studies the dynamic volatility properties of a monetary economy in which agents hold Rational Beliefs (see Kurz (1994), (1997)) rather than Rational Expectations. Except for this feature the examined Rational Belief Equilibrium (in short, RBE) is entirely standard: markets are competitive, prices are flexible and all information is symmetric. The paper demonstrates a) The RBE paradigm offers an integrated theory of real and financial volatility with a high volume of trade. Most volatility in an RBE is induced endogenously through the beliefs of agents. b) Although our RBE assumes fully competitive markets in which prices are fully flexible, the diverse expectations of agents can explain most of the familiar features of monetary equilibria. c) Agents with diverse but inconsistent beliefs may induce socially undesirable excess fluctuations even when the allocation is ex-ante Pareto optimal. Central bank policy should aim to reduce the endogenous component of this volatility.

Jofre-Bonet, Mireia
PD July 2002. TI Drug Treatment as a Crime Fighting Tool. AU Jofre-Bonet, Mireia; Sindelar, Jody L. AA Jofre-Bonet: Yale University. Sindelar: Yale University and NBER. SR National Bureau of Economic Research Working Paper: 9038; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 26. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I12, K14, K40. KW Drugs. Crime.
AB Drugs and crime are known to be correlated, but the direction of causality and the magnitude of the relationship have not been well established. We take a new approach to estimating this relationship and examine a little used, multi-site dataset of 3,500 inner-city drug users entering treatment. We analyze the change in crime and in drug use pre and post treatment, controlling for other covariates. We take first differences to address omitted variable problems. For our sample, we find that treatment reduces drug use which, in turn, decreases crime. Reduced drug use due to treatment is associated with 54% fewer days of crime for profit, ceteris paribus. Our evidence suggests that, reduced drug use is causally related to reduced crime. This finding is robust to different specifications and subsamples. Our findings broadly suggest that drug treatment may be an effective crime-fighting tool. Given the huge and growing expense of the criminal justice system, drug treatment might be cost-effective relative to incarceration.

Johnson, Richard
TI The Birth and Growth of the Social-Insurance State: Explaining Old-Age and Medical Insurance Across Countries.

AU Cutler, David M.; Johnson, Richard.

PD February 2003. TI An Examination of Rating Agencies' Actions Around the Investment- Grade Boundary. AA Federal Reserve Bank of Kansas City. SR Federal Reserve Bank of Kansas City Research Working Paper: RWP03/01; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 22. PR no charge. JE G14, G32. KW Credit Rankings. Default. Egan-Jones Ratings. Prediction. Enron. California Utilities.
AB Data on credit ratings by the agencies with the legal status of Nationally-Recognized Statistical Rating Organizations (NRSROs) show some tendency for one-day downgrades that start from the lowest investment grade, BBB-, to travel more grades than those from neighboring grades. This would be consistent with the lower threshold of the NRSROs' grade BBB-being at a substantial default probability, but also could occur simply because downgrades to junk severely impair some firms' operations. A comparison of data from a non-NRSRO agency and an NRSRO shows that the latter's regrades from BBB- moved in the direction of the non-NRSRO's earlier ratings. This suggests the non- NRSRO agency defines its grade BBB- more narrowly than the NRSRO.

Jones, Michael A.
TI Single-Peakedness and Disconnected Coalitions. AU Brams, Steven J.; Jones, Michael A.; Kilgour, D. Marc.

Jonker, Nicole
PD September 2002. TI Constructing Quality-Adjusted Price Indices: A Comparison of Hedonic and Discrete Choice Models. AA Dutch Central Bank. SR European Central Bank Working Paper: 172; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 34. PR no charge. JE C25, C43, D11, D21, E31. KW Consumer Price Index. Inflation. Consumer Behavior. Firm Behavior. Discrete Choice Models.
AB The Boskin report (1996) concluded that the US consumer price index (CPI) overestimated inflation by 1.1 percentage points. This was due to several measurement errors in the CPI. One of them is called quality change bias. We compare two methods in this paper which can be used to correct for quality change bias, namely the hedonic method and a method based on the use of discrete choice models. We compare the underlying micro-economic models of the two methods as well as their empirical implementation. Although the discrete choice model has not been used often to calculate quality-adjusted price indices, past research shows that it might be beneficial to do so.

Jorgenson, Dale W.
PD July 2002. TI Projecting Productivity Growth: Lessons from the U.S. Growth Resurgence. AU Jorgenson, Dale W.; Ho, Mun S.; Stiroh, Kevin J. AA Jorgenson: Harvard University. Ho: Resources for the Future. Stiroh: Federal Reserve Bank of New York. SR Resources for the Future Discussion Paper: 02/42; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 19. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to

Resources for the Future. JE O40, O47. KW Productivity. Information Technology.
AB This paper analyzes the sources of U.S. labor productivity growth in the post-1995 period and presents projections for both output and labor productivity growth for the next decade. Despite the recent downward revisions to U.S. GDP and software investment, we show that information technology (IT) played a substantial role in the U.S. productivity revival. We then outline a methodology for projecting trend output and productivity growth. Our base-case projection puts the rate of trend productivity growth at 2.21% per year over the next decade with a range of 1.33-2.92%, reflecting fundamental uncertainties about the rate of technological progress in IT-production and investment patterns. Our central projection is only slightly below the average growth rate of 2.36% during the 1995-2000 period.

Jovanovic, Boyan
PD June 2002. TI Bidder Discounts and Target Premia in Takeovers. AU Jovanovic, Boyan; Braguinsky, Serguey. AA Jovanovic: University of Chicago and NBER. Braguinsky: University of Chicago. SR National Bureau of Economic Research Working Paper: 9009; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 19. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G12, G34. KW Takeovers. Valuation. Target. Acquirer.
AB When a takeover is announced, the sum of the stock-market values of the firms involved often falls, and the value of the acquirer almost always does. Does this mean that takeovers do not raise the values of the firms involved? Not necessarily. We set up a model in which the equilibrium number of takeovers is constrained efficient. Yet, upon news of a takeover, a target's price rises, the bidder's price falls, and, most of the time the joint value of the target and acquirer also falls.

Kahl, Matthias
PD June 2002. TI Paper Millionaires: How Valuable is Stock to a Stockholder Who is Restricted From Selling It? AU Kahl, Matthias; Liu, Jun; Longstaff, Francis A. AA Kahl and Liu: UCLA. Longstaff: UCLA and NBER. SR National Bureau of Economic Research Working Paper: 8969; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 19. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G11, G32. KW Illiquidity. Restrictions on Stock. Stockholder.
AB Many firms have stockholders who face severe restrictions on their ability to sell their shares and diversify the risk of their personal wealth. We study the costs of these liquidity restrictions on stockholders using a continuous-time portfolio choice framework. These restrictions have major effects on the optimal investment and consumption strategies because of the need to hedge the illiquid stock position and smooth consumption in anticipation of the eventual lapse of the restrictions. These results yield a number of important insights about the effects of illiquidity in financial markets.

Kahn, Lawrence M.
TI Labor Market Institutions and Demographic Employment Patterns. AU Bertola, Guiseppe; Blau, Francine D.; Kahn, Lawrence M.

TI The Role of the Family in Immigrants' Labor-Market

Activity: Evidence from the United States. AU Blau, Francine D.; Kahn, Lawrence M.; Moriarty, Joan Y.; Souza, Andre Portela.

Kamionka, Thierry
TI Bayesian Inference for the Mover-Stayer Model in Continuous Time With an Application to Labour Market Transition Data. AU Fougere, Denis; Kamionka, Thierry.

Kamuanga, Mulumba
TI Using Conjoint Analysis to Estimate Farmer's Preferences for Cattle Traits in West Africa. AU Faminow, Merle D.; Kamuanga, Mulumba; Swallow, Brent; Tano, Kouadio.

Kanbur, Ravi
TI Class, Community, Inequality. AU Dasgupta, Indraneel; Kanbur, Ravi.

TI How Workers Get Poor Because Capitalists Get Rich: A General Equilibrium Model of Labor Supply, Community, and the Class Distribution of Income. AU Dasgupta, Indraneel; Kanbur, Ravi.

PD August 2002. TI Education, Empowerment and Gender Inequalities. AA Cornell University. SR University of Nottingham, CREDIT Research Paper: 02/14; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 16. PR no charge. JE D63, I21, I32, J16. KW Education. Gender. Inequality. Poverty. Growth.
AB This paper considers a seeming disconnect between the consensus in policy circles that reducing gender inequalities is to be prioritized in strategies for reducing inequality and poverty, and a view in mainstream economics (and in some policy circles) that gender inequalities are overemphasized. This latter view is not stated openly, it being politically incorrect to do so, but is nevertheless present. In specific terms, there is a sense that gender inequalities are not large relative to other types of inequalities, that the evidence on the consequences of gender inequality for economic growth is weak, and that in any event inequality of power is not something that should receive policy priority over conventional economic interventions. This paper takes these positions seriously, and argues that on some readings the narrowly economic evidence does indeed support them, but that to some extent this is an issue with the economic evidence and with its interpretation. A reexamination of the evidence and the arguments suggests a number of directions for research and analysis in exploring the economics of gender inequalities.

Kang, Qiang
TI On the Relationship Between the Conditional Mean and Volatility of Stock Returns: A Latent VAR Approach. AU Brandt, Michael W.; Kang, Qiang.

Kapetanios, George
PD February 2003. TI Non-Nested Models and the Likelihood Ratio Statistic: A Comparison of Simulation and Bootstrap-Based Tests. AU Kapetanios, George; Weeks, Melvyn. AA Kapetanios: Queen Mary, University of London. Weeks: University of Cambridge. SR University of Cambridge, DAE Working Paper: 0308; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. PG 32. PR $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. JE C15, C52. KW Non-Nested Tests. Simulation-Based Inference. Bootstrap Tests. Nonlinear Threshold Models.
AB We consider an alternative use of simulation in the context of using the Likelihood-Ratio statistic to test non-nested models. To date simulation has been used to estimate the Kullback-Leibler measure of closeness between two densities, which in turn "mean adjusts" the Likelihood-Ratio statistic. Given that this adjustment is still based upon asymptotic arguments, an alternative procedure is to utilize bootstrap procedures to construct the empirical density. To our knowledge this study represents the first comparison of the properties of bootstrap and simulation-based tests applied to non-nested tests. More specifically, the design of experiments allows us to comment on the relative performance of these two testing frameworks across models with varying degrees of nonlinearity. In this respect although the primary focus of the paper is upon the relative evaluation of simulation and bootstrap-based nonnested procedures in testing across a class of nonlinear threshold models, the inclusion of a similar analysis of the more standard linear/log-linear models provides a point of comparison.

Karolyi, G. Andrew
PD June 2002. TI Are Financial Assets Priced Locally or Globally? AU Karolyi, G. Andrew; Stulz, Rene M. AA Karolyi: Ohio State University. Stulz: Ohio State University and NBER. SR National Bureau of Economic Research Working Paper: 8994; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 55. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G12, G15. KW CAPM. Risk Premium. Home Bias.
AB We review the international finance literature to assess the extent to which international factors affect financial asset demands and prices. International asset pricing models with mean-variance investors predict that an asset's risk premium depends on its covariance with the world market portfolio and, possibly, with exchange rate changes. The existing empirical evidence shows that a country's risk premium depends on its covariance with the world market portfolio and that there is some evidence that exchange rate risk affects expected returns. However, the theoretical asset pricing literature relying on mean-variance optimizing investors fails in explaining the portfolio holdings of investors, equity flows, and the time-varying properties of correlations across countries. The home bias has the effect of increasing local influences on asset prices, while equity flows and cross-country correlations increase global influences on asset prices.

Karp, Larry
PD August 2001. TI Bayesian Learning and the Regulation of Greenhouse Gas Emissions. AU Karp, Larry; Zhang, Jiangfeng. AA University of California, Berkeley. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 926; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website:

are.berkeley.edu/library/CUDARE/workpap.html. **PG** 41. **PR** $10.25 domestic; $20.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** C11, C61, D80, H21, Q28. **KW** Bayesian Learning. Climate Change. Uncertainty. Asymmetric Information. Choice of Instruments.
AB We study the importance of anticipated learning -- about both environmental damages and abatement costs -- in determining the level and the method of controlling greenhouse gas emissions. We also compare active learning, passive learning, and parameter uncertainty without learning. Current beliefs about damages and abatement costs have an important effect on the optimal level of emissions. However, the optimal level of emissions is not sensitive either to the possibility of learning about damages, or to the type of learning (active or passive). Taxes dominate quotas, but by a small margin.

TI Environmental Indices for the Chinese Grain Sector.
AU Chen, Ming; Karp, Larry.

PD October 2001. **TI** Controlling a Stock Pollutant with Endogenous Investment and Asymmetric Information. **AU** Karp, Larry; Zhang, Jiangfeng. **AA** University of California, Berkeley. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 928; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. **PG** 36. **PR** $9 domestic; $18 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** C61, D80, H21, Q28. **KW** Pollution Control. Investment. Uncertainty. Rational Expectations. Choice of Instruments.
AB Non-strategic firms with rational expectations make investment and emissions decisions. The investment rule depends on firms' beliefs about future emissions policies. We compare emissions taxes and quotas when the (strategic) regulator and (nonstrategic) firms have asymmetric information about abatement costs, and all agents use Markov Perfect decision rules. Emissions taxes create a secondary distortion at the investment stage, unless a particular condition holds; emissions quotas do not create a secondary distortion. We solve a linear-quadratic model calibrated to represent the problem of controlling greenhouse gasses. The endogeneity of investment favors taxes, and it increases abatement.

TI Fishery Management Under Multiple Uncertainty.
AU Costello, Christopher; Fisher, Anthony C.; Hanemann, W. Michael; Karp, Larry; Sethi, Gautam.

PD September 2002. **TI** Global Warming and Hyperbolic Discounting. **AA** University of California, Berkeley. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 934; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. **PG** 23. **PR** $5.75 domestic; $11.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** D83, L50, Q50. **KW** Stock Pollutant. Hyperbolic Discounting. Global Warming. Time Consistency.
AB The use of a constant discount rate to study long-lived environmental problems such as global warming has two

disadvantages: the prescribed policy is very sensitive to the discount rate, and with moderate discount rates, large future damages have almost no effect on current decisions. Time-consistent hyperbolic discounting alleviates both of these modeling problems, in addition to being a plausible description of how people think about the future. We provide an almost-closed form solution to a linear-quadratic model and illustrate the role of hyperbolic discounting.

Kathuria, Vinish
PD May 2002. **TI** Monitoring and Enforcement: Is Two-Tier Regulation Robust? **AU** Kathuria, Vinish; Sterner, Thomas. **AA** Kathuria: University of Gothenburg. Sterner: University of Gothenburg and Resources for the Future. **SR** Resources for the Future Discussion Paper: 02/17; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. **PG** 19. **PR** domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. **JE** K42, P28, Q25. **KW** Industrial Estate. Two-Tier Monitoring. Common Property Resource. Industry Association.
AB The regulation of industrial pollution is clearly difficult in a rapidly industrializing, low-income setting. In addition to the general lack of resources for monitoring and enforcement, authorities must deal with the asymmetric nature of the information and multiple non-point sources of pollution. In this study we look at efforts to regulate chemical plants in Ankleshwar, in the Indian state of Gujarat. The plants are located in an industrial estate, which provides interesting preconditions for a form of two-tier regulation, in which an industry association becomes an intermediary between the government and individual firms. The Indian agency responsible for environmental protection cannot effectively control the many small individual plants within such estates. We study four preconditions for the success of such management: suitable design principles, effective monitoring, objective implementation of rules, and enforcement. We show that these conditions are satisfied at least to some extent in Ankleshwar and that the fines decrease pollution.

Kearney, Melissa Schettini
PD August 2002. **TI** Is There an Effect of Incremental Welfare Benefits on Fertility Behavior? **AA** Wellesley College and NBER. **SR** National Bureau of Economic Research Working Paper: 9093; 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** H53, I38, J13. **KW** Family Caps. Fertility.
AB A number of states have recently instituted family cap policies, under which women who conceive a child while receiving cash assistance are not entitled to additional cash benefits upon the birth of the child. This paper takes advantage of the variation across states in the timing of the policy's implementation to determine if family cap policies are discouraging women from having additional births. Vital statistics birth data for the years 1989 to 1998 offer no evidence that family cap policies lead to a reduction in births to women ages 15 to 34. The data reject a decline in births of more than one percent. The finding is robust to multiple specification checks. The data also reject large declines in higher-order births among demographic groups with relatively high welfare

participation rates. Curiously, the data suggest increases in higher-order births to unmarried black and white high-school dropouts and to unmarried black teens approximately one year after the implementation of a family cap. The data reject a decline in births of more than four percent for unmarried white high- school graduates and unmarried white teens.

Kearns, Jonathan
PD July 2002. TI Identifying the Efficacy of Central Bank Interventions: The Australian Case. AU Kearns, Jonathan; Rigobon, Roberto. AA Kearns: MIT. Rigobon: MIT and NBER. SR National Bureau of Economic Research Working Paper: 9062; 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 E58, F31, F41. KW Central Bank Intervention. Exchange Rates. Australia. Leaning Against the Wind.
AB The endogeneity of exchange rates and intervention has long plagued studies of the effectiveness of central banks actions in foreign exchange markets. Failing to account for the endogeneity, when central banks lean against the wind and trade strategically, will likely result in a large downward bias to the coefficient on contemporaneous intervention -- explaining the negative coefficient frequently obtained. We use an alternative identification assumption, a change in Reserve Bank of Australia intervention policy, that allows us to estimate, using simulated GMM, a model that includes the contemporaneous impact of intervention. There are three main results. Our point estimates suggest that central bank intervention has an economically significant contemporaneous effect. A $US100m purchase of the domestic currency appreciates the currency by 1.35 to 1.81 per cent. Secondly, the vast majority of the effect of an intervention on the exchange rate is found to occur during the day in which it is conducted, with only a smaller impact on subsequent days. Finally, we confirm findings that Australian central bank intervention policy can be characterized by leaning against the wind.

Kedir, Abbi M.
PD May 2001. TI Some Issues in Using Unit Values as Prices in the Estimation of Own- Price Elasticities: Evidence from Urban Ethiopia. AA University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 01/11; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 16. PR no charge. JE D40, H20. KW Ethiopia. Own-Price Elasticities. Indices. Unit Values. Food Subsidies.
AB Accurate price and quantity data are fundamental in order to estimate price elasticities, construct cost of living indices, standard of living measures and poverty indices. In the absence of prices, unit values are often used as substitutes. This is a common practice in LDCs, where the shortage of price data is acute. Based on the Ethiopian urban household survey of 1994 and using Deaton's (1988) cluster-based methodology, we illustrate the bias caused by the presence of measurement error and quality effects in unit values on the estimated own-price elasticities for 13 food commodities. Results are also found to be sensitive to the methodology adopted and the size of clusters. Therefore, we need to be cautious when interpreting price elasticities generated using unit values. In addition, the estimated elasticities can inform subsidy and tax reforms in

Ethiopia because such estimates are the basis to examine who benefits and who loses from price changes and especially from food subsidies which are often implemented to protect the poor.

TI When Does Food Stop Being a Luxury? Evidence from Quadratic Engel Curves With Measurement Error. AU Girma, Sourafel; Kedir, Abbi M.

Kehoe, Patrick J.
PD July 2002. TI Competitive Equilibria With Limited Enforcement. AU Kehoe, Patrick J.; Perri, Fabrizio. AA Kehoe: Federal Reserve Bank of Minneapolis and NBER. Perri: New York University, Princeton University, and NBER. SR National Bureau of Economic Research Working Paper: 9077; 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 F34, H87. KW Contract Enforceability. Taxes. Capital Investment. International Debt.
AB This study demonstrates how constrained efficient allocations can arise endogenously as equilibria in an economy with a limited ability to enforce contracts and with private agents behaving competitively, taking a set of taxes as given. The taxes in this economy limit risk- sharing and arise in an equilibrium of a dynamic game between governments of sovereign nations. The equilibrium allocations depend on governments choosing to tax both the repayment of international debt and the income from capital investment in their countries.

Keiding, Hans
PD October 2002. TI Environmental Effects of Consumption: An Approach Using DEA and Cost Sharing. AA University of Copenhagen. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/90; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 16. PR no charge; available only on website. JE C71, Q51, Q58. KW Consumption Activities. Environmental Effects. Cost Sharing. Data Envelopment Analysis.
AB In the paper we propose an evaluation of the environmental effects of consumption activities. The approach consists of two steps, namely (1) assignment of environmental effects to consumption activities, for which we propose to use the methods of (multidimensional) cost sharing, and (2) a comparison of the effects of different consumption activities using Data Envelopment Analysis (DEA), in which relative indices of pollution for the activities can be computed. An application is given using Danish national account data.

Kempf, Hubert
TI Monetary Policy and the Financial Accelerator in a Monetary Union. AU Gilchrist, Simon; Hairault, Jean-Olivier; Kempf, Hubert.

Kennedy, John
PD February 2003. TI Assessing the Efficient Cost of Sustaining Britain's Rail Network: Perspectives Based on Zonal Comparisons. AU Kennedy, John; Smith, Andrew S. J. AA Kennedy: Network Rail. Smith: University of Cambridge. SR University of Cambridge, DAE Working Paper: 0317; Publications Secretary, Department of Applied

Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. PG 38. PR $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. JE L51, L92. KW Corrected. Ordinary Least Squares. Data Envelopment Analysis. Efficiency Analysis. Internal Benchmarking. Railway.

AB The objective of this paper is to inform the debate on how efficiency targets for Network Rail (formerly Railtrack) should be set during the 2002/03 Interim Review and beyond. Given the problems experienced during the 2000 Periodic Review, which focused on external benchmarks, we propose an internal benchmarking approach, drawing on data for seven geographical zones within Railtrack over the period 1995/96 to 2001/02. Our approach mirrors the yardstick competition method used in other UK regulated industries. Three efficiency measurement techniques are applied to this data (DEA; COLS; SFA). Our results suggest that Railtrack (as a whole) delivered substantial improvements in productivity in the early years after privatization, although these savings were largely offset by the post-Hatfield cost increases. However, looking forward, zonal efficiency differences suggest that the company could save significantly in future years by applying its own best practice consistently across the network.

Kerr, Suzi

TI Fishing Quota Markets. AU Newell, Richard G.; Sanchirico, James N.; Kerr, Suzi.

Kessler, Daniel

TI Ownership Form and Trapped Capital in the Hospital Industry. AU Hansmann, Henry; Kessler, Daniel; McClellan, Mark.

Khurshid, Anjum

TI The Role of Semiconductor Inputs in IT Hardware Price Decline: Computers vs. Communications. AU Aizcorbe, Ana; Flamm, Kenneth; Khurshid, Anjum.

Kilgour, D. Marc

TI Single-Peakedness and Disconnected Coalitions. AU Brams, Steven J.; Jones, Michael A.; Kilgour, D. Marc.

Kim, Tae-Hwan

PD February 2001. TI Unit Root Tests Based on Inequality-Restricted Estimators. AU Kim, Tae-Hwan; Newbold, Paul. AA University of Nottingham. SR University of Nottingham, Discussion Paper in Economics: 01/02; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 5. PR no charge. JE C21, C22. KW Parameter Boundary. Prior Information. Unit Root Test.

AB We consider the possibility of estimating a Dickey-Fuller regression, constraining the autoregressive parameter to be at most one, and imposing prior knowledge of the sign of the drift parameter. In spite of apparently encouraging asymptotic results, it emerges that no feasible test of the unit root null hypothesis with superior finite sample properties follows from such inequality-restricted estimation.

PD May 2003. TI Spurious Regressions with Processes Around Linear Trends or Drifts. AU Kim, Tae-Hwan; Lee, Young-Sook; Newbold, Paul. AA University of Nottingham. SR University of Nottingham, Discussion Paper in Economics: 03/07; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 8. PR no charge. JE C22, C32, C52. KW Spurious Regression. Integrated Processes. Linear Trends. Drifts.

AB In this paper we consider the situation in which the deterministic components of the processes generating individual series are linear trends and the individual series are independent I(0) or I(1) processes. We show that when those time series are used in ordinary least squares regression, the phenomenon of spurious regression occurs regardless of whether a time trend is included in the regression.

PD May 2003. TI The Hodrick-Prescott Filter at Time Series Endpoints. AU Kim, Tae-Hwan; Mise, Emi; Newbold, Paul. AA Kim and Newbold: University of Nottingham. Mise: University of Edinburgh. SR University of Nottingham, Discussion Paper in Economics: 03/08; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 14. PR no charge. JE C22, C52. KW Hodrick-Prescott Filter. Series' Endpoints. Finite Sample Properties.

AB The Hodrick-Prescott filter is often applied to economic series as part of the study of business cycles. Its properties have most frequently been explored through the development of essentially asymptotic results which are practically relevant only some distance from series' endpoints. Our concern here is with the most recent observations, as policy-makers will often require an assessment of whether, and by how much, an economic variable is "above trend". We show that if such an issue is important, an easily implemented adjustment to the filter is desirable.

TI Examination of Some More Powerful Modifications of the Dickey-Fuller Test. AU Leybourne, Stephen; Kim, Tae-Hwan; Newbold, Paul.

Kiser, Elizabeth K.

PD August 2002. TI Household Switching Behavior at Depository Institutions: Evidence from Survey Data. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/44; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 30. PR no charge. JE G21, L10. KW Switching Costs. Banking. Mergers.

AB This article presents descriptive findings from new survey data on households' decisions to change or remain with their providers of checking or savings accounts. The data show that the distribution of household tenure is wide, and that about a third of households have never changed depository institutions. The primary reason reported for changing banks is a household relocation; other reasons are customer service and price factors. Customer service and location are the most frequently cited reasons for remaining with a bank. The importance of location and mobility supports previous survey evidence that the local area is the appropriate market for

competitive analysis in banking. The findings presented here are consistent with earlier studies showing that population migration increases competitive pressure on firms and therefore should mitigate the anticompetitive effects of bank mergers.

Klein, Michael W.

PD July 2002. TI Work and Play: International Evidence of Gender Equality in Employment and Sports. AA Tufts University and NBER. SR National Bureau of Economic Research Working Paper: 9081; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 19. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE J16, L83. KW Women. Labour Market. Participation. Athletics.
AB This paper addresses the question of whether societies that afford economic opportunity to women offer other opportunities as well. The analysis in this paper shows that the performance of a country's women in international athletic competition reflects the degree of their relative participation in that country's labor market. There is a significant positive relationship across countries between a high ratio of the labor force participation rate of women to the labor force participation rate of men and the number and type of medals won by a country's women in the 2000 Sydney Summer Olympics. Teams representing countries with high relative labor force participation rates also were both more likely to qualify for the 1999 Women's Soccer World Cup and to do well in that competition. This effect of relative labor force participation rates on athletic success is found while controlling for a nation's income per capita, population, men's performance in related sporting events, rate of participation of women in government, and fertility rate. These results suggest that the participation of women in a country's labor force is an important reflection of their opportunities in other areas as well.

TI Capital Account Liberalization and Economic Performance: Survey and Synthesis. AU Edison, Hali J.; Klein, Michael W.; Ricci, Luca; Sloek, Torsten.

Klenow, Peter J.

TI Some Evidence on the Importance of Sticky Prices. AU Bils, Mark; Klenow, Peter J.

Kline, Patrick

TI Relational Costs and the Production of Social Capital: Evidence from Carpooling. AU Charles, Kerwin Kofi; Kline, Patrick.

Knowler, Duncan

TI The Economics of a "Mixed Blessing" Effect: A Case Study of the Black Sea. AU Barbier, Edward B.; Knowler, Duncan.

Knowles, Stephen

PD March 2001. TI Inequality and Economic Growth: The Empirical Relationship Reconsidered in the Light of Comparable Data. AA University of Otago and University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 01/03; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 27. PR no charge. JE D31, O15, O40. KW Income Inequality.

Growth.
AB All of the recent empirical work on the relationship between income inequality and economic growth has used inequality data that are not consistently measured. This paper argues that this is inappropriate and shows that the significant negative correlation often found between income inequality and growth across countries is not robust when income inequality is measured in a consistent manner. However, evidence is found of a significant negative correlation between consistently measured inequality of expenditure data and economic growth for a sample of developing countries.

TI Social Divergence and Economic Performance. AU Grafton, R. Quentin; Knowles, Stephen; Owen, P. Dorian.

PD September 2002. TI Does Social Capital Affect Foreign Aid Allocations? AA University of Otago and University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 02/17; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 11. PR no charge. JE D64, F35, Z13. KW Social Capital. Foreign Aid. Altruistic Behavior.
AB This paper explores the issue of whether countries with high levels of social capital give more foreign aid than others. It is often argued that in countries with high levels of social capital (as measured, for example, by trust, civic norms and membership of community groups) levels of cooperation and altruistic behavior will be higher. This paper explores whether such altruistic behavior extends to giving foreign aid. Cross-country data are used to assess whether countries with high levels of social capital give more foreign aid, as a proportion of GDP, than countries where social capital is lower.

Knox, Thomas A.

TI Managing Option Fragility. AU Hall, Brian J.; Knox, Thomas A.

Koczy, Laszlo A.

PD April 2002. TI The Core in the Presence of Externalities. AA Katholieke Universiteit Leuven. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/18; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 34. PR no charge; available only on website. JE C71, C73. KW Core. Externalities. Partition Function. Behavioral Assumptions. Equilibrium.
AB We generalize the coalition structure core to partition function games. Our definition relies only on one crucial assumption, namely that there is some internal consistency in the game: residuals of the deviation play a game similar to the initial one, and -- whenever this is possible -- they come to a residual core outcome. Deviating players form their optimistic or pessimistic expectations with this in mind. This leads to a recursive definition of the core. When compared to existing approaches, our core concept has a reduced sensitivity to behavioral assumptions. We look at the core of an economy with a common pool resource defined by Funaki and Yamato (1999) and find that for a number of numerical examples our core concept resolves the puzzle, which arose when more naive approaches were used. We outline possibilities for further extensions.

Kopp, Raymond J.

TI Technology Adoption and Aggregate Energy Efficiency. AU Pizer, William A.; Harrington, Winston; Kopp, Raymond J.; Morgenstern, Richard D.; Shih, Jhih-Shyang.

TI Technology Adoption and Aggregate Energy Efficiency. AU Pizer, William A.; Harrington, Winston; Kopp, Raymond J.; Morgenstern, Richard D.; Shih, Jhih-Shyang.

Kortum, Samuel

TI Are All Patent Examiners Equal? The Impact of Examiner Characteristics on Patent Statistics and Litigation Outcomes. AU Cockburn, Iain M.; Kortum, Samuel; Stern, Scott.

Kotlikoff, Laurence J.

TI Intertemporal State Budgeting. AU Baker, Bruce; Besendorfer, Daniel; Kotlikoff, Laurence J.

TI Does It Pay to Work? AU Gokhale, Jagadeesh; Kotlikoff, Laurence J.; Sluchynsky, Alexi.

Kotov, Vladimir

PD July 2002. TI Reorganization of Environmental Policy in Russia: The Decade of Success and Failures in Implementation and Perspective Quests. AU Kotov, Vladimir; Nikitina, Elena. AA Kotov: Russian Academy of Sciences and "EcoPolicy", Research and Consulting Center. Nikitina: Russian Academy of Sciences and Institute of World Economy and International Relations. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/57; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 22. PR no charge; available only on website. JE Q50, Q58. KW Environmental Policy. Russia.
AB During the nineties, significant reorganization of the Russian domestic and international environmental policy took place. Together with broader opportunities for institutional innovations in the environmental sector, the specifics of changes in economic, social and political systems, and instability of their major parameters during transition imposed constraints on institutional capacity building in environmental protection. Many of the newly introduced instruments of environmental management, most of them copied from the West, were significantly modified and deformed under such impacts: they had produced non-standard outcomes, and their effectiveness appeared to be lower than predicted at the start of reforms at the beginning of 1990s. This article analyses major success and failures in environmental policy implementation in Russia during the last decade, and outlines main features in approaches of the new government to institutional reorganization. Further developments are to demonstrate to what extent it would succeed in fostering economic growth in ways that protect the environment.

PD July 2002. TI Policy in Transition: New Framework for Russia's Climate Policy. AA "EcoPolicy", Research and Consulting Center. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/58; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 46. PR no charge; available only on website. JE Q50, Q54, Q58. KW Climate Policy. Russia. Institutions.

AB In 2000s, Russia entered the second round of radical reforms of its economic and political system. These changes affect the institutions of the macro- and microeconomic policy, of the energy policy, as well as the institutions of the climate policy. Thus, the framework is currently being built in Russia within which the Climate Convention and the Kyoto Protocol are being and will be implemented. Success, or failure, in Russia's interactions with the international community in implementation of the UNFCCC and its Kyoto Protocol would depend, particularly, on whether it would be able to establish renovated climate policy institutions in the nearest future. Main provisions of the Kyoto Protocol open good perspectives for the climate policy of Russia. For these favorable perspectives to become a reality, Russia will have to accomplish quite a lot at the domestic, national level. Here, Russia is facing some serious problems. Among them are recently emerged problems with ratification of Kyoto Protocol.

Kozicki, Sharon

PD November 2001. TI Implications of Real-Time Data for Forecasting and Modeling Expectations. AA Federal Reserve Bank of Kansas City. SR Federal Reserve Bank of Kansas City Research Working Paper: RWP01/12; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 12. PR no charge. JE C52, C53. KW Forecasting. Real-Time Data. Modeling Expectations. Survey Data. Data Vintage.
AB This note extends the analysis in Stark and Croushore (2001) with an emphasis on the importance of data vintage for survey forecasts and modeling expectations. For both of these types of empirical exercises, results suggest that the choice of latest available or real-time data is critical for variables subject to large level revisions, but almost irrelevant for variables subject to only small revisions. Other forecasting practices were examined, with some surprising results.

PD December 2002. TI Term Premia: Endogenous Constraints on Monetary Policy. AU Kozicki, Sharon; Tinsley, P. A. AA Kozicki: Federal Reserve Bank of Kansas City. Tinsley: University of Cambridge. SR Federal Reserve Bank of Kansas City Research Working Paper: RWP02/07; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 19. PR no charge. JE E43, E52, E58. KW Optimal Policy. Term Structure. Monetary Policy. Transmission.
AB Monetary policy evaluation using structural macro models suggests that historical monetary policy responds less aggressively to inflation and the output gap than would an optimal policy rule. However, these results are obtained using models with constant term premia. This paper shows how term premia may depend on the policy rule specification and policy rate uncertainty. A more aggressive policy rule involves an economically important increase in term premia. Consequently, conclusions about the specification of optimal monetary policy rules based on counterfactual simulations of models that exclude term premia effects may not be valid.

PD December 2002. TI Alternative Sources of the Lag Dynamics of Inflation. AU Kozicki, Sharon; Tinsley, P. A. AA Kozicki: Federal Reserve Bank of Kansas City. Tinsley: University of Cambridge. SR Federal Reserve Bank of

Kansas City Research Working Paper: RWP02/12; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. **PG** 32. **PR** no charge. **JE** E31, E52. **KW** Inflation Persistence. Policy Credibility. Phillips Curve. Perceived Inflation Target. Shifting Endpoint. Staggered Contracts. Adjustment Costs.

AB This paper discusses four potential sources of lag dynamics in inflation: non-rational behavior, staggered contracting, frictions in price adjustment, and shifts in the long-run inflation anchor of agent expectations (the perceived inflation target). Expressions for inflation dynamics from structural models which admit these different sources of lag dynamics are contrasted. Empirical results are provided for the U.S. and Canada. The empirical evidence suggests that shifts in the perceived inflation target of monetary policy, less than full policy credibility, and inflation stickiness have all been important features of the historical behavior of inflation.

Kraay, Aart

PD July 2002. **TI** Current Accounts in the Long and Short Run. **AU** Kraay, Aart; Ventura, Jaume. **AA** Kraay: The World Bank. Ventura: MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 9030; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 24. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F32, F41. **KW** Current Accounts. Investment. Savings. Consumption.

AB Faced with income fluctuations, countries smooth their consumption by raising savings when income is high, and vice versa. How much of these savings do countries invest at home and abroad? In other words, what are the effects of fluctuations in savings on domestic investment and the current account? In the long run, we find that countries invest the marginal unit of savings in domestic and foreign assets in the same proportions as in their initial portfolio, so that the latter is remarkably stable. In the short run, we find that countries invest the marginal unit of savings mostly in foreign assets, and only gradually do they rebalance their portfolio back to its original composition. This means that countries not only try to smooth consumption, but also domestic investment. To achieve this, they use foreign assets as a buffer stock.

Kramarz, Francis

TI Interfirm Mobility, Wages, and the Returns to Seniority and Experience in the U.S. **AU** Buchinsky, Moshe; Fougere, Denis; Kramarz, Francis; Tchernis, Rusty.

Krishna, Kala

PD June 2002. **TI** When Does Trade Hurt? Market, Transition and Developing Economies. **AU** Krishna, Kala; Yavas, Cemile. **AA** Krishna: Pennsylvania State University and NBER. Yavas: Pennsylvania State University. **SR** National Bureau of Economic Research Working Paper: 8995; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 19. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F16, O17, P23, P33. **KW** Trade Liberalization. Family Farms. Transition Economies. Losses From Trade.

AB This paper argues that labor market distortions in transition and developing economies help explain differential impacts of trade liberalization. We assume that workers differ in ability. In a market economy their earnings depend on their ability. However, earnings are independent of ability due to a common wage set in manufacturing in a transition economy and because of family farms in a developing economy. Our work suggests that trade liberalization without structural reform can have serious adverse effects in transition and developing economies: there can even be mutual losses from trade.

PD July 2002. **TI** Trade with Labor Market Distortions and Heterogeneous Labor: Why Trade Can Hurt. **AU** Krishna, Kala; Mukhopadhyay, Abhiroop; Yavas, Cemile. **AA** Krishna: Pennsylvania State University and NBER. Mukhopadhyay and Yavas: Pennsylvania State University. **SR** National Bureau of Economic Research Working Paper: 9086; 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** F16, O17, P23, P33. **KW** Trade. Labour Market Distortions. Heterogeneous Labour. Losses from Trade.

AB This paper explains the differential impacts of trade on countries in terms of institutional differences which result in factor market distortions. We modify the Ricardian, Specific Factor, and Hecksher Ohlin models of trade to capture these. Trade has both terms of trade effects and output effects. Both work to raise welfare in an undistorted economy. In a distorted economy, price effects work to improve welfare, while output effects work to reduce it. Large distorted countries are more likely to lose from trade as beneficial price effects are lower. In addition the greater the substitutability between goods, the more likely it is that welfare rises through trade.

Krueger, Alan B.

PD June 2002. **TI** Labor Supply Effects of Social Insurance. **AU** Krueger, Alan B.; Meyer, Bruce D. **AA** Krueger: Princeton University and NBER. Meyer: Northwestern University and NBER. **SR** National Bureau of Economic Research Working Paper: 9014; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 65. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H55, J22, J28, J65. **KW** Unemployment Insurance. Workers' Compensation. Social Insurance Programs. Elasticities.

AB We examine the labor supply effects of social insurance programs. We argue that this topic deserves separate treatment from the rest of the labor supply literature because individuals may be imperfectly informed as to the rules of the programs and because key parameters are likely to differ for those who are eligible for social insurance programs, such as the disabled. For example, most of the estimates of the elasticities of lost work time that incorporate both the incidence and duration of claims are close to 1.0 for unemployment insurance (UI) and between 0.5 and 1.0 for workers' compensation (WC). These elasticities are substantially larger than the labor supply elasticities typically found for men in studies of the effects of wages or taxes on hours of work. The evidence on disability insurance and (especially) social security retirement suggests much smaller and less conclusively established labor supply effects. Part of the explanation for this difference probably lies in the fact that UI and WC lead to short-run variation in wages with mostly a substitution effect. Our review suggests that it would be misleading to apply a universal set of labor supply

elasticities to these diverse problems and populations.

PD July 2002. **TI** Education, Poverty, Political Violence and Terrorism: Is There a Causal Connection? **AU** Krueger, Alan B.; Maleckova, Jitka. **AA** Krueger: Princeton University and NBER. Maleckova: Charles University in Prague. **SR** National Bureau of Economic Research Working Paper: 9074; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 33. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** J22, P16. **KW** Palestinians. Poverty. Low Education. Political Violence. **AB** The paper investigates whether there is a causal link between poverty or low education and participation in politically motivated violence and terrorist activities. After presenting a discussion of theoretical issues, we review evidence on the determinants of hate crimes. This literature finds that the occurrence of hate crimes is largely independent of economic conditions. Next we analyze data on support for attacks against Israeli targets from public opinion polls conducted in the West Bank and Gaza Strip. These polls indicate that support for violent attacks does not decrease among those with higher education and higher living standards. The core contribution of the paper is a statistical analysis of the determinants of participation in Hezbollah militant activities in Lebanon. The evidence we have assembled suggests that having a living standard above the poverty line or a secondary school or higher education is positively associated with participation in Hezbollah. We also find that Israeli Jewish settlers who attacked Palestinians in the West Bank in the early 1980s were overwhelmingly from high-paying occupations. The conclusion speculates on why economic conditions and education are largely unrelated to participation in, and support for, terrorism.

Krupnick, Alan
TI Does the Value of a Statistical Life Vary with Age and Health Status? Evidence from the United States and Canada. **AU** Alberini, Anna; Cropper, Maureen; Krupnick, Alan; Simon, Nathalie B.

TI The Ancillary Carbon Benefits of SO2 Reductions from a Small-Boiler Policy in Taiyuan, PRC. **AU** Morgenstern, Richard D.; Krupnick, Alan; Zhang, Xuehua.

TI The Benefits and Costs of Fish Consumption Advisories for Mercury. **AU** Jakus, Paul; McGuinness, Meghan; Krupnick, Alan.

Kuecuekcifci, Suat
TI Adjustment, Stabilization and the Analysis of the Employment Structure in Turkey: An Input-Output Approach. **AU** Guencavdi, Oener; Kuecuekcifci, Suat; McKay, Andrew.

Kurz, Mordecai
TI Endogenous Fluctuations and the Role of Monetary Policy. **AU** Jin, Hehui; Kurz, Mordecai; Motolese, Maurizio.

Kwast, Myron L.
TI Market Discipline in Banking Reconsidered: The Roles of Deposit Insurance Reform, Funding Manager Decisions and Bond Market Liquidity. **AU** Covitz, Daniel M.; Hancock, Diana; Kwast, Myron L.

LaFrance, Jeffrey T.
TI Income Elasticity and Functional Form. **AU** Beatty, Timothy K. M.; LaFrance, Jeffrey T.

Laird, Sam
TI Can Trade Policy Help Mobilize Financial Resources for Economic Development? **AU** Drabek, Zdenek; Laird, Sam.

TI How Important are Market Access Issues for Developing Countries in the Doha Agenda? **AU** Cernat, Lucian; Laird, Sam; Turrini, Alessandro.

TI Market Access Proposals for Non-Agricultural Products. **AU** de Cordoba, Santiago Fernandez; Laird, Sam; Vanzetti, David.

Lamont, Owen A.
PD July 2002. **TI** Evaluating Value Weighting: Corporate Events and Market Timing. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 9049; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 33. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G11, G14. **KW** Corporate Events. Market Portfolio. New Lists. New Issues.
AB Corporate events, such as new issues and new lists, appear in waves. These waves imply that the market portfolio has a time-varying weight in new lists, and one can decompose the market return into a fixed weight return plus a timing return. Most of the reduction in aggregate market returns caused by holding new lists comes from timing, not from average underperformance. When new lists are a high fraction of the market, subsequent returns for both new and old lists are low. A mean variance optimizing investor holding the market would be better off replacing holdings of new lists with old lists, t-bills, or even currency stuffed in a mattress.

Lamoreaux, Naomi R.
PD June 2002. **TI** Intermediaries in the U.S. Market for Technology, 1870-1920. **AU** Lamoreaux, Naomi R.; Sokoloff, Kenneth L. **AA** UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 9017; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 45. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** N11, O31. **KW** Patents. Specialization. Technological Innovation.
AB We argue that the emergence of a well-developed market for patented technologies over the late nineteenth and early twentieth centuries facilitated the emergence of a group of highly specialized and productive inventors by enabling them to transfer to others responsibility for developing and commercializing their inventions. The most basic of the institutional supports that made this market possible was the patent system which created secure and tradable property rights in invention. However, trade was also facilitated by the emergence of intermediaries who economized on the information costs associated with assessing the value of inventions and helped to match sellers and buyers of patent rights. Patent agents and lawyers were particularly well placed to provide these kinds of services, because they were linked to similar attorneys in other parts of the country and because, in the course of their regular business activities, they accumulated

information about participants on both sides of the market for technology. Our quantitative analysis of assignment contracts demonstrates that patentees whose assignments were handled by these specialists produced more patents over their careers, assigned a greater fraction of their patents, and also were able to find buyers for their inventions much more quickly than other patentees.

PD July 2002. TI Beyond Markets and Hierarchies: Toward a New Synthesis of American Business History. AU Lamoreaux, Naomi R.; Raff, Daniel M. G.; Temin, Peter. AA Lamoreaux: UCLA and NBER. Raff: University ·of Pennsylvania and NBER. Temin: MIT and NBER. SR National Bureau of Economic Research Working Paper: 9029; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 63. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D20, L20, · M00, N00. KW American Business History. Institutions. Informational Asymmetries. Coordination Mechanisms.
AB We sketch a new synthesis of American business history to replace (and subsume) that put forward by Alfred D. Chandler, Jr., most famously in his book The Visible Hand (1977). We see the broader subject as the history of the institutions of coordination in the economy, with the management of information and the addressing of problems of informational asymmetries representing central problems for firm- and relationship design. Our analysis emphasizes the endogenous adoption of coordination mechanisms in the context of evolving but specific operating conditions and opportunities. This naturally gives rise both to change and to heterogeneity in the population of coordination mechanisms to be observed in use at any moment in time. In discussing the changes in the population of mechanisms over time, we seek to avoid the tendency, exemplified by Chandler's work but characteristic of the field, to see history of adoption in teleological rather than evolutionary perspective. We see a richer set of mechanisms in play than is conventional and a more complex historical process at work, in particular a process in which hierarchical institutions have both risen and, more recently, declined in significance.

Landon-Lane, John
PD June 2002. TI How Could Everyone Have Been So Wrong? Forecasting the Great Depression with the Railroads. AU Landon-Lane, John; White, Eugene N. AA Landon-Lane: Rutgers University. White: Rutgers University and NBER. SR National Bureau of Economic Research Working Paper: 9011; 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 E31, E32, N12. KW Great Depression. Railroads. Forecasting. Interest Rates.
AB Contemporary observers viewed the recession that began in the summer of 1929 as nothing extraordinary. Recent analyses have shown that the subsequent large deflation was econometrically forecastable, implying that a driving force in the depression was the high expected real interest rates faced by business. Using a neglected data set of forecasts by railroad shippers, we find that business was surprised by the magnitude of the great depression. We show that an ARIMA or Holt-Winters model of railroad shipments would have produced much smaller forecast errors than those indicated by the surveys. The depth and duration of the depression was beyond

the experience of business, which appears to have believed that recovery would happen quickly as in previous recessions. This failure to anticipate the collapse of the economy suggests roles for both high real rates of interest and a debt deflation in the propagation of the depression.

Lange, Andreas
PD November 2002. TI Heterogeneous International Agreements -- If Per Capita Emission Levels Matter. AA Centre for European Economic Research and University of Heidelberg. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/102; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 20. PR no charge; available only on website. JE C78, D63, H41, Q58. KW Environmental Negotiations. Equity Preference. Coalition Formation.
AB This paper studies the incentives for international cooperation if (some) countries prefer a more equitable distribution of per capita emission levels. The impact of such an equity preference is analyzed first for a bilateral, and then for a multilateral environmental problem. We show that - contrary to the two-country-case - for the latter there is no uniform percentage reduction of emissions that makes all countries better off. Rather, equity oriented countries (for example developing countries) enter a coalition only if they do not have to reduce as much. While equity preferences improve upon the prospects of cooperation if countries are not too different with respect to their per capita levels, if countries differ largely in population size and per capita emissions, generally no coalition will be stable without restrictions on entry into or exit out of a coalition. In such a situation, equity-orientation does not improve upon the prospects for cooperation.

Lanza, Alessandro
TI Rockets and Feathers Revisited: An International Comparison on European Gasoline Markets. AU Galeotti, Marzio; Lanza, Alessandro; Manera, Matteo.

Laroque, Guy
TI A Model of Commodity Prices After Sir Arthur Lewis. AU Deaton, Angus; Laroque, Guy.

Lasselle, Laurence
TI Growing Through Subsidies. AU Aloi, Marta; Lasselle, Laurence.

Lasserre, Guillaume
PD 2003. TI Market Equilibrium with Insider Trading and Bid-Ask Prices. AA Paris 6, Paris 7, and CREST-LFA. SR INSEE Documents de Travail du CREST: 2003/14; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 10. PR no charge. JE G11, G12. KW Equilibrium Theory. Portfolio Optimization. Asymmetric Information. Pricing in Discrete Time.
AB Many articles deal with the problem of asymmetric information on financial markets. Kyle (1985) studied the case of a strategic agent who knows the law of the prices at the end of a period. He shows the existence of an equilibrium consisting of an optimal strategy for the agent and an efficient pricing rule. Glosten and Milgrom (1985) pointed out the rule

played by the asymmetric information in the formation of the bid ask spread. The object of the paper is to present an equilibrium in a one period model when the insider is strategic and where we study the effect of asymmetric information on the bid ask spread.

Laukkanen, Marita
PD June 2002. TI Regulatory Objectives in the North Pacific Halibut Fishery: How Far is the Regulator from the Economists' Ideal? AA University of California, Berkeley. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 933; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html. PG 22. PR $5.50 domestic; $11 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE L51, Q22. KW Fisheries Management. Regulation. Regulatory Objectives. Empirical Likelihood Estimation. Estimation of Dynamic Models.
AB This study examines how regulations imposed by a fishery management authority comply with the economists' ideal of discounted rent maximization. The discount rate implicit in historical regulatory decisions is estimated as an index of regulatory behavior. The econometric estimation uses maximum empirical likelihood and time series observations on quota targets, biomass levels, and prices. The empirical likelihood method provides an operational way to use information in stochastic Euler equations characterizing dynamic resource management problems, and effectively solves the problem of choosing instrumental variables used in the estimation. The results indicate that a fishery manager discounting future at a rate of 15% would set target harvest at about the historical levels, implying that historical harvest levels have been close to the socially optimal policy.

Lawson, David
PD December 2002. TI Chronic Poverty in Developing and Transition Countries: Concepts and Evidence. AU Lawson, David; McKay, Andrew. AA University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 02/27; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 39. PR no charge. JE I30. KW Chronic Poverty. Developing Countries. Transition Countries. Transient Poverty.
AB This paper discusses the concepts and measures of chronic poverty and the available evidence in relation to chronic and transient poverty. Most evidence is based on panel data and monetary concepts of poverty, and this paper argues that it will be important in future work to consider a wider range of sources and dimensions. Currently available survey evidence suggests that poverty is much more transient than chronic. But chronic poverty is a real and important phenomenon, potentially more important quantitatively than it first appears once account is taken of different methodological approaches and inevitable measurement difficulties. The chronic poor have distinctive characteristics, such as lack of assets or high dependency rates, which may account for their persistent poverty. By contrast the transient poor are those that have difficulty in insuring themselves against the consequences

of shocks such as adverse price changes. Given the apparent distinction between the characteristics associated with transient and chronic poverty it is vital to consider the impact of development policy separately, as the impact on these two types of poverty may differ.

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

Lee, Young-Sook
TI Spurious Regressions with Processes Around Linear Trends or Drifts. AU Kim, Tae-Hwan; Lee, Young-Sook; Newbold, Paul.

Leeper, Eric M.
PD July 2002. TI Empirical Analysis of Policy Interventions. AU Leeper, Eric M.; Zha, Tao. AA Leeper: Indiana University and NBER. Zha: Federal Reserve Bank of Atlanta. SR National Bureau of Economic Research Working Paper: 9063; 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 C53, E47, E52. KW Linear Projections. Monetary Policy. Interventions.
AB We construct linear projections of macro variables conditional on hypothetical paths of monetary policy, using as an example an identified VAR model. Hypothetical policies are restricted to ones where both the policy intervention and its impacts are consistent with history -- otherwise the linear projections are likely to be unreliable. We use the approach to interpret Federal Reserve decisions, modeling their frequent reassessment in light of new information about the tradeoffs policymakers face. The interventions we consider matter: they can shift projected paths and probability distributions of macro variables in economically meaningful ways.

TI The Price Level, the Quantity Theory of Money, and the Fiscal Theory of the Price Level. AU Gordon, David B.; Leeper, Eric M.

Lensink, Robert
PD April 2001. TI Foreign Direct Investment: Flows, Volatility and Growth in Developing Countries. AU Lensink, Robert; Morrissey, Oliver. AA Lensink: University of Groningen and University of Nottingham. Morrissey: University of Nottingham and ODI. SR University of Nottingham, CREDIT Research Paper: 01/06; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 24. PR no charge. JE F21, O40. KW Foreign Direct Investment. Growth. Developing Countries.
AB This paper contributes to the literature on FDI and economic growth. We deviate from previous studies by introducing measures of the volatility of FDI inflows. As introduced into the model, these are predicted to have a negative effect on growth. We estimate the standard model using cross-section, panel data and instrumental variable techniques. Whilst all results are not entirely robust, there is a consistent finding that FDI has a positive effect on growth whereas volatility of FDI has a negative impact. The evidence

for a positive effect of FDI is not sensitive to which other explanatory variables are included. In particular, it is not conditional on the level of human capital (as found in some previous studies). There is a suggestion that it is not the volatility of FDI per se that retards growth but that such volatility captures the growth-retarding effects of unobserved variables.

PD September 2002. **TI** The Volatility of Capital Inflows: Measures and Trends for Developing Countries. **AU** Lensink, Robert; Morrissey, Oliver; Osei, Robert. **AA** Lensink: University of Groningen and University of Nottingham. Morrissey and Osei: University of Nottingham. **SR** University of Nottingham, CREDIT Research Paper: 02/20; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 22. **PR** no charge. **JE** F21, F34, F35. **KW** Capital Inflows. Developing Countries. Foreign Aid. FDI. Debt.
AB This paper reports on trends and levels of capital inflows, and the volatility of such inflows, to a sample of 60 developing countries over the period from 1970 to 1997. The data cover aid and other development finance as the principal forms of official flows, FDI and other private flows, and debt (stock and flows). For each type of inflow to each country, three alternative measures of instability are calculated. To summarize the results, the countries are grouped into low income, lower middle and upper middle income. The measures of instability for each type of flow in each group and the evolution over time are discussed. The paper provides evidence that instability has increased in the 1990s (relative to the 1980s, but not to the 1970s), that official flows are less volatile than private flows, and the instability in FDI is lower than in other private flows. The paper also shows that the poorest countries have become increasingly reliant on aid and debt finance, attracting almost no private capital and little FDI. Only the richer developing countries attract significant volumes of FDI and private capital (but both are quite volatile).

PD January 2003. **TI** Risk Behavior and Group Formation in Microcredit Groups in Eritrea. **AU** Lensink, Robert; Mehrteab, Habteab T. **AA** Lensink: University of Groningen and University of Nottingham. Mehrteab: University of Groningen and University of Asmara. **SR** University of Nottingham, CREDIT Research Paper: 03/02; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 25. **PR** no charge. **JE** D81. **KW** Risk. Eritrea. Loans. Matching. Microcredit Groups.
AB We conducted a survey in 2001 among members and group leaders of borrowers who accessed loans from two microcredit programs in Eritrea. Using the results from this survey, this paper aims to provide new insights on the empirical relevance of the homogeneous matching hypothesis for microcredit groups in Eritrea. Since the methodology to test for homogeneous matching needs estimating risk behavior, the paper also provides new evidence on risk behavior of members of microcredit groups in Eritrea. Our main results strongly indicate that groups are formed heterogeneously. Most importantly, we do not find support for the matching frictions hypothesis, in the sense that even if we control for matching frictions, credit groups in Eritrea do not seem to consist of borrowers of the similar risk type.

Leon, Jose R.
TI Asymptotics for the Lp-Deviation of the Variance Estimator of a Diffusion. **AU** Doukhan, Paul; Leon, Jose R.

Lerner, Josh
PD June 2002. **TI** Patent Protection and Innovation Over 150 Years. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8977; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** O31, O34. **KW** Patent Protection. Great Britain. Cross-Country. Innovation.
AB The paper seeks to understand the impact of the patent system on innovation by examining shifts in the strength of patent protection across sixty countries and a 150-year period. An examination of 177 policy changes reveals that strengthening patent protection appears to have few positive effects on patent applications by entities in the country undertaking the policy change, whether filings in Great Britain or the nation making the policy change are considered. Cross-sectional analyses suggest that the impact of patent protection-enhancing shifts were greater in nations with weaker initial protection and greater economic development, consistent with economic theory. I address concerns about the endogeneity of these changes by employing an instrumental variable approach.

Lescourret, Laurence
PD 2002. **TI** Privileging and Dealer Inventory. **AU** Lescourret, Laurence; Robert, Christian Y. **AA** Lescourret: Universite de Cergy-Pontoise, CREST-INSEE, and Doctorat HEC. Robert: SCOR and CREST-INSEE. **SR** INSEE Documents de Travail du CREST: 2002/54; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. **PG** 38. **PR** no charge. **JE** D43, L11, L13. **KW** Dealership Market. Privileging. Inventory.
AB This paper examines how privileging practice affects the quote-setting behavior of dealers who differ in their inventory. In dealership markets, retail trades are generally placed with brokers, who often direct them to a specific dealer regardless of his quotes. In return for this privileged and captive order flow, the dealer agrees in advance to match the inside spread. Depending on the market structure (centralized vs. fragmented market), this paper shows how privileging alters dealers' incentives to narrow market spreads. In a centralized market, privileging impedes price-competition between dealers. Typically, privileging leads to wider market spreads and generates higher profits for dealers. In a fragmented market, the impact of privileging is more ambiguous since it may cause preferred dealers to earn profits, but also to lose money. Actually, privileging creates risk for the designated dealer in terms of inventory imbalance and price impact. However this market practice generally generates rents for dealers and surprisingly also for the unprivileged dealer, who competes less aggressively given his greater chance to post the best price in equilibrium.

Lesur, Romain
PD March 2003. **TI** Hospital Ownership and Medical Decision-Making. **AA** ENSAE, CREST-LEI, and THEMA. **SR** INSEE Documents de Travail du CREST: 2003/18; Mme

Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 23. PR no charge. JE I11, I18, L31. KW Hospitals. Nonprofit. Cross-Subsidies. Altruism. Ownership.
AB This paper develops a model of medical decision-making in three types of regulated hospitals in order to provide results about the optimal ownership of hospitals. We study the behaviors of the manager and of the physician in a private for-profit, a private not-for-profit, and a public hospital. We find that regulated not-for-profit hospitals make the socially optimal medical decision and lead to the highest welfare. Regulated private for-profit and public hospitals do not achieve these objectives: they provide too many intensive treatments. We develop elements to compare these two types of hospitals.

Levin, Andrew T.
TI Optimal Monetary Policy with Durable Goods and Non-Durable Goods. AU Erceg, Christopher J.; Levin, Andrew T.

Levine, Phillip B.
AB This paper considers the impact of changes in abortion and welfare policies along with economic conditions over the 1985 to 1996 period at each stage of the fertility decision tree, including sexual activity, contraception, pregnancy, abortion, and birth. Examining the impact of policy at each stage of the decision tree represents a useful approach because consistent findings provide stronger evidence of a causal link than focusing on just one stage. The abortion policies considered are parental involvement laws and mandatory waiting periods; welfare policies include benefit generosity as well as state-level welfare waivers as a whole and the "family cap." State-level data over this period are used to examine abortion, birth, and pregnancy outcomes, while microdata from the 1988 and 1995 National Surveys of Family Growth are employed to examine sexual activity and contraception. For those policies that target certain subgroups of the population, estimates are provided separately for each group and compared to help further identify causality. This paper finds that parental involvement laws increase contraception use among minors, leading to fewer pregnancies and, therefore, fewer abortions; teen births do not rise in response. Evidence regarding welfare policies does not consistently support any impact throughout the decision tree.

Levine, Ross
TI Industry Growth and Capital Allocation: Does Having a Market- or Bank-Based System Matter? AU Beck, Thorsten; Levine, Ross.

TI Stock Markets, Banks, and Growth: Panel Evidence. AU Beck, Thorsten; Levine, Ross.

TI Law, Endowment, and Finance. AU Beck, Thorsten; Demirguc-Kunt, Asli; Levine, Ross.

Levitt, Steven D.
TI Understanding the Black-White Test Score Gap in the First Two Years of School. AU Fryer, Roland G., Jr.; Levitt, Steven D.

Lewin-Solomons, Shira
AB In a standard hold-up problem, individuals are vulnerable to hold-up because it is impossible to write complete contracts to cover the lifespan of relationship-specific investments. Hold-up occurs only when investments are to some degree nongeneric, and the extent of the problem increases with the time-span over which an investment must pay off, since long-term contracts are more difficult to write than short-term contracts. This result appears inconsistent with the real life experience of contract suppliers in two respects. First, suppliers often consider themselves "vulnerable" to hold-up even when investments are generic. Second, such a sense of vulnerability is often greatest precisely when assets are short-lived rather than long-lived. This paper provides a model that solves this apparent paradox by looking beyond the isolated problem of bilateral monopoly to the market context in which contracting takes place. We then find that the very meaning of asset specificity comes into question.

Leybourne, Stephen
AB Although the t-ratio variant of the Dickey-Fuller test is the most commonly applied unit root test in practical applications, it has been known for some time that readily implementable, more powerful modifications are available. We explore the large sample properties of five of these modified tests, and the small sample properties of these five plus six hybrids. As a result of this study we recommend two particular test procedures.

Liang, Nellie

Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 55. **PR** no charge. **JE** G11, J30, J32. **KW** 401(k) Plans. Company Stock. Behavioral Finance. Portfolio Choice.
AB Using panel data for nearly 1,000 companies during 1991 to 2000, this paper finds that employees allocated nearly 20 percent of their total 401(k) contributions to purchases of company stock, and then relates this share to plan design features and firm financial characteristics. We find that the number of investment alternatives offered, n, and whether the company requires some of the match to be in company stock are key factors of the share of total contributions in company stock. We cannot reject the hypothesis that participants invest 1/n of their contributions in company stock. In addition, participants do not offset an employer match in company stock with a smaller share of their own contributions to company stock, contrary to efficient diversification. Workers also appear to view other plan restrictions as providing cues about the desirability of purchasing company stock. Thus, plan design is very important in determining the share of 401(k) assets in company stock.

Lichtenberg, Frank
PD June 2002. **TI** Benefits and Costs of Newer Drugs: An Update. **AA** Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 8996; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 9. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H51, I11, I18, L65, O33. **KW** Medicare. Drug Expenditure. FDA Approval. Age of Drugs.
AB We update and extend our previous study of the effect of drug age -- years since FDA approval -- on total medical expenditure, in several respects. The estimates indicate that, in the entire population, a reduction in the age of drugs utilized reduces non-drug expenditure 7.2 times as much as it increases drug expenditure. In the Medicare population, a reduction in the age of drugs utilized reduces non-drug expenditure by all payers 8.3 times as much as it increases drug expenditure; it reduces Medicare non-drug expenditure 6.0 times as much as it increases drug expenditure. About two-thirds of the non-drug Medicare cost reduction is due to reduced hospital costs. The remaining third is approximately evenly divided between reduced Medicare home health care cost and reduced Medicare office-visit cost. We also found that the mean age of drugs used by Medicare enrollees with private Rx insurance is about 9% lower than the mean age of drugs used by Medicare enrollees without either private or public Rx insurance.

Lisboa Mota, Raffaella
PD January 2003. **TI** The Restructuring and Privatisation of Electricity Distribution and Supply Businesses in Brazil: A Social Cost-Benefit Analysis. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0309; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. **PG** 47. **PR** $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. **JE** H43, L94. **KW** Privatization. Electricity. Brazil.

AB In the period 1995-2000 approximately 60% of the Brazilian electricity distribution market was privatized. This has been part of a comprehensive reform of the electricity supply industry which has included restructuring and regulatory change, as well as some liberalization of generation and supply. This paper aims to assess the social welfare impact of the process for the distribution and supply markets. We use a social cost-benefit methodology to achieve this objective. We find that net benefits are significant, but producers absorb most net gains. We also conclude that had regulation been tougher since the beginning, consumers could have benefited more from privatization.

Lise, Banu Bayramoglu
PD November 2002. **TI** Climate Change, Environmental NGOs, and Public Awareness in the Netherlands: Perceptions and Reality. **AU** Lise, Banu Bayramoglu; Lise, Wietze. **AA** Vrije Universiteit Amsterdam. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/95; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 19. **PR** no charge; available only on website. **JE** Q54, Q59. **KW** Environmental NGOs. Netherlands. Public Awareness. Climate Change.
AB The climate change issue has been widely studied. To add to this literature, this paper focuses on the role of environmental non- governmental organizations in the Netherlands in raising public awareness. The findings of this research indicate that, with respect to the climate change issue, environmental NGOs in the Netherlands may not always be active and systematic, as it is generally perceived, in raising public awareness and putting pressure on the Dutch government to implement the targeted measures at the national level.

Lise, Wietze
PD October 2002. **TI** A Game Model of People's Participation in Forest Management in Northern India. **AA** Vrije Universiteit Amsterdam. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/91; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 17. **PR** no charge; available only on website. **JE** C72, Q23. **KW** Game Estimation. Repeated Games. People's Participation. Forest Management. Rural India.
AB People have a marginal role in managing forests located in the vicinity of their villages in Northern India. This situation is scrutinized in this paper by studying strategic play of forest users. Thereto, a 1 versus n-1 game of people's participation in forest management is estimated for three institutionally and historically distinct cases at the state and village level. Critical discount factors are derived to verify whether incentives exist for villagers to participate in managing commonly used forests. This paper finds such incentives in varying degrees for games at the state level and for games in 28 of the considered 32 villages.

TI Climate Change, Environmental NGOs, and Public Awareness in the Netherlands: Perceptions and Reality. **AU** Lise, Banu Bayramoglu; Lise, Wietze.

Lisenda, Lisenda
TI Monetary Policy after Financial Liberalization: A Central Bank Reaction Function for Botswana. **AU** Bleaney,

Lochner, Lance
TI Social Networks and the Aggregation on Individual Decisions. AU Heavner, D. Lee; Lochner, Lance.

TI Learning-By-Doing Vs. On-the-Job Training: Using Variation Induced by the EITC to Distinguish Between Models of Skill Formation. AU Heckman, James J.; Lochner, Lance; Cossa, Ricardo.

Loeschel, Andreas
PD January 2002. TI Technological Change in Economic Models of Environmental Policy: A Survey. AA ZEW and University of Mannheim. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/04; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 31. PR no charge; available only on website. JE O33, Q50, Q54. KW Climate Policy. Technological Change.
AB This paper provides an overview of the treatment of technological change in economic models of environmental policy. Numerous economic modeling studies have confirmed the sensitivity of mid- and long-run climate change mitigation cost and benefit projections to assumptions about technology costs. In general, technical progress is considered to be a non-economic, exogenous variable in global climate change modeling. However, there is overwhelming evidence that technological change is not an exogenous variable but to an important degree endogenous, induced by needs and pressures. Hence, some environment- economy models treat technological change as endogenous, responding to socio-economic variables. Three main elements in models of technological innovation are: (i) corporate investment in research and development, (ii) spillovers from R&D, and (iii) technology learning, especially learning-by-doing. The incorporation of induced technological change in different types of environmental-economic models tends to reduce the costs of environmental policy, accelerates abatement and may lead to positive spillover and negative leakage.

PD April 2002. TI The Economic and Environmental Implications of the US Repudiation of the Kyoto Protocol and the Subsequent Deals in Bonn and Marrakech. AU Loeschel, Andreas; Zhang, ZhongXiang. AA Loeschel: Mannheim University. Zhang: Chinese Academy of Social Sciences and Peking University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/23; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 27. PR no charge; available only on website. JE D43, D78, Q54. KW Climate Policy. Emission Trading. Market Power. Marginal Abatement Costs. Kyoto Protocol.
AB As the biggest single buyer on the permit market, the absence of US ratification of Kyoto significantly reduces the demand for permits. Consequently, the price of permits under Annex 1 trading would drop to zero. While all remaining Kyoto-constrained Annex 1 countries would enjoy meeting their revised Kyoto targets at zero costs, seller countries with excess supply of hot air would lose all their revenues under perfect Annex 1 trading. Since the former Soviet Union (FSU) and the Eastern European countries (EEC) are the dominant suppliers of emissions permits on the international market, it seems likely that they will exert market power. Depending on how market power is exerted, our results show that the overall

compliance costs of all remaining Annex 1 regions in the case of FSU cooperating with EEC could reach as much as two times that in the case of FSU acting as a monopoly.

Longo, Alberto
TI Can People Value the Aesthetic and Use Services of Urban Sites? Evidence from a Survey of Belfast Residents. AU Alberini, Anna; Longo, Alberto; Riganti, Patrizia.

Longstaff, Francis A.
TI Paper Millionaires: How Valuable is Stock to a Stockholder Who is Restricted From Selling It? AU Kahl, Matthias; Liu, Jun; Longstaff, Francis A.

TI The Market Price of Credit Risk: An Empirical Analysis of Interest Rate Swap Spreads. AU Liu, Jun; Longstaff, Francis A.; Mandell, Ravit E.

Lopez-Salido, J. David
TI Inflation Persistence and Optimal Monetary Policy in the Euro Area. AU Benigno, Pierpaola; Lopez-Salido, J. David.

Louis, Garrick
PD September 2002. TI A Flexible Inventory Model for MSW Recycling. AU Louis, Garrick; Shih, Jhih-Shyang. AA Louis: University of Virginia. Shih: Resources for the Future. SR Resources for the Future Discussion Paper: 02/48; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 27. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE Q53, Q58. KW Municipal Solid Waste. Recycling. Inventory. Optimization.
AB Most of the States in America have laws mandating the recycling of municipal solid waste (MSW). To comply, municipalities recycle quotas of materials, without regard to fluctuating prices. An inventory system is proposed that allows municipalities to be sensitive to materials prices as they recycle. A dynamic model is developed, using historical secondary material prices as exogenous inputs to minimize the net present value of MSW recycling-system costs. The model provides a cost- effective method for municipalities to achieve their MSW recycling targets -- it also allows one to investigate the effectiveness of various strategies for increasing the recycling rate. These strategies include: reducing the transportation cost for recyclables, supporting the market price of selected secondary materials, and landfill bans on selected materials. This model may also be used to investigate the effect of market price changes on the portfolio of materials held in inventory for recycling.

Loukoianova, Elena
PD September 2002. TI A Real Time Tax Smoothing Based Fiscal Policy Rule. AU Loukoianova, Elena; Vahey, Shaun P.; Wakerly, Elizabeth C. AA Loukoianova and Vahey: University of Cambridge. Wakerly: University of East Anglia. SR University of Cambridge, DAE Working Paper: 0235; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. PG 28. PR $10.00/5 pounds/EUROS 8; make checks payable to

University of Cambridge. **JE** C82, E62. **KW** Fiscal Rules. Tax Smoothing. Fiscal Habits. Real-Time Data.

AB In this paper we consider the real-time implementation of a fiscal policy rule based on tax smoothing (Barro (1979) and Bohn (1998)). We show that the tax smoothing approach, augmented by fiscal habit considerations, provides a surprisingly accurate description of US budget surplus movements. To investigate the robustness of the policy implications of the rule, we construct a real-time US fiscal data set, complementing the data documented by Croushore and Stark (2001). For each variable we record the different vintages, reflecting the remeasurements that occur over time. We demonstrate that the easily constructed rule provides a useful benchmark for policy analysis that is robust to real-time remeasurements.

Lourenco, Nelson

TI An Integrated Approach to Understanding Territorial Dynamics: The Coastal Alentejo (Portugal). **AU** do Rosario Jorge, Maria; Lourenco, Nelson; Machado, Carlos Russo; Rodrigues, Luis.

Lubowski, Ruben N.

PD June 2002. **TI** The Effects of Potential Land Development on Agricultural Land Prices. **AU** Lubowski, Ruben N.; Plantinga, Andrew J.; Stavins, Robert N. **AA** Lubowski: Harvard University. Plantinga: Oregon State University. Stavins: Harvard University and Resources for the Future. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/41; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 21. **PR** no charge; available only on website. **JE** Q15, Q24. **KW** Land Use. Option Value. Agricultural Land Value.

AB We conduct a national-scale study of the determinants of agricultural land values to better understand how current farmland prices are influenced by the potential for future land development. The theoretical basis for the empirical analysis is a spatial city model with stochastic returns to future land development. From the theoretical model, we derive an expression for the current price of agricultural land involving annual returns to agricultural production and the price of recently developed land parcels. We estimate the model of agricultural land values with a cross-section on approximately three thousand counties in the contiguous U.S. The results provide strong support for the model, and provide the first evidence that option values associated with irreversible and uncertain land development are capitalized into current farmland values. Our empirical model allows us to identify the contributions to land values of rents from near-term agricultural use and rents from potential development in the future. For each county in the contiguous U.S., we estimate the share of the current land value attributable to future development rents. These results give a clearer indication of the magnitude of land development pressures and yield insights into policies to preserve farmland and associated environmental benefits.

Luelfesmann, Christoph

PD September 2002. **TI** Benevolent Government, Managerial Incentives, and the Virtues of Privatization. **AA** University of Bonn. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/77; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 22. **PR** no charge; available only on website. **JE** D23, H57, L33, L51. **KW** Privatization. Incomplete Contracts. Innovative Technologies.

AB We show that privatization can be beneficial even if the government is rational and benevolent, and if the firm's economic and informational environment is independent of the governance structure. The model assumes that wage contracts between the firm's owner (government or private entrepreneur) and its manager are incomplete. Managerial incentive schemes are set optimally given this restriction. Nevertheless, the ownership structure feeds back on managerial effort because the initial contract is modified if one party in the relationship has a credible threat to quit or to shut down the firm. In particular, since the benevolent government and the profit-maximizing entrepreneur have different objective functions, the occurrence of renegotiation is regime dependent. Public ownership is optimal if the firm operates under a serious shutdown threat. Conversely, privatization is strictly preferable if the firm's future survival does not crucially depend on the success of managerial effort.

Luoh, Ming-Ching

TI Gender Differences in Completed Schooling. **AU** Charles, Kerwin Kofi; Luoh, Ming-Ching.

Lyle, David

TI Women, War and Wages: The Effect of Female Labor Supply on the Wage Structure at Mid-Century. **AU** Acemoglu, Daron; Autor, David H.; Lyle, David.

Macauley, Molly K.

PD March 2002. **TI** Measuring the Contribution to the Economy of Investments in Renewable Energy: Estimates of Future Consumer Gains. **AU** Macauley, Molly K.; Shih, Jhih-Shyang; Aronow, Emily; Austin, David; Bath, Tom; Darmstadter, Joel. **AA** Resources for the Future. **SR** Resources for the Future Discussion Paper: 02/05; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. **PG** 65. **PR** domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. **JE** O33, Q42. **KW** Energy Economics. Technical Change.

AB In this paper we develop a cost index-based measure of the expected consumer welfare gains from innovation in electricity generation technologies. To illustrate our approach, we estimate how much better off consumers would be from 2000 to 2020 as renewable energy technologies continue to be improved and gradually adopted, compared with a counterfactual scenario that allows for continual improvement of conventional technology. We evaluate five renewable energy technologies used to generate electricity: solar photovoltaics, solar thermal, geothermal, wind, and biomass. For each, we assume an accelerated adoption rate due to technological advances, and we evaluate the benefits against a baseline technology, combined-cycle gas turbine, which experts cite as the conventional technology most likely to be installed as incremental capacity over the next decade. We estimate the model for two geographic regions of the nation for which renewable energy is, or can be expected to be, a somewhat sizable portion of the electricity market -- California and the

north central United States. In present-value terms we find that median consumer welfare gains over 20 years vary markedly among the renewable technologies, ranging from large negative values (welfare losses) to large positive values (welfare gains).

TI   The Organization of Local Solid Waste and Recycling Markets: Public and Private Provision of Services. AU   Walls, Margaret; Macauley, Molly K.; Anderson, Soren T.

Maccini, Louis J.
TI   Inventories, Employment and Hours. AU   Galeotti, Marzio; Maccini, Louis J.; Schiantarelli, Fabio.

PD   January 2003. TI   The Interest Rate, Learning, and Inventory Investment. AU   Maccini, Louis J.; Moore, Bartholomew; Schaller, Huntley. AA   Maccini: Johns Hopkins University. Moore: Fordham University. Schaller: Carlton University and MIT. SR   MIT, Department of Economics Working Paper: 03/04; Linda Woodbury, MIT Department of Economics, E52-251, 50 Memorial Drive, Cambridge, MA 02142. Website: ssrn.com/abstract_id=372844. PG   34. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE   E22, E32. KW   Inventories. Interest Rates. Learning.
AB   We derive parametric tests for the role of the interest rate in specifications based on the firm's optimization problem. These Euler equation and decision rule tests mirror earlier evidence, finding little role for the interest rate. We present a simple and intuitively appealing explanation, based on regime switching in the real interest rate and learning, of why tests based on the stock adjustment model, the Euler equation, and decision rule -- all of which emphasize short- run fluctuations in inventories and the interest rate -- are unlikely to uncover a relationship. Our analysis suggests that inventories will not respond much to short-run fluctuations in the interest rate, but they should respond to long-run movements. Both simple and sophisticated tests confirm our predictions and show a highly significant long-run relationship between inventories and the interest rate. A formal model of our explanation yields a previously untested implication that is supported by the data.

Machado, Carlos Russo
TI   An Integrated Approach to Understanding Territorial Dynamics: The Coastal Alentejo (Portugal). AU   do Rosario Jorge, Maria; Lourenco, Nelson; Machado, Carlos Russo; Rodrigues, Luis.

TI   An Integrated Approach to Understanding Territorial Dynamics: The Coastal Alentejo (Portugal). AU   do Rosario Jorge, Maria; Lourenco, Nelson; Machado, Carlos Russo; Rodrigues, Luis.

Machado, Matilde P.
PD   July 2001. TI   A Consistent Estimator for the Binomial Distribution in the Presence of "Incidental Parameters." AA   Universidad Carlos III de Madrid and Institut d'Analisis Economico (CSIC). SR   Boston University, Industry Studies Program Working Paper Series on Economics: 106; Department of Economics, Boston University, 270 Bay State Road, Boston, MA 02215. Website: www.bu.edu/econ/isp/. PG   42. PR   no charge. JE   C15, C25, O34. KW   Count Data. Fixed Effects. Binomial. Patents.
AB   In this paper we derive a consistent estimator for the Binomial distribution in the presence of incidental parameters, or fixed effects, when the underlying probability is a logistic

function of the data. The consistent estimator is obtained from the maximization of a conditional likelihood function in light of Andersen's work. We also present results of the Monte Carlo runs that show the superiority of this new estimator relative to the traditional maximum likelihood estimator with fixed effects, in small samples, particularly, when the number of observations in each cross-section, T, is small. Finally, we apply this new estimator to an original dataset that allows us to model the probability of obtaining a patent.

MacKay, Peter
PD   July 2002. TI   Is There an Optimal Industry Financial Structure? AU   MacKay, Peter; Phillips, Gordon M. AA   MacKay: Southern Methodist University. Phillips: University of Maryland and NBER. SR   National Bureau of Economic Research Working Paper: 9032; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   30. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   G30. KW   Financial Structure. Industry Fixed Effects. Leverage.
AB   We examine how intra-industry variation in financial structure relates to industry factors and whether real and financial decisions are jointly determined within competitive industries. We find that industry and group factors beyond standard industry fixed effects are also important to firm financial structure. Firm financial leverage, capital intensity, and cash-flow risk are interdependent decisions that depend on the firm's proximity to the median industry capital-labor ratio, the actions of firms within its industry quintile, and its status as entrant, incumbent, or exiting firm. Our results support competitive industry equilibrium models of financial structure in which debt, technology, and risk are simultaneous decisions.

Magnac, Thierry
TI   The Dynamics of Local Employment in France. AU   Combes, Pierre-Philippe; Magnac, Thierry; Robin, Jean-Mare.

Maleckova, Jitka
TI   Education, Poverty, Political Violence and Terrorism: Is There a Causal Connection? AU   Krueger, Alan B.; Maleckova, Jitka.

Malherbet, Franck
PD   2003. TI   Unemployment Insurance and Labor Reallocation. AU   Malherbet, Franck; Ulus, Mustafa. AA   Malherbet: FRDB-Universita Bocconi, CREST-LMI, and EUREQua- Universite Paris 1-Pantheon Sorbonne. Ulus: Uppsala University, EUREQua-Universite Paris 1-Pantheon-Sorbonne, and Galatasaray Universitesi. SR   INSEE Documents de Travail du CREST: 2003/17; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG   39. PR   no charge. JE   H31, J41. KW   Volatile Sectors. Unemployment Insurance. Labour Reallocation.
AB   In this paper, we develop an equilibrium search-and-matching model of a segmented labor market to assess the effects of unemployment insurance and its financing on labor allocation across heterogeneous economic sectors (industries). Heterogeneity stems from different rates of labor turnover and levels of productivity. The model has been applied to Turkey,

which is currently introducing an unemployment insurance system. The results can be extended to a wide range of countries however. Our analysis leads us to argue that with a payroll taxation system, more generous unemployment payments increase the implicit subsidy to volatile sectors, which in turn leads a flow of workers to these sectors. Conversely, a switch from a payroll tax system to an experience-rated system makes it possible to reduce the implicit lay-off subsidy. This in turn stabilizes employment by reducing the size of the volatile sectors. Furthermore, it has been proved that experience rating has a non-trivial effect on total output.

Mandell, Ravit E.

TI   The Market Price of Credit Risk: An Empirical Analysis of Interest Rate Swap Spreads. AU Liu, Jun; Longstaff, Francis A.; Mandell, Ravit E.

Manera, Matteo

TI   Rockets and Feathers Revisited: An International Comparison on European Gasoline Markets. AU Galeotti, Marzio; Lanza, Alessandro; Manera, Matteo.

TI   Forecasting Volatility in European Stock Markets With Non-Linear GARCH Models. AU Forte, Gianfranco; Manera, Matteo.

Mankiw, Gregory

PD   August 2002. TI   What Measure of Inflation Should a Central Bank Target? AU Mankiw, Gregory; Reis, Ricardo. AA Harvard University. SR European Central Bank Working Paper: 170; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 42. PR no charge. JE E52, E58. KW Inflation Targeting. Monetary Policy.
AB   This paper assumes that a central bank commits itself to maintaining an inflation target and then asks what measure of the inflation rate the central bank should use if it wants to maximize economic stability. The paper first formalizes this problem and examines its microeconomic foundations. It then shows how the weight of a sector in the stability price index depends on the sector's characteristics, including size, cyclical sensitivity, sluggishness of price adjustment, and magnitude of sectoral shocks. When a numerical illustration of the problem is calibrated to U.S. data, one tentative conclusion is that the central bank should use a price index that gives substantial weight to the level of nominal wages.

Manna, Michele

PD   October 2002. TI   Using Money Market Rates to Assess the Alternatives of Fixed vs. Variable Rate Tenders: The Lesson From 1989-1998 Data for Germany. AA European Central Bank. SR European Central Bank Working Paper: 186; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 50. PR no charge. JE E44, E58, N24. KW Tender Procedures. Money Market Rates. Key Policy Rate. Daily Data. Monetary Policy.
AB   This paper uses the variability of money market rates to compare the conduct of the central bank's key market operation as a fixed-rate tender (FRT) or a variable-rate tender (VRT). Nowadays, leading central banks generally use FRTs or other approaches (e.g. target rates) which yield step changes in the policy rate, as opposed to the more piecemeal, but also noisier, changes resulting from the VRT rate. Given the central bankers' preference for stable money market conditions, FRTs should thus remain associated with lower market variability. In fact, daily data for the German overnight and three-month rates from 1989 to 1998, when the Bundesbank alternated FRTs and VRTs, indicate that the average variability of money market rates is broadly the same under the two tender procedures. A small model shows that this finding holds true under rather general conditions, and is not only a feature of the experience in Germany.

Manski, Charles F.

PD   June 2002. TI   Private and Social Incentives for Fertility: Israeli Puzzles. AU Manski, Charles F.; Mayshar, Joram. AA Manski: Northwestern University and NBER. Mayshar: Hebrew University of Jerusalem. SR National Bureau of Economic Research Working Paper: 8984; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 41. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H24, J13. KW Fertility. Israel.
AB   Whereas most of the world has experienced decreasing fertility during the past half century, Israel has experienced a puzzling mix of trends. Completed fertility has decreased sharply in some ethnic- religious groups (Mizrahi Jews and non-Bedouin Arabs) and increased moderately in other groups (non-ultra-orthodox Ashkenazi and Israeli- born Jews). In a phenomenon that can only be described as a reverse fertility transition, fertility has increased substantially (from about 3 to 6 children per women) among ultra-orthodox Ashkenazi and Israeli- born Jews. This paper explores how private and social incentives for fertility may have combined to produce the complex pattern of fertility in Israel. Theoretical analysis of the social dynamics of fertility shows that this pattern could have been generated by the joint effects of (a) private preferences for childbearing, (b) preferences for conformity to group fertility norms, and (c) the major child-allowance program introduced by the Israeli government in the 1970s. Econometric analysis of fertility decisions shows that fundamental identification problems make it difficult to infer the actual Israeli fertility process from data on completed fertility. Hence we are able to conjecture meaningfully on what may have happened, but we cannot definitively resolve the Israeli fertility puzzles.

Manzoni, Katiuscia

TI   The Abnormal Returns of UK Privatisations: From Underpricing to Outperformance. AU Florio, Massimo; Manzoni, Katiuscia.

Marchiori, Carmen

TI   Stable Coalitions. AU Carraro, Carlo; Marchiori, Carmen.

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

Marco, Alan C.

PD   December 2001. TI   Complementarities and Spill-Overs in Agricultural Biotechnology Mergers. AU Marco, Alan C.; Rausser, Gordon C. AA Marco: Vassar College.

Rausser: University of California, Berkeley. SR   University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 930; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310. Website: are.berkeley.edu/library/CUDARE/workpap.html.   PG   41. PR $10.25 domestic; $20.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California".   JE   G34, O34, Q32. KW Agricultural Biotechnology Mergers. Firm-Level Patent Data. Duration Models. Logit Models. Spillovers.

AB   Many recent empirical studies have examined the effect of the patent system on R&D, innovation and patenting behavior. However, few micro- level empirical papers have addressed the impact of the patent system on industry structure. In this paper we build on our previous work to investigate the merger activity of agricultural biotechnology firms in light of their patent holdings. Three innovations are introduced: firm-level patent data is investigated as a predictor of merger activity; second, we develop a measure of patent enforceability based on patent litigation data; third, we combine both duration models and logit models in order to investigate both the timing of mergers and the matching of merger partners. The empirical results demonstrate that patent statistics are a useful predictor of merger activity; mergers in agricultural biotechnology appear to be partially motivated by difficulties in enforcing patent rights when firms have overlapping technologies; and some of the merger activity may be explained by attempts to reduce spillovers.

PD   June 2002. TI   Complementarities and Spill-Overs in Mergers: An Empirical Investigation Using Patent Data. AU   Marco, Alan C.; Rausser, Gordon C. AA   Marco: Vassar College. Rausser: University of California, Berkeley. SR   University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 930R; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley CA 94720-3310.   Website: are.berkeley.edu/library/CUDARE/workpap.html.   PG   42. PR $10.50 domestic; $21 international surface rate; not available after publication; make checks payable to "Regents of the University of California".   JE   G34, O34, Q32. KW Agricultural Biotechnology Mergers. Firm-Level Patent Data. Duration Models. Logit Models. Spillovers.

AB   Many recent empirical studies have examined the effect of the patent system on R&D, innovation and patenting behavior. However, few micro- level empirical papers have addressed the impact of the patent system on industry structure. In this paper we build on our previous work to investigate merger activity of firms in light of their patent holdings. We use agricultural biotechnology as an example. Three innovations are introduced: firm-level patent data is investigated as a predictor of merger activity; second, we develop a measure of patent enforceability based on patent litigation data; third, we combine both duration models and logit models in order to investigate both the timing of mergers and the matching of merger partners. The empirical results demonstrate that patent statistics are a useful predictor of merger activity; mergers in agricultural biotechnology appear to be partially motivated by difficulties in enforcing patent rights when firms have overlapping technologies; and some of the merger activity may be explained by attempts to reduce spillovers.

Marechal, Francois

PD   March 2003. TI   Should We Base Procurement Rules on the Competition of Linear Incentive Contracts? AA   University of Lausanne. SR   Universite de Lausanne, Cahiers de Recherches Economiques: 03/07; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland.   Website: www.hec.unil.ch/deep/publications-english/e- cahiers.htm. PG   14. PR   no charge. JE   D44, H57. KW Procurement Bidding. Linear Incentive Contracts. Fixed-Price Contract.

AB   The study of optimal procurement contracts under informational asymmetries generally assumes that the cost disturbance affecting the contractor's cost function is not observed by the principal. We assume here that this variable, which may represent environmental or geology conditions, can be observed in the process of the contract. Thus, the principal is able to make the payment contingent on the realization of this variable. In this context, the aim of this paper is to compare a linear incentive contract with a "modified" fixed-price contract, which allows the payment to the selected contractor to be independent of his bid in the case of a high-cost value of exogenous uncertainty.

Margolis, Michael

PD   June 2002. TI   Unprotected Resources and Voracious World Markets. AU   Margolis, Michael; Shogren, Jason F. AA   Resources for the Future. SR   Resources for the Future Discussion Paper: 02/30; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org.   PG   25. PR   domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future.   JE   F18, K11, O19. KW International Trade. Property Rights. Natural Resources. Environment.   Second   Best.   Institutional   Change. Development.

AB   The Theory of the Second Best implies that any country with less- than-ideal resources can lose from international trade. It has been suggested that the South (poor countries) are better off suppressing trade with the North, especially trade in natural resource products, since the North has better developed rights to protect its natural resources. Here we show that the suppression of such trade may also impede the development of property rights in the South, but that even taking this into account, trade liberalization need not improve Southern welfare. We find that within a cone of world prices which forms a boundary with the South's autarky price vector, welfare losses still occur even when Southern local governments make optimal choices to enclose the hinterlands. Corollary to the losses, the South can gain from tariffs or quotas and, within a proper subset of the cone of loss, can suffer when the prices of its exports rise.

Marina, Maria Erminia

TI   Environmental Pollution Risk and Insurance. AU   Fragnelli, Vito; Marina, Maria Erminia.

Martin, Antoine

PD   May 2002. TI   Endogenous Multiple Currencies. AA   Federal Reserve Bank of Kansas City. SR   Federal Reserve Bank of Kansas City Research Working Paper: RWP02/03; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website:

www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 24. PR no charge. JE F31, F41. KW Multiple Currencies. Currency Substitution.

AB I study a model of multiple currencies in which sellers can choose the currency they will accept. I provide conditions that are necessary and sufficient to avoid indeterminacy of the exchange rate. Under these assumptions, all stable equilibria have the property that all sellers in the same country accept the same currency. Thus stable equilibria are either single currency or national currencies equilibria. I also show that currency substitution occurs as an endogenous response to high growth in the stock of a currency.

PD December 2002. TI Reconciling Bagehot with the Fed's Response to Sept. 11. AA Federal Reserve Bank of Kansas City. SR Federal Reserve Bank of Kansas City Research Working Paper: RWP02/10; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/ rwpmain.htm. PG 25. PR no charge. JE E44, E58, G21. KW Liquidity Provision. Lender of Last Resort. Bagehot. September 11.

AB Bagehot (1873) states that in order to prevent bank panics a central bank should provide liquidity to the market at a "very high rate of interest". This seems to be in sharp contrast with the policy adopted by the Federal Reserve after September 11 when, for a few days, the Federal Funds Rate was nearly zero. This paper shows that Bagehot's recommendation can be reconciled with the Fed's policy if one recognizes that Bagehot has in mind a commodity money regime so that the amount of reserves available is limited. A high price for this liquidity allows banks that need it most to self-select. In contrast, the Fed has a virtually unlimited ability to temporarily expand the money supply.

PD February 2003. TI Optimal Pricing of Intraday Liquidity. AA Federal Reserve Bank of Kansas City. SR Federal Reserve Bank of Kansas City Research Working Paper: RWP02/02; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 27. PR no charge. JE E44, E58. KW Liquidity Provision. Intraday Interest Rate. Moral Hazard. Intraday Liquidity.

AB This paper presents a general equilibrium model where intraday liquidity is needed because the timing of payments is uncertain. A necessary and sufficient condition for an equilibrium to be efficient is that the nominal intraday interest rate be zero, even when the overnight rate is strictly positive. Because a market for liquidity may not achieve efficiency, this creates a role for the central bank. I allow for the possibility of moral hazard and study policies commonly used by central banks to reduce their exposure to risk. I show that collateralized lending achieves the efficient allocation, while, for certain parameters, caps cannot prevent moral hazard.

TI Optimality of the Friedman Rule in Overlapping Generations Model with Spatial Separation. AU Haslag, Joseph H.; Martin, Antoine.

PD July 2003. TI Currency Competition: A Partial Vindication of Hayek. AU Martin, Antoine; Schreft, Stacey L. AA Federal Reserve Bank of Kansas City. SR Federal Reserve Bank of Kansas City Research Working Paper: RWP03/04; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website:

www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 29. PR no charge. JE E42, E51, H11. KW Currency Competition. Hayek. Outside Money. Private Money. Fiat Money.

AB This paper establishes the existence of equilibria for environments in which outside money is issued competitively. Such equilibria are typically believed not to exist because of a classic overissue problem: if money is valued in equilibrium, an issuer produces money until its value is driven to zero. By backward induction, money cannot have value in the first place. However, for any given finite amount of money outstanding, a monetary economy typically has two equilibria. In one, money has value; in the other, money is not valued because no one expects it to be valued. This paper takes this latter equilibrium seriously and shows that trigger strategies eliminate the overissue problem for reasonable beliefs on the part of agents. The paper also compares the allocation achieved by a monopolist to that achieved with competitive issuance in both a search and an overlapping-generations environment. Two general conclusions arise. First, it is ambiguous whether competitive issuers can achieve a more desirable allocation than a monopolist. Second, with competitive issuance, a licensing agency can always improve on pure laissez-faire and achieve the efficient allocation in the long run.

Mason, Robin

PD October 2002. TI The Impact of International Environmental Agreements: The Case of the Montreal Protocol. AU Mason, Robin; Swanson, Timothy M. AA Mason: University of Southampton. Swanson: University College London. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/81; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 20. PR no charge; available only on website. JE O13, Q52, Q53, Q56, Q58. KW IEA. CFC. Montreal Protocol. Kuznets Curve. Environmental Agreements.

AB Recent literature concludes that the terms of IEAs are the codification of the noncooperative equilibrium, and recent empirical work has supported this conclusion in the context of the Montreal Protocol. This paper reaches the opposite conclusion by comparing CFC emissions implicit within the cooperative and noncooperative management paths. The cooperative path is embedded in the terms of the Montreal Protocol. The noncooperative path is implicit in countries' behavior during the period of unilateral management of CFC emissions. This study estimates the relationship between countries' propensities to produce CFCs and income per capita over the period 1976-1988 (prior to the entry into force of the Montreal Protocol). It then extrapolates this path of unilateral management beyond 1988, and compares it to the obligations adopted under the cooperative regime. We find that, in the absence of the Protocol, CFC emissions would have increased by a factor of three over the next fifty years. We also supplement existing environmental Kuznets curve analyses. Using dynamic estimation methods on a panel of around 30 countries over 13 years, the turning point in the relationship between CFC production and income is found to lie around (1986) US$16,000.

Mateut, Simona

TI Trade Credit, Bank Lending and Monetary Policy Transmission. AU Bougheas, Spiros; Mateut, Simona;

Mizen, Paul.

Mattei, Aurelio
TI Politique agricole et bien-etre des consommateurs (Swiss Agricultural Policy and Consumer's Welfare). **AU** Cretegny, Laurent; Mattei, Aurelio.

Mayshar, Joram
TI Private and Social Incentives for Fertility: Israeli Puzzles. **AU** Manski, Charles F.; Mayshar, Joram.

Mbabazi, Jennifer
PD September 2002. **TI** The Fragility of the Evidence on Inequality, Trade Liberalization, Growth and Poverty. **AU** Mbabazi, Jennifer; Milner, Chris; Morrissey, Oliver. **AA** University of Nottingham. **SR** University of Nottingham, CREDIT Research Paper: 02/19; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 29. **PR** no charge. **JE** D63, F10, I30, O40. **KW** Income Inequality. Trade Policy. Growth. Poverty.
AB There has been a recent resurgence of interest in the relationships between income inequality and growth, trade policy and growth, and growth and poverty. We contribute to this literature by exploring the relationships between inequality, trade liberalization, growth and poverty. We find moderately robust evidence for a negative effect of inequality on growth in the long run but no significant effect in the short run. However, the strength of the long run effect is sensitive to the sample and specification, suggesting that inequality is only one measure of policy distortions that retard growth while the relationship between inequality and growth is quite different in some countries. Trade liberalization appears to have a consistent and significant positive association with growth. There is no evidence that inequality, growth or trade liberalization are significant determinants of cross-country variations in poverty. There is consistent evidence that, controlling for most other variables, sub-Saharan African countries experience below average growth performance, have higher inequality and higher poverty. While the empirical relationships are fragile, the analysis confirms that the fundamental determinants of inequality and poverty are country-specific factors not easily captured in cross-country regressions. This cautions against making any broad generalizations about how inequality, growth and poverty are related.

McCarthy, David
TI Annuities for an Ageing World. **AU** Mitchell, Olivia S.; McCarthy, David.

McClellan, Mark
TI Ownership Form and Trapped Capital in the Hospital Industry. **AU** Hansmann, Henry; Kessler, Daniel; McClellan, Mark.

McCracken, Michael W.
TI Evaluating Long-Horizon Forecasts. **AU** Clark, Todd E.; McCracken, Michael W.

TI Forecast-Based Model Selection in the Presence of Structural Breaks. **AU** Clark, Todd E.; McCracken, Michael

W.
TI The Predictive Content of the Output Gap for Inflation: Resolving In-Sample and Out-of-Sample Evidence. **AU** Clark, Todd E.; McCracken, Michael W.

McCulloch, Neil
PD October 2002. **TI** Trade Liberalization and Poverty: The Empirical Evidence. **AU** McCulloch, Neil; McKay, Andrew; Winters, L. Alan. **AA** McCulloch and Winters: University of Sussex. McKay: University of Nottingham. **SR** University of Nottingham, CREDIT Research Paper: 02/22; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 57. **PR** no charge. **JE** F10, I30, J30, O40. **KW** Trade Liberalization. Poverty. Growth. Stability. Labor Market.
AB This paper assesses the current state of evidence on the widely debated issue of the impact of trade policy reform on poverty in developing countries. There is relatively little empirical evidence addressing this question directly, but a lot of related evidence concerning specific aspects. This paper summarizes this based on an analytic framework which addresses four key areas: economic growth and stability; households and markets; wages and employment and government revenue. Within this framework twelve key questions are identified. We argue strongly that there can be no simple generalizable conclusion about the relationship between trade liberalization and poverty, so that the picture is much less negative than is often suggested in popular debate. In the long run and on average, trade liberalization is highly likely to be poverty alleviating, and there is no convincing evidence that it will generally increase overall poverty or vulnerability. But trade reform also involves important adjustments, and there is evidence that the poor may be less well placed in the short run to protect themselves against adverse effects and take advantage of favorable opportunities.

McCullough, Jeffrey
TI Biotech-Pharmaceutical Alliances as a Signal of Asset and Firm Quality. **AU** Nicholson, Sean; Danzon, Patricia M.; McCullough, Jeffrey.

McGillivray, Mark
PD July 2001. **TI** A Review of Evidence on the Fiscal Effects of Aid. **AU** McGillivray, Mark; Morrissey, Oliver. **AA** McGillivray: RMIT University, Melbourne and University of Nottingham. Morrissey: University of Nottingham and ODI. **SR** University of Nottingham, CREDIT Research Paper: 01/13; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 38. **PR** no charge. **JE** E62, F35, O40. **KW** Growth. Foreign Aid. Government Spending.
AB It is clear from the implications of growth theory that the impact of aid depends on how it affects savings, investment and government behavior. In respect of low-income countries, which are the principal aid recipients and the economies for which the issue of the impact of aid on growth is most important, it is government that is most important. This paper presents a review of studies that address the impact of aid on government fiscal behavior. In particular, the focus is on

fungibility and fiscal response studies. We argue that fungibility studies have been granted too much attention; these are narrowly focused on the composition of government spending, and are not sufficiently informative about fiscal behavior. Fiscal response studies are of greater relevance, as they attempt to address the effects of aid on behavior regarding total spending, tax revenue and borrowing. Results show that the effects are complex and varied, but that aid tends to be associated with government spending increases in excess of the value of the aid, and can also have effects on tax effort and borrowing.

PD January 2002. TI International Inequality in Human Development, Real Income and Gender-Related Development. AU McGillivray, Mark; Pillarisetti, J. Ram. AA McGillivray: RMIT University, Melbourne and University of Nottingham. Pillarisetti: Monash University. SR University of Nottingham, CREDIT Research Paper: 02/02; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 13. PR no charge. JE C43, D63, J16. KW Inequality. Human Development. Real Income. Indices.
AB This paper examines inter-country inequalities in human well-being evident from PPP GDP per capita and three composite indicators of development levels proposed and reported by the United Nation's Development Program (UNDP): the Human Development Index (HDI), the Gender-related Development Index (GDI) and the Gender Empowerment Measure (GEM). A number of inequality indices are calculated using data for the period 1992 to 1998. A special interest of the paper is whether the UNDP's composite indicators, the GDI and GEM in particular, tell different stories with respect to inequality than PPP GDP per capita. Results indicate that the answer to this question is a qualified yes, being dependent on how the latter is interpreted and measured. In particular, measuring it in logarithmic terms almost always yields lower inequality levels than each of the composite indicators. Other results indicate that the GEM and GDI exhibit slightly higher inequality than the HDI.

TI Modelling Inter-Temporal Aid Allocation. AU Feeny, Simon; McGillivray, Mark.

PD May 2002. TI Aid, Economic Reform and Public Sector Fiscal Behavior in Developing Countries. AA United Nations University in Helsinki and University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 02/11; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 18. PR no charge. JE F35, H30. KW Foreign Aid. Developing Countries. Economic Reform. Fiscal Behavior.
AB This paper looks at interactions between foreign development aid, economic reform and public sector fiscal behavior. It proposes a model of the public sector fiscal response to aid inflows, which allows for changes in structural relationships due to an exogenously imposed program of economic reform. This model is applied to 1960-97 time series data for the Philippines, which embarked on an IMF- and World Bank-funded liberalization program in 1980. Estimates of structural and reduced form equations paint a very dismal picture of the effectiveness of foreign aid in general and liberalization in particular in the Philippines. Both bilateral and multilateral aid inflows, and the presence of an economic

reform program, are associated with decreases in public fixed capital expenditure, decreases in taxation and other recurrent revenue and decreases in public sector saving. Multilateral aid also appears to be highly fungible.

PD April 2003. TI Aid, Debt Burden and Government Fiscal Behavior in Cote d'Ivoire. AU McGillivray, Mark; Ouattara, Bazoumana. AA McGillivray: World Institute for Development Economics, Helsinki and University of Nottingham. Ouattara: University of Manchester. SR University of Nottingham, CREDIT Research Paper: 03/05; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 13. PR no charge. JE F34, F35, H50. KW Foreign Aid. Debt. Fiscal Behavior.
AB This paper examines the impact of foreign aid on public sector fiscal behavior in Cote d'Ivoire. A special interest is the relationship between aid, debt servicing and debt, given that Cote d'Ivoire is a highly indebted country. The theoretical model employed differs from those of previous studies by highlighting the interaction between debt servicing and the other fiscal variables. This model is estimated using 1975-99 time series data. Key findings are that the bulk of aid is allocated to debt servicing and that aid is associated with increases in the level of public debt.

McGuinness, Meghan
TI The Benefits and Costs of Fish Consumption Advisories for Mercury. AU Jakus, Paul; McGuinness, Meghan; Krupnick, Alan.

McKay, Andrew
TI The Impact on Uganda of Agricultural Trade Liberalization. AU Blake, Adam; McKay, Andrew; Morrissey, Oliver.

TI Trade Liberalization and Poverty: The Empirical Evidence. AU McCulloch, Neil; McKay, Andrew; Winters, L. Alan.

TI Adjustment, Stabilization and the Analysis of the Employment Structure in Turkey: An Input-Output Approach. AU Guencavdi, Oener; Kuecuekcifci, Suat; McKay, Andrew.

TI Chronic Poverty in Developing and Transition Countries: Concepts and Evidence. AU Lawson, David; McKay, Andrew.

McLure, Charles E., Jr.
PD July 2002. TI Does Sales-Only Apportionment of Corporate Income Violate the GATT? AU McLure, Charles E., Jr..; Hellerstein, Walter. AA McLure: Stanford University and NBER. Hellerstein: University of Georgia. SR National Bureau of Economic Research Working Paper: 9060; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 11. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F13, H25, H77. KW Corporate Income Tax. Apportionment. GATT.
AB There has been a pronounced change in the formulas states use to apportion the income of multi-state corporations from one that places equal weight on payroll, profits, and sales to one that places at least half the weight on sales, and eight base apportionment solely on sales. This paper, which is

intended to stimulate further analysis and debate, rather than provide a definitive conclusion, suggests that sales-only apportionment may violate the provisions of the General Agreement on Tariffs and Trade (the GATT) that prohibits export subsidies.

Mehrteab, Habteab T.

TI Risk Behavior and Group Formation in Microcredit Groups in Eritrea. AU Lensink, Robert; Mehrteab, Habteab T.

Metcalf, Gilbert E.

PD June 2002. TI The Distribution of Tax Burdens: An Introduction. AU Metcalf, Gilbert E.; Fullerton, Don. AA Metcalf: Tufts University and NBER. Fullerton: University of Texas and NBER. SR National Bureau of Economic Research Working Paper: 8978; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 22. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H22, H23, H24, H25, H31, H32. KW Tax Incidence. Distribution.
AB This paper summarizes important developments in tax incidence analysis over the past forty years. We mark the date of the beginning of modern tax incidence analysis with the publication of Harberger (1962) and discuss the relation of subsequent work to this seminal paper.

Meyer, Bruce D.

TI Labor Supply Effects of Social Insurance. AU Krueger, Alan B.; Meyer, Bruce D.

Mickiewicz, Tomasz

TI Endogenous Ownership Structure: Factors Affecting the Post- Privatisation Equity in Largest Hungarian Firms. AU Bishop, Kate; Filatotchev, Igor; Mickiewicz, Tomasz.

Miguel, Edward

PD January 2001. TI Ethnic Diversity and School Funding in Kenya. AA UC Berkeley. SR University of California, Berkeley, Center for International and Development Economics Research (CIDER) Working Paper: C01/119; UC Berkeley, IBER #1922, F502 Haas -- WP orders, Berkeley, CA 94720-1922. Website: iber.berkely.edu/wps/ciderwp.htm. PG 31. PR no charge to academics; single copies $3.50 U.S.; $7.50 International; make checks payable to UC Regents. JE H42, I22, I28. KW Local Public Goods. Ethnic Diversity. Social Capital. Education. Kenya.
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 are 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.

Miller, Nathan H.

TI Credit Scoring and the Availability, Price, and Risk of Small Business Credit. AU Berger, Allen N.; Frame, W. Scott; Miller, Nathan H.

Millimet, Daniel L.

TI Chasing the Smokestack: Strategic Policymaking with Multiple Instruments. AU Fredriksson, Per G.; List, John A.; Millimet, Daniel L.

Milner, Chris

TI The Fragility of the Evidence on Inequality, Trade Liberalization, Growth and Poverty. AU Mbabazi, Jennifer; Milner, Chris; Morrissey, Oliver.

PD March 2003. TI Export Response to Trade Liberalization in the Presence of High Trade Costs: Evidence for a Landlocked African Economy. AU Milner, Chris; Zgovu, Evious. AA University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 03/04; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 23. PR no charge. JE F10, F15. KW Exports. Trade Liberalization. Africa.
AB The paper investigates the relative importance of trade policy and "natural" sources of export taxation in Malawi, a landlocked African economy. These sources of export taxation are in turn used to explore how export supply would respond to trade liberalization as opposed to measures which lower other international trade costs. The findings indicate that trade policy barriers are now only a limited source of "true" export taxation and that trade policy reform needs to be complemented with reforms to reduce international trade, including transport, costs.

Miron, Jeffrey A.

PD July 2001. TI Violence, Guns, and Drugs: A Cross-Country Analysis. AA Boston University. SR Boston University, Industry Studies Program Working Paper Series on Economics: 107; Department of Economics, Boston University, 270 Bay State Road, Boston, MA 02215. Website: www.bu.edu/econ/isp/. PG 41. PR no charge. JE K40, K42. KW Violence. Guns. Drugs.
AB Violent crime rates differ dramatically across countries. A widely held view is that these differences reflect differences in gun control and/or gun availability, and certain pieces of evidence appear consistent with this hypothesis. A more detailed examination of this evidence, however, suggests that the role of gun control/availability is not compelling. This more detailed examination, however, does not provide an alternative explanation for cross-country differences in violence. This paper suggests that differences in the enforcement of drug prohibition are an important factor explaining differences in violence rates across countries. To determine the validity of this hypothesis, the paper examines data on homicide rates, drug prohibition enforcement, and gun control policy for a broad range of countries. The results suggest a role for drug prohibition enforcement in explaining cross-country differences in violence, and they provide an alternative explanation for some of the apparent effects of gun control/availability on violence rates.

Mise, Emi

TI   The Hodrick-Prescott Filter at Time Series Endpoints.
AU   Kim, Tae-Hwan; Mise, Emi; Newbold, Paul.

Mishkin, Frederic S.

PD   June 2002. **TI**   U.S. Stock Market Crashes and Their
Aftermath: Implications for Monetary Policy. **AU**   Mishkin,
Frederic S.; White, Eugene N. **AA**   Mishkin: Columbia
University and NBER. White: Rutgers University and NBER.
SR   National Bureau of Economic Research Working Paper:
8992; Working Papers, NBER, 1050 Massachusetts Avenue,
Cambridge, MA 02138-5398. Website: www.nber.org.
PG   38. **PR** $10.00 per copy (plus $10.00 per order for
shipping outside U.S.). **JE**   E44, E58, N22. **KW** Stock
Market Crashes. Financial Instability. Bubles.
AB   This paper examines fifteen historical episodes of stock
market crashes and their aftermath in the United States over the
last one hundred years. Our basic conclusion from studying
these episodes is that financial instability is the key problem
facing monetary policy makers and not stock market crashes,
even if they reflect the possible bursting of a bubble. With a
focus on financial stability rather than the stock market, the
response of central banks to stock market fluctuations is more
likely to be optimal and maintain support for the independence
of the central bank.

Missfeldt, Fanny

PD   July 2002. **TI**   How Can Economies in Transition
Pursue Emissions Trading or Joint Implementation?
AU   Missfeldt, Fanny; Villavicenco, Arturo. **AA**   UNEP
Collaborating Centre on Energy and Environment.
SR   Fondazione Eni Enrico Mattei Note di Lavoro: 2002/59;
Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123
Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/
Wpapers/default.htm. **PG**   12. **PR**   no charge; available
only on website. **JE**   K32, K33, P33, P39. **KW** Climate
Change. Kyoto Protocol. Emissions Trading. Joint
Implementation.
AB   Under the 1997 Kyoto Protocol, economies in transition
are eligible for both emissions trading (Article 17) and joint
implementation (Article 6). Guiding rules for implementing
these mechanisms were decided through the Marrakech
Accords in November 2001. These countries may benefit
substantially from those mechanisms if they are implemented
appropriately. However, with the departure of the USA from
the Kyoto Protocol, the likely revenues from international
emissions trading for the economies in transition are likely to
be limited at least during the first commitment period. A key
criterion on whether countries should undertake emissions
trading is the comparison of projections of emissions until 2012
with the target under the Kyoto Protocol. For joint
implementation, the investment climate and the emission
reductions potential of a specific project are more important.
Countries that are bound by the Kyoto Protocol need to
implement a clear institutional structure, which includes a JI
office or a position solely in charge of JI. Even if a country
decides not to engage in JI, such an office could help guide
possible foreign investors.

Mitchell, Olivia S.

PD   August 2002. **TI**   Annuities for an Ageing World.
AU   Mitchell, Olivia S.; McCarthy, David. **AA**   Mitchell:
University of Pennsylvania and NBER. McCarthy: University

of Pennsylvania. **SR**   National Bureau of Economic Research
Working Paper: 9092; Working Papers, NBER, 1050
Massachusetts Avenue, Cambridge, MA 02138-5398. Website:
www.nber.org. **PG**   24. **PR** $10.00 per copy (plus $10.00
per order for shipping outside U.S.). **JE**   G23, H55, J14.
KW Annuities. Pension Dissipation. Retirement
Consumption.
AB   Substantial research attention has been devoted to the
pension accumulation process, whereby employees and those
advising them work to accumulate funds for retirement. Until
recently, less analysis has been devoted to the pension
dissipation process -- the process by which retirees finance their
consumption during retirement. This gap has recently begun to
be filled by an active group of researchers examining key
aspects of the pension payout market. One of the areas of most
interesting investigation has been in the area of annuities,
which are financial products intended to cover the risk of
retirees outliving their assets. This paper reviews and extends
recent research examining the role of annuities in helping
finance retirement consumption. We also examine key market
and regulatory factors.

Mizen, Paul

TI   Trade Credit, Bank Lending and Monetary Policy
Transmission. **AU**   Bougheas, Spiros; Mateut, Simona;
Mizen, Paul.

Mocan, Naci

TI   Carrots, Sticks and Broken Windows. **AU**   Corman,
Hope; Mocan, Naci.

Molz, Rick

PD   September 2002. **TI**   How Does Trade Sale
Privatization Work? Evidence from the Fixed-Line
Telecommunications Sector in Developing Economies.
AU   Molz, Rick; Welch, Theodora. **AA**   Concordia
University. **SR**   Fondazione Eni Enrico Mattei Note di
Lavoro: 2002/79; Fondazione Eni Enrico Mattei, Corso
Magenta 63, 20123 Milano, Italy. Website:
www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG   45. **PR**   no charge; available only on website.
JE   L33, L96. **KW** Privatization. Telecommunications.
Developing Economies.
AB   This research examines the effects of privatization
transaction strategy on firm performance in developing
economies. Focusing on trade sale privatization, we use an
event-driven data strategy and time- series regression
techniques on data covering fixed-line telecommunications
operators between 1980 and 1998. The results show
performance benefits are realized when privatization trade sales
introduce large-block foreign shareholdings and hybrid forms
of governance, such as joint ventures or consortia. These hybrid
governance structures capture more complex ownership effects
during privatization restructuring, particularly when compared
with the dispersed shareholdings of share issue privatization,
which show no discernable effect on performance. We argue
traditional financial models are too focused on large-scale
market-driven mechanisms at the expense of institution-
building mechanisms, and as such fail to capture important
contributors to performance improvement. We advance a
comparative institutional lens to better understand how "firms
effects" matter for privatization restructuring and performance.

Monfort, Alain
TI Affine Term Structure Models. AU Gourieroux, Christian; Monfort, Alain; Polimenis, Vassilis.

TI Pricing with Splines. AU Gourieroux, Christian; Monfort, Alain.

TI Equidependence in Qualitative and Duration Models with Application to Credit Risk. AU Gourieroux, Christian; Monfort, Alain.

Monfort, Philippe
PD March 2002. TI Fiscal Harmonization and Portfolio Choice. AU Monfort, Philippe; Pommeret, Aude. AA Monfort: Universite Catholique de Louvain. Pommeret: University of Lausanne and Universite Catholique de Louvain. SR Universite de Lausanne, Cahiers de Recherches Economiques: 02/16; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e-cahiers.htm. PG 29. PR no charge. JE E62, F21, F41, H21, O16. KW Fiscal Harmonization. Growth. Uncertainty.
AB In this paper, we consider a two-country model based on Svensson (1989) in order to analyze how fiscal harmonization affects economic growth and welfare through its effects on agents' portfolio decisions in an uncertain world. We derive the conditions under which fiscal harmonization proves to be welfare enhancing and analyse how the set of initial tax rates leading to a welfare improving harmonization is affected by uncertainty and the correlation of asset returns. In particular, the results obtained suggest that the probability that tax harmonization is welfare improving is first increasing and then decreasing in uncertainty while it monotonically decreases with the correlation between the assets returns shocks.

Montgomery, W. David
TI The Social Costs of an MTBE Ban in California (Condensed Version). AU Adams, Gregory D.; Montgomery, W. David; Rausser, Gordon C.; Smith, Anne E.

TI The Social Costs of an MTBE Ban in California (Long Version). AU Adams, Gregory D.; Montgomery, W. David; Rausser, Gordon C.; Smith, Anne E.

Moore, Bartholomew
TI The Interest Rate, Learning, and Inventory Investment. AU Maccini, Louis J.; Moore, Bartholomew; Schaller, Huntley.

Moore, Michael J.
TI Defining Benchmark Status: An Application using Euro-Area Bonds. AU Dunne, Peter G.; Moore, Michael J.; Portes, Richard.

Moretto, Michele
PD January 2002. TI The Use of Common Property Resources: A Dynamic Model. AU Moretto, Michele; Rosato, Paolo. AA Moretto: University of Padua. Rosato: University of Trieste. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/13; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 18. PR no charge; available only on website. JE Q24, Q28. KW Common Property Resources. Option

Value. Uncertainty.
AB The government of common agricultural and forestry land is a topic that is currently enjoying a revival of interest. Many local communities have shown the ability to pursue sustainable use of natural resources thanks to their self-governed authorities. In this context the relationship between public and private interest which is established in use of the resource is a fairly controversial. The paper proposes a dynamic model to analyze the behavior of a user of a common property resource in a "real option" framework, where the value of the right to use the resource is affected by: 1) uncertainty on the future amount of the resource, 2) entry and exit costs, and 3) the number of users.

Morgan, C. Wyn
TI Policy Intervention and Supply Response: The British Potato Marketing Scheme in Retrospect. AU Lloyd, Tim A.; Morgan, C. Wyn; Rayner, Tony A. J.

Morgenstern, Richard D.
PD March 2002. TI The Near-Term Impacts of Carbon Mitigation Policies on Manufacturing Industries. AU Morgenstern, Richard D.; Ho, Mun S.; Shih, Jhih-Shyang; Zhang, Xuehua. AA Resources for the Future. SR Resources for the Future Discussion Paper: 02/06; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 39. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE Q28, Q48. KW Distribution. Carbon Mitigation Costs. Industrial Impacts. Carbon Policies.
AB Who will pay for new policies to reduce carbon dioxide and other greenhouse gas emissions in the United States? This paper considers a slice of the question by examining the near-term impact on domestic manufacturing industries of both upstream (economy-wide) and downstream (electric power industry only) carbon mitigation policies. Detailed Census data on the electricity use of four-digit manufacturing industries is combined with input-output information on interindustry purchases to paint a detailed picture of carbon use, including effects on final demand. This approach, which freezes capital and other inputs at current levels and assumes that all costs are passed forward, yields upper-bound estimates of total costs. The results are best viewed as descriptive of the relative burdens within the manufacturing sector rather than as a measure of absolute costs. Overall, the principal conclusion is that within the manufacturing sector (which by definition excludes coal production and electricity generation), only a small number of industries would bear a disproportionate short-term burden of a carbon tax or similar policy. Not surprisingly, an electricity-only policy affects very different manufacturing industries than an economy-wide carbon tax.

PD September 2002. TI The Ancillary Carbon Benefits of SO2 Reductions from a Small-Boiler Policy in Taiyuan, PRC. AU Morgenstern, Richard D.; Krupnick, Alan; Zhang, Xuehua. AA Resources for the Future. SR Resources for the Future Discussion Paper: 02/54; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 13. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE Q01, Q52, Q53, Q58.

KW Carbon. Air Pollution. Informal Sector. Ancillary Benefits. Abatement Costs. Survey.

AB To reduce carbon emissions worldwide, it makes sense to consider the possibility of developed countries paying for carbon reductions in developing countries. Developing countries may be interested in such activities if the ancillary air pollution benefits are large. This paper reports on an RFF survey of the emissions benefits (and costs) of reducing sulfur dioxide (SO2) emissions from small, coal-burning boilers in Taiyuan, an industrial, northern Chinese city that recently banned uncontrolled coal combustion in certain small boilers in the downtown area. We find significant carbon benefits in percentage terms -- on the order of a 50% to 95% reduction -- associated with this SO2 control policy, with potentially large reductions elsewhere in Taiyuan and China. While the cost for boilers that switched out of coal was almost $3,600 per ton of SO2 reduced, these ancillary carbon reductions are truly "free" from a social cost perspective.

Moriarty, Joan Y.

TI The Role of the Family in Immigrants' Labor-Market Activity: Evidence from the United States. AU Blau, Francine D.; Kahn, Lawrence M.; Moriarty, Joan Y.; Souza, Andre Portela.

TI The Role of the Family in Immigrants' Labor-Market Activity: Evidence from the United States. AU Blau, Francine D.; Kahn, Lawrence M.; Moriarty, Joan Y.; Souza, Andre Portela.

Morrissey, Oliver

TI Aid, Exports and Growth in Ghana. AU Lloyd, Tim A.; Morrissey, Oliver; Osei, Robert.

TI Foreign Direct Investment: Flows, Volatility and Growth in Developing Countries. AU Lensink, Robert; Morrissey, Oliver.

TI The Impact on Uganda of Agricultural Trade Liberalization. AU Blake, Adam; McKay, Andrew; Morrssey, Oliver.

TI A Review of Evidence on the Fiscal Effects of Aid. AU McGillivray, Mark; Morrissey, Oliver.

TI Problems with Pooling in Panel Data Analysis for Developing Countries: The Case of Aid and Trade Relationships. AU Lloyd, Tim A.; Morrissey, Oliver; Osei, Robert.

PD September 2001. TI Pro-Poor Conditionality for Aid and Debt Relief in East Africa. AA University of Nottingham and ODI. SR University of Nottingham, CREDIT Research Paper: 01/15; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 40. PR no charge. JE F35, I30. KW Foreign Aid. Debt Relief. East Africa. Poverty.

AB This paper considers how the conditionality inherent in HIPC debt relief should be constituted to promote pro-poor policies. There are two dimensions to this. First, the extent to which the policies proposed are pro-poor. Second, the potential for releasing resources for pro-poor expenditures. The paper provides an analytical framework to describe the policy environment for poverty reduction, and identifies where donor effort and influence are most likely to be effective. An illustrative application is made in a comparative study of poverty reduction strategy papers in three countries. Uganda is one of the leaders in the PRSP process, is already benefiting from HIPC debt relief and has achieved significant reductions in poverty. Tanzania has recently completed the Poverty Reduction Stratey Paper process and hopes to qualify for debt relief. Kenya has also started on the PRSP process but has been much less successful in devising a poverty reduction strategy. The paper argues that the elements of debt relief conditionality should be tailored to the features of the poverty-reduction policy environment in each country and provides guidelines for the design of conditionality.

TI Foreign Ownership and Wages: Evidence from Five African Countries. AU te Velde, Dirk Willem; Morrissey, Oliver.

TI Aid and Growth in Sub-Saharan Africa: Accounting for Transmission Mechanisms. AU Gomanee, Karuna; Girma, Sourafel; Morrissey, Oliver.

TI Supply Response of Peasant Farmers in Ethiopia: A Farmer-Level Profit Function Analysis. AU Abrar, Suleiman; Morrissey, Oliver; Rayner, Tony A. J.

TI Spatial Inequality for Manufacturing Wages in Five African Countries. AU te Velde, Dirk Willem; Morrissey, Oliver.

TI The Fragility of the Evidence on Inequality, Trade Liberalization, Growth and Poverty. AU Mbabazi, Jennifer; Milner, Chris; Morrissey, Oliver.

TI The Volatility of Capital Inflows: Measures and Trends for Developing Countries. AU Lensink, Robert; Morrissey, Oliver; Osei, Robert.

PD October 2002. TI Private Capital Inflows and Macroeconomic Stability in Sub-Saharan African Countries. AU Morrissey, Oliver; Shibata, Miyuki. AA University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 02/21; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 24. PR no charge. JE F21, F31, F32. KW Capital Inflows. Stability. Africa. Currency Crisis.

AB The 1990s have witnessed an increase in private capital inflows to sub-Saharan African (SSA) countries. Such capital flows are viewed as volatile and hence a threat to macroeconomic stability. A sudden reversal of capital inflows was one factor underlying the East Asian crisis of 1997. This paper begins with a brief review of theories of currency crises in the light of the East Asian financial crisis. From this, a number of "crisis indicators", such as the rate of domestic credit expansion and level of foreign exchange reserves, are identified. The nature of the exchange rate regime is central to managing capital inflows and vulnerability to crisis. The paper then examines trends in exchange rate regimes and crisis indicators for five SSA countries in the 1990s. While there is evidence of increased pressure for real exchange rate appreciation in the 1990s, none of the indicators suggest that managing private flows poses a problem to the economies. One problem that is identified is the prevalence of large trade deficits that could be exacerbated by exchange rate appreciation.

PD October 2002. **TI** British Aid Policy Since 1997: Is DFID the Standard Bearer for Donors? **AA** University of Nottingham. **SR** University of Nottingham, CREDIT Research Paper: 02/23; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. **PG** 23. **PR** no charge. **JE** F35, I30, O19. **KW** Development Policy. Britain. Foreign Aid. Poverty.
AB The seven years since the "New Labor" government of Tony Blair won power in Britain has seen a dramatic change in British aid policy under the stewardship of Clare Short as Secretary of State for International Development. The transformation from the Overseas Development Administration to the Department for International Development was more than a change of name for the aid agency. Its political status increased, with a seat at the cabinet table, its budget has grown significantly and two White Papers have been published to announce directions in development policy. DFID is an aid agency with a purpose and a mission, a genuine attempt to increase the effectiveness of aid in tackling poverty and deprivation in developing countries. Britain has emerged as a donor that practices what it preaches. It is now the leading bilateral donor on aid policy thinking, and this paper argues that it has set an example for other donors to follow.

TI Aid, Pro-Poor Government Spending and Welfare. **AU** Gomanee, Karuna; Morrissey, Oliver; Mosley, Paul; Verschoor, Arjan.

TI Fiscal Illusion and the Demand for Local Government Expenditures in England and Wales. **AU** Gemmell, Norman; Morrissey, Oliver; Pinar, Abuzer.

Mosley, Paul
TI Aid, Pro-Poor Government Spending and Welfare. **AU** Gomanee, Karuna; Morrissey, Oliver; Mosley, Paul; Verschoor, Arjan.

Motolese, Maurizio
TI Endogenous Fluctuations and the Role of Monetary Policy. **AU** Jin, Hehui; Kurz, Mordecai; Motolese, Maurizio.

Mukherjee, Arijit
PD March 2003. **TI** Licensing in a Vertically Separated Industry. **AA** University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 03/01; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 20. **PR** no charge. **JE** D43, D45, L13. **KW** Entry. Licensing. Downstream Industry. Upstream Industry.
AB The literature on technology licensing has ignored the importance of market power of the input supplier. In this paper we examine the incentive for licensing in the downstream industry when the firms in the upstream industry have market power. We show that licensing in the downstream industry is profitable if and only if licensing increases competition in the upstream industry. We also find that a monopolist in the final goods market has the incentive for licensing if licensing changes the market structure of the upstream industry. Thus, our analysis provides a rationale for "second sourcing".

PD March 2003. **TI** Imitation, Patent Protection and Welfare. **AU** Mukherjee, Arijit; Pennings, Enrico.

AA Mukherjee: University of Nottingham. Pennings: IGIER and Bocconi University. **SR** University of Nottingham, Discussion Paper in Economics: 03/02; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/.
PG 32. **PR** no charge. **JE** D45, L12, O33. **KW** Imitation. Innovation. Licensing. Patent Protection. Welfare.
AB Once a new technology has been invented, there is a credible threat of imitation when patents are long and imitation cost is low. When imitation is credible, the innovator has an incentive to postpone technology adoption for a relatively high cost of imitation. The possibility of licensing eliminates or at least reduces the incentive for delayed technology adoption and may increase or decrease social welfare. Further, this paper explains the advantages of two types of licensing contracts, viz. a forward contract on licensing and a simple licensing contract. We show the implications of the availability of the licensing contracts on social welfare and optimal patent protection.

PD April 2003. **TI** Bertrand vs. Cournot Competition in Asymmetric Duopoly: The Role of Licensing. **AA** University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 03/03; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/.
PG 11. **PR** no charge. **JE** D45, L13, O33. **KW** Bertrand. Cournot. Licensing. Welfare.
AB This paper shows the possibility of higher welfare under Cournot competition in an asymmetric cost duopoly when the firms have the option of technology licensing. We find that if there is licensing with up-front fixed-fee, welfare is higher under Cournot competition compared to Bertrand competition when the initial cost difference of these firms is moderate; but, for very small or very large cost initial cost differences, welfare is higher under Bertrand competition. If licensing occurs with per-unit output royalty, welfare is always higher under Bertrand competition.

PD April 2003. **TI** Welfare Effects of Entry: The Impact of Licensing. **AU** Mukherjee, Arijit; Mukherjee, Soma. **AA** Mukherjee: University of Nottingham. Mukherjee: Keele University. **SR** University of Nottingham, Discussion Paper in Economics: 03/05; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 10. **PR** no charge. **JE** D43, D45, L13. **KW** Entry. Licensing. Welfare.
AB This paper shows that the possibility of licensing can significantly alter the effects of entry on social welfare. We find that while licensing with output royalty always raises welfare due to entry, licensing with up-front fixed-fee reduces the possibility of lower welfare compared to a situation without licensing. Hence, our results have important implications for competition policy.

PD April 2003. **TI** Bertrand and Cournot Competitions in a Dynamic Game. **AA** University Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 03/06; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/.

PG 21. PR no charge. JE D43, L13, O32, O33. KW Bertrand. Cournot. Uncertain R&D. Welfare.
AB This paper compares Bertrand and Cournot equilibria in a horizontally differentiated duopoly market with non-tournament R&D competition. We assume that success in R&D is uncertain. We show that whether firms invest more under Cournot competition or Bertrand competition is ambiguous and depends on the probability of success in R&D but does not depend on the degree of product differentiation. While "static" welfare is higher under Bertrand competition, we find that "dynamic" welfare may be higher under Cournot competition for moderate R&D productivities. Further, we show that whether the difference between the expected welfare under Cournot and Bertrand competitions increases with higher product differentiation is ambiguous and depends on the R&D productivity.

Mukherjee, Soma
TI Welfare Effects of Entry: The Impact of Licensing.
AU Mukherjee, Arijit; Mukherjee, Soma.

Mukhopadhyay, Abhiroop
TI Trade with Labor Market Distortions and Heterogeneous Labor. Why Trade Can Hurt. AU Krishna, Kala; Mukhopadhyay, Abhiroop; Yavas, Cemile.

Muller, Christophe
PD March 2001. TI Relative Poverty From the Perspective of Social Classes: Evidence From the Netherlands. AA University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 01/02; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 14. PR no charge. JE D31, I32, O15. KW Poverty. Income Distribution. Personal Income Distribution.
AB Using data from the Netherlands and a distribution model, we show that poverty varies enormously according to the perspective of various social classes. This raises questions about the political implementation of operations against poverty.

PD March 2001. TI Defining Poverty Lines as a Fraction of Central Tendency. AA University of Nottingham. SR University of Nottingham, Discussion Paper in Economics: 01/03; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 15. PR no charge. JE D31, I32, O15. KW Poverty Line. Gini Coefficient. Central Tendency.
AB Using parametric formulae under lognormality for a broad family of poverty measures, we show that when inequality measured by the Gini coefficient is constant, defining the poverty line as a fraction of a central tendency of the living standard distribution restricts the evolution of the poverty measures to be stable. Moreover, when the Gini coefficient only moderately changes, most of the poverty change can be better considered as a change in inequality. We illustrate these questions by using data from the United States, for which we compare the evolution of measured poverty for poverty lines anchored on various central tendencies.

PD November 2002. TI Censored Quantile Regressions of Chronic and Transient Seasonal Poverty in Rwanda. AA University of Nottingham. SR University of Nottingham, CREDIT Research Paper: 02/25; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG 25. PR no charge. JE I32. KW Quantile Regressions. Transient Poverty. Rwanda. Chronic Poverty.
AB It is crucial for social policy in Less Developed Countries to identify separate correlates for transient poverty and chronic poverty at the household level because seasonal poverty substantially contributes to annual poverty. This has been attempted by estimating household equations for those poverty indicators typically by using Tobit and Probit models. However, when errors in household poverty equations are not distributed following a normal law, these models deliver biased estimates of parameters. Using data from Rwanda, we reject the normality assumption for household chronic and transient latent poverty measures and living standard variables. We treat this problem by estimating censored quantile regressions. The estimation results show that different correlates are significant for chronic and transient seasonal poverty. The effects of the main inputs are more important for the chronic component of poverty than for the transient one. Household location and its socio-demographic characteristics play important roles that are consistent with usual explanations of poverty. The results of censored quantile regressions and of inconsistent Tobit regressions are substantially different. However, in the case of chronic poverty the signs of the apparently significant coefficients are generally in agreement, while for transient poverty, different variables have significant effects for the two estimation methods.

PD December 2002. TI The Geometry of the Comparative Statics. AA University of Nottingham. SR University of Nottingham, Discussion Paper in Economics: 02/16; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG 38. PR no charge. JE C61, D11. KW Comparative Statics. Optimizing Behavior. Multi-Constraint Model. Implicit Prices.
AB In this paper we derive the geometry of the comparative statics for models with several nonlinear constraints, varying preferences and general parameters. We first show that the comparative statics can be exhaustively described from the knowledge of a metric and fundamental hyperplanes; and second that the perspective of the stationary manifold of the Lagrange function canonically characterizes the comparative statics. The decision changes can be decomposed by using the rigid motions of the fundamental hyperplanes, a projection onto the tangent subspace to the constraints, and a normalization related to the metric. Changes in latent prices and latent resources associated with the objective and with the constraints describe the rotations and translation of the fundament hyperplanes. This geometric approach makes the comparative statics equations easier to understand, to derive, to estimate and to manipulate.

Munari, Federico
PD September 2002. TI Privatization and R&D Performance: An Empirical Analysis Based on Tobin's q. AU Munari, Federico; Oriani, Raffaele. AA Munari: University of Bologna. Oriani: University of Bologna and

LUISS Guido Carli. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/63; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 21. **PR** no charge; available only on website. **JE** G34, L33, O32. **KW** Privatization. R&D Performance. Market Value. Corporate Restructuring.
AB In this paper, we analyze the impact of privatization on the firms' R&D performance. We expect that, in the early period after privatization, path dependencies still negatively affect the efficiency of R&D operations. We test our hypothesis using a Tobin's q measure and estimating a hedonic model, already adopted by several scholars to assess the impact of innovation related assets on the firm's market value (Griliches, 1981). We estimate the regression model on an original panel data of 40 firms, including 20 firms privatized through public share offering in different countries of Western Europe over the period 1982-1997 that were matched at the country and industry level with 20 publicly held firms. Our results show that stock markets evaluate R&D investments of newly privatized companies less than R&D investments of industry-matched companies.

PD September 2002. **TI** The Effects of Privatization on R&D Investments and Patent Productivity. **AU** Munari, Federico; Sobrero, Maurizio. **AA** University of Bologna. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/64; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 21. **PR** no charge; available only on website. **JE** G34, L33, O32. **KW** Privatization. R&D Investments. Patents. Inventions.
AB Over the last two decades privatization programs in different countries radically reduced the role of the State as a key player in the economic arena. We use agency theory to discuss the theoretical relationship between changes in the firm's principal-agent structure following privatization, and incentives to invest in R&D and to patent. We compare the pre and post privatization R&D effort and patenting behavior of 35 companies that were fully or partially privatized in 9 European countries through public share offering between 1980 and 1997. Results show that, after controlling for inter-industry differences, privatization processes negatively affect different measures of R&D commitment. Moreover, the shift from public to private ownership leads to a significant increase in the quantity of patents granted and in their quality, measured by citations' intensity.

Murshid, Antu Panini
TI Globalization and Changing Patterns in the International Transmission of Shocks in Financial Markets. **AU** Bordo, Michael D.; Murshid, Antu Panini.

Narain, Urvashi
TI Global Warming, Endogenous Risk, and Irreversibility. **AU** Fisher, Anthony C.; Narain, Urvashi.

TI Uncertainty, Learning, and the Irreversibility Effect. **AU** Fisher, Anthony C.; Hanemann, W. Michael; Narain, Urvashi.

Nardari, Federico
TI Daily Cross-Border Equity Flows: Pushed or Pulled? **AU** Griffin, John M.; Nardari, Federico; Stulz, Rene M.

Neuhoff, Karsten
PD March 2003. **TI** Integrating Transmission and Energy Markets Mitigates Market Power. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0310; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. **PG** 51. **PR** $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. **JE** D43, L94. **KW** Market Design. Market Power. Transmission Rights. Networks. Electricity. Le Chatelier.
AB Transmission constraints fragment electricity markets and enhance regional market power of electricity generators. In continental Europe rights to access transmission between countries are auctioned to traders, which arbitrage separate energy spot markets of these countries. In Scandinavia the system operator integrates these markets and simultaneously clears energy spot markets of several countries and decides on optimal energy transmission. In any unconstrained or partially constrained network integration mitigates market power of strategic generators and avoids inefficient production decisions. A testable prediction for both effects is applied to the Dutch-German and Norway-Sweden interconnection and supports the theory. In meshed networks integration also mitigates market power when constraints are permanently binding. Le Chatelier's principle extends to electricity networks in the presence of market power. Demand is more responsive to price changes and aggregate output increases if markets are integrated.

Neumark, David
TI Ethnicity, Language, and Workplace Segregation: Evidence from a New Matched Employer-Employee Data Set. **AU** Hellerstein, Judith K.; Neumark, David.

Nevo, Aviv
TI Sales and Consumer Inventory. **AU** Hendel, Igal; Nevo, Aviv.

Newbold, Paul
TI Unit Root Tests Based on Inequality-Restricted Estimators. **AU** Kim, Tae-Hwan; Newbold, Paul.

TI Spurious Regressions with Processes Around Linear Trends or Drifts. **AU** Kim, Tae-Hwan; Lee, Young-Sook; Newbold, Paul.

TI The Hodrick-Prescott Filter at Time Series Endpoints. **AU** Kim, Tae-Hwan; Mise, Emi; Newbold, Paul.

TI Examination of Some More Powerful Modifications of the Dickey-Fuller Test. **AU** Leybourne, Stephen; Kim, Tae-Hwan; Newbold, Paul.

Newell, Richard G.
TI Environmental Policy and Technological Change. **AU** Jaffe, Adam B.; Newell, Richard G.; Stavins, Robert N.

PD July 2002. **TI** Cost Heterogeneity and the Potential Savings From Market-Based Policies. **AU** Newell, Richard G.; Stavins, Robert N. **AA** Newell: Resources for the Future. Stavins: Harvard University and Resources for the Future. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/55; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123

Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 15. **PR** no charge; available only on website. **JE** Q50. **KW** Environmental Policy. Market-Based Instruments. Cost Heterogeneity. Cost Effectiveness.

AB Policy makers and analysts are often faced with situations where it is unclear whether market-based instruments hold real promise of reducing costs, relative to conventional uniform standards. We develop analytic expressions that can be employed with modest amounts of information to estimate the potential cost savings associated with market-based policies, with an application to the environmental policy realm. These simple formulae can help increase intuition and understanding of the sources of cost savings, and help identify and design instruments that merit more detailed investigation. We illustrate the use of these results with an application to nitrogen oxides control by electric utilities in the United States.

PD August 2002. **TI** Fishing Quota Markets. **AU** Newell, Richard G.; Sanchirico, James N.; Kerr, Suzi. **AA** Newell and Sanchirico: Resources for the Future. Kerr: Motu Economic and Policy Research, New Zealand. **SR** Resources for the Future Discussion Paper: 02/20; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. **PG** 33. **PR** domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. **JE** Q22, Q28. **KW** Tradable Permits. Individual Quota. Transferable Quota. Fisheries.

AB Fisheries worldwide continue to suffer greatly from the negative consequences of open access. In 1986, New Zealand responded by establishing a comprehensive individual transferable quota (ITQ) system for fisheries management, with more than 150 fishing quota markets. We assess the functioning of these markets from 1986 to 1999 in terms of trends in market activity and the fundamentals determining quota prices. We find that there has typically been a sufficiently high level of activity to support a competitive market. We also find evidence of economically rational behavior in these markets through the relationship between quota lease and sale prices and measures of fishing value, quota scarcity, ecological variability, and market interest rates. Controlling for these factors, our results also show a significant increase in quota prices, consistent with increased profitability. Overall, the results suggest these markets are operating reasonably well, implying that ITQs can be effective instruments for efficient fisheries management.

TI Information Programs for Technology Adoption: The Case of Energy- Efficiency Audits. **AU** Anderson, Soren T.; Newell, Richard G.

TI Prospects for Carbon Capture and Storage Technologies. **AU** Anderson, Soren T.; Newell, Richard G.

Nicholson, Sean
PD June 2002. **TI** Biotech-Pharmaceutical Alliances as a Signal of Asset and Firm Quality. **AU** Nicholson, Sean; Danzon, Patricia M.; McCullough, Jeffrey. **AA** Nicholson: University of Pennsylvania and NBER. Danzon and McCullough: University of Pennsylvania. **SR** National Bureau of Economic Research Working Paper: 9007; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 36. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.).

JE I11, L24, L65. **KW** Biotechnology. Pharmaceuticals. Research and Development.

AB Biotechnology companies rely heavily on alliances with pharmaceutical companies to finance their research and development expenditures, and pharmaceutical firms rely heavily on alliances to supplement their internal research and development. Previous studies suggest that asymmetric information may lead to inefficient contracting. We examine the determinants of biotech-pharmaceutical deal prices to determine whether the market for deals between biotech and pharmaceutical companies functions as a well-informed market or whether it is characterized by asymmetric information. We find that inexperienced biotech companies receive substantially discounted payments when signing their first deal. Drugs that are jointly developed are more likely to advance in clinical trials than drugs that are developed by a single company, so the first-deal discount is not consistent with the post-deal performance of these drugs. We also find that biotech companies that sign deals receive substantially higher valuations from venture capitalists and from the public equity market, which implies that the discounts are rational; a biotechnology company that is developing its first product benefits from forming an alliance with a pharmaceutical company because it sends a positive signal to prospective investors.

TI Peer Effects in Medical School. **AU** Arcidiacono, Peter; Nicholson, Sean.

Nikitina, Elena
TI Reorganization of Environmental Policy in Russia: The Decade of Success and Failures in Implementation and Perspective Quests. **AU** Kotov, Vladimir; Nikitina, Elena.

Nillesen, Paul
TI Strategic Behaviour Under Regulation Benchmarking. **AU** Jamasb, Tooraj; Nillesen, Paul; Pollitt, Michael.

Nishiyama, Akira
TI Economic Growth and Income Inequality. **AU** Bleaney, Michael; Nishiyama, Akira.

Nolan, Charles
TI On the Interaction of Monetary and Fiscal Policy. **AU** Chadha, Jagjit S.; Nolan, Charles.

Nyman, Ingmar
TI The Dark Side of Competitive Pressure. **AU** Cummins, Jason G.; Nyman, Ingmar.

O'Donoghue, Ted
PD February 2002. **TI** Addiction and Present-Biased Preferences. **AU** O'Donoghue, Ted; Rabin, Matthew. **AA** O'Donoghue: Cornell University. Rabin: UC Berkeley. **SR** University of California, Berkeley, Department of Economics Working Paper: 02/312; University of California, Berkeley, WP orders, F502 Haas Building #1922, Berkeley, CA 94720-1922. Website: iber.berkeley.edu/wps/econwp.html. **PG** 37. **PR** $3.50 U.S. and Canada; $7.50 International; make checks payable to "Regents of the University of California". **JE** D11, D60, D91, E21. **KW** Addiction. Hyperbolic Discounting. Naivete. Present-Biased Preferences. Self-Control. Sophistication. Time Inconsistency.

AB We investigate the role that self-control problems -- modeled as time-inconsistent, present-biased preferences -- and a person's awareness of those problems might play in leading people to develop and maintain harmful addictions. Present-biased preferences create a tendency to over-consume addictive products, and awareness of future self-control problems can mitigate or exacerbate this over-consumption, depending on the environment. Our central concern is the welfare consequences of this over-consumption. Our analysis suggests that for realistic environments self-control problems are a plausible source of severely harmful addictions only in conjunction with some unawareness of future self-control problems.

PD March 2002. TI Procrastination on Long-Term Projects. AU O'Donoghue, Ted; Rabin, Matthew. AA O'Donoghue: Cornell University. Rabin: UC Berkeley. SR University of California, Berkeley, Department of Economics Working Paper: 02/314; University of California, Berkeley, WP orders, F502 Haas Building #1922, Berkeley, CA 94720-1922. Website: iber.berkeley.edu/wps/econwp.html. PG 27. PR $3.50 U.S. and Canada; $7.50 International; make checks payable to "Regents of the University of California". JE D11, D91. KW Hyperbolic Discounting. Naivete. Partial Naivete. Present-Biased Preferences. Self Control. Sophistication. Time Inconsistency.

AB Previous papers on time-inconsistent procrastination assume projects are completed once begun. We develop a model in which a person chooses whether and when to complete each stage of a long-term project. In addition to procrastination in starting a project, a naive person might undertake costly effort to begin a project but then never complete it. When the costs of completing different stages are more unequal, procrastination is more likely, and it is when later stages are more costly that people start but don't finish projects. Moreover, if the structure of costs over the course of a project is endogenous, people are prone to choose cost structures that lead them to start but not finish projects. We also consider several extensions of the model that further illustrate how people may incur costs on projects they never complete.

Obstfeld, Maurice

PD May 2001. TI Global Implications of Self-Oriented National Monetary Rules. AU Obstfeld, Maurice; Rogoff, Kenneth. AA Obstfeld: UC Berkeley. Rogoff: Harvard University. SR University of California, Berkeley, Center for International and Development Economics Research (CIDER) Working Paper: C01/120; UC Berkeley, IBER #1922, F502 Haas -- WP orders, Berkeley, CA 94720-1922. Website: iber.berkely.edu/wps/ciderwp.htm. PG 25. PR no charge to academics; single copies $3.50 U.S.; $7.50 International; make checks payable to UC Regents. JE E42, E52, F33, F42. KW Policy Coordination. Policy Cooperation. Monetary Policy Rules. Policy Precommitment.

AB It is well known that if international linkages are relatively small, the potential gains to international monetary policy coordination are typically quite limited. But what if goods and financial markets are tightly linked? Is it then problematic if countries unilaterally design their institutions for monetary stabilization? Are the stabilization gains from having separate currencies largely squandered in the absence of effective international monetary coordination? We argue that under plausible assumptions the answer is no. Unless risk aversion is very high, lack of coordination in rule setting is a second-order problem compared to the overall gains from

monetary policy stabilization.

PD July 2001. TI International Macroeconomics: Beyond the Mundell-Fleming Model. AA UC Berkeley. SR University of California, Berkeley, Center for International and Development Economics Research (CIDER) Working Paper: C01/121; UC Berkeley, IBER #1922, F502 Haas -- WP orders, Berkeley, CA 94720-1922. Website: iber.berkeley.edu/wps/ciderwp.htm. PG 35. PR no charge to academics; single copies $3.50 U.S.; $7.50 International; make checks payable to UC Regents. JE F33, F41. KW New Open Economy. Exchange Rates. Pricing to Market.

AB This lecture presents a broad overview of postwar analytical thinking on international macroeconomics, culminating in a more detailed discussion of recent progress. Along the way, it reviews important empirical evidence that has inspired alternative modeling approaches, as well as theoretical and policy considerations behind developments in the field. The most recent advances in model building center on the "new open economy macroeconomics," which synthesizes Keynesian nominal rigidities, intertemporal approaches to open economy dynamics, and the effects of market structure on international trade.

Ohl, Cornelia

PD June 2002. TI Inducing Environmental Co-operation by the Design of Emission Permits. AA University of Hagen. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/42; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 18. PR no charge; available only on website. JE D78, Q58. KW Environmental Co-Operation. Country-Specific. Risk Preferences. Game Theoretic Approach. Design of Emission Permits.

AB Should there be restrictions on the trading of emission permits? With the help of a simple two country model it is shown that the enforcement of environmental treaties critically depends on the type and the intensity of national risk preferences. Assuming that the "global alliance of risk" decreases with each co-operative contribution, risk aversion is a prerequisite for enhancing the chances of global risk management. Moreover, it is the national intensity of risk aversion that determines whether trade should be restricted. In some cases the chances of international coalition formation are expected to improve only if less risk averse countries dictate the design of the permit regime.

Oliner, Stephen D.

PD May 2002. TI Information Technology and Productivity: Where Are We Now and Where Are We Going? AU Oliner, Stephen D.; Sichel, Daniel E. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/29; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 78. PR no charge. JE D24, E20, O33, O40. KW Productivity. Information Technology. Growth Accounting.

AB Productivity growth in the U.S. economy jumped during the second half of the 1990s, a resurgence that many analysts linked to information technology (IT). However, shortly after this consensus emerged, demand for IT products fell sharply, leading to a lively debate about the connection between IT and

productivity and about the sustainability of the faster growth. We contribute to this debate in two ways. First, to assess the robustness of the earlier evidence, we extend the growth-accounting results in Oliner and Sichel (2000a) through 2001. The new results confirm the basic story in our earlier work -- that the acceleration in labor productivity after 1995 was driven largely by the greater use of IT capital goods and by the more rapid efficiency gains in the production of IT goods. Second, to assess whether the pickup in productivity growth is sustainable, we analyze the steady-state properties of a multi-sector growth model. This exercise generates a range for labor productivity growth of 2 percent to 2-3/4 percent per year, which suggests that much -- and possibly all -- of the resurgence is sustainable.

Omran, Mohammed

PD September 2002. TI The Performance of State-Owned Enterprises and Newly Privatized Firms: Empirical Evidence From Egypt. AA Arab Academy for Science and Technology. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/73; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 34. PR no charge; available only on website. JE G32, L33. KW Privatization. State-Owned Enterprises. Performance.
AB Even though it is well documented that privatization leads to an improvement in the performance of state-owned enterprises (SOEs) following divestiture, it is argued that the existing literature suffers from a misspecification measure because it does not consider the performance of control firms of similar pre-privatization situations. In this study, I use accounting-based performance measures to evaluate the performance of newly privatized Egyptian firms versus the performance of SOEs. I document significant improvements in profitability, efficiency, and dividends, and insignificant decreases in leverage, employment, and risk, whereas capital expenditure and output show insignificant decreases following privatization. Matching sample firms (privatized) to control firms (SOEs), I document that privatized firms do not witness any significant improvement in their performance, which raises questions about the benefits of privatization in Egypt.

Onatski, Alexei

PD August 2002. TI Modeling Model Uncertainty. AU Onatski, Alexei; Williams, Noah. AA Onatski: Columbia University. Williams: Princeton University. SR European Central Bank Working Paper: 169; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 50. PR no charge. JE C32, D81, E52. KW Model Uncertainty. Estimation. Monetary Policy.
AB Recently there has been much interest in studying monetary policy under model uncertainty. We develop methods to analyze different sources of uncertainty in one coherent structure useful for policy decisions. We show how to estimate the size of the uncertainty based on time series data, and incorporate this uncertainty in to policy optimization. We propose two different approaches to modeling model uncertainty. The first is model error modeling, which imposes additional structure on the errors of an estimated model, and builds a statistical description of the uncertainty around a model. The second is set membership identification, which uses a deterministic approach to find a set of models consistent with

data and prior assumptions. The center of this set becomes a benchmark model, and the radius measures model uncertainty. Using both approaches, we compute the robust monetary policy under different model uncertainty specifications in a small model of the US economy.

Oriani, Raffaele

TI Privatization and R&D Performance: An Empirical Analysis Based on Tobin's q. AU Munari, Federico; Oriani, Raffaele.

Orlando, Michael J.

PD September 2002. TI Measuring R&D Spillovers: On the Importance of Geographic and Technological Proximity. AA Federal Reserve Bank of Kansas City. SR Federal Reserve Bank of Kansas City Research Working Paper: RWP02/06; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 12. PR no charge. JE O32, R12. KW R&D. Spillovers. Industrial Agglomeration. Geography. Empirical Studies.
AB Evidence is presented which suggests that an important measure of the apparent geographic localization of R&D spillovers may be an artifact of industrial agglomeration. A production function framework is used to examine the role of geographic and technological proximity for inter-firm spillovers from R&D. The largest spillovers are found to flow between firms in the same industry. However, spillovers within narrowly defined technological groups do not appear to be attenuated by distance. Geographic proximity does appear to attenuate spillovers that cross narrowly defined technological boundaries, suggesting these spillovers may play a role in the agglomeration of a diversity of industrial activity.

Orphanides, Athanasios

PD May 2002. TI Imperfect Knowledge, Inflation Expectations and Monetary Policy. AU Orphanides, Athanasios; Williams, John C. AA Orphanides: Board of Governors of the Federal Reserve System. Williams: Federal Reserve Bank of San Francisco. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/27; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 34. PR no charge. JE D83, D84, E31, E52. KW Inflation Targeting. Policy Rules. Rational Expectations. Learning. Inflation Persistence.
AB This paper investigates the role of imperfect knowledge regarding the structure of the economy on the formation of expectations, macroeconomic dynamics, and the efficient formulation of monetary policy. Economic agents rely on an adaptive learning technology to form expectations and continuously update their beliefs regarding the dynamic structure of the economy based on incoming data. The process of perpetual learning introduces an additional layer of dynamic interactions between monetary policy and economic outcomes. We find that policies that would be efficient under rational expectations can perform poorly when knowledge is imperfect. In particular, policies that fail to maintain tight control over inflation are prone to episodes in which the public's expectations of inflation become uncoupled from the policy objective and stagflation results, in a pattern similar to that experienced in the United States during the 1970s. More

generally, we show that in the presence of imperfect knowledge, policy should respond more aggressively to inflation than under perfect knowledge.

Orrenius, Pia M.
TI   Coyote Crossings: The Role of Smugglers in Illegal Immigration and Border Enforcement. AU   Guzman, Mark G.; Haslag, Joseph H.; Orrenius, Pia M.

Orszag, Peter R.
TI   An Assessment of the Proposals of the President's Commission to Strengthen Social Security. AU   Diamond, Peter A.; Orszag, Peter R.

Orts, Vicente
TI   Openness and Growth: Re-Examining Foreign Direct Investment, Trade and Output Linkages in Latin America. AU   Alguacil, Maria Teresa; Cuadros, Ana; Orts, Vicente.

TI   Does Saving Really Matter for Growth? Mexico (1970-2000). AU   Alguacil, Maria Teresa; Cuadros, Ana; Orts, Vicente.

Osei, Robert
TI   Aid, Exports and Growth in Ghana. AU   Lloyd, Tim A.; Morrissey, Oliver; Osei, Robert.

TI   Problems with Pooling in Panel Data Analysis for Developing Countries: The Case of Aid and Trade Relationships. AU   Lloyd, Tim A.; Morrissey, Oliver; Osei, Robert.

TI   The Volatility of Capital Inflows: Measures and Trends for Developing Countries. AU   Lensink, Robert; Morrissey, Oliver; Osei, Robert.

Ouattara, Bazoumana
TI   Aid, Debt Burden and Government Fiscal Behavior in Cote d'Ivoire. AU   McGillivray, Mark; Ouattara, Bazoumana.

Owen, P. Dorian
TI   Social Divergence and Economic Performance. AU   Grafton, R. Quentin; Knowles, Stephen; Owen, P. Dorian.

Palma, Alejandra
TI   Scrap Tires in Ciudad Juarez and El Paso: Ranking the Risks. AU   Blackman, Allen; Palma, Alejandra.

Palmer, Karen
TI   The Effect on Asset Values of the Allocation of Carbon Dioxide Emission Allowances. AU   Burtraw, Dallas; Palmer, Karen; Bharvirkar, Ranjit; Paul, Anthony.

TI   Efficient Emission Fees in the U.S. Electricity Sector. AU   Banzhaf, H. Spencer; Burtraw, Dallas; Palmer, Karen.

Palumbo, Michael
PD   July 2002. TI   On the Relationships Between Real Consumption, Income, and Wealth. AU   Palumbo, Michael; Rudd, Jeremy; Whelan, Karl. AA   Palumbo and Rudd: Board of Governors of the Federal Reserve System. Whelan: Central Bank of Ireland. SR   Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/38; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/.   PG   16. PR   no charge. JE   C43, E21. KW   Permanent Income Hypothesis. Consumption. Deflation.
AB   The existence of durable goods implies that the welfare flow from consumption cannot be directly associated with total consumption expenditures. As a result, tests of standard theories of consumption (such as the Permanent Income Hypothesis, or PIH) typically focus on nondurable goods and services. Specifically, these studies generally relate real consumption of nondurable goods and services to measures of real income and wealth, where the latter are deflated by a price index for total consumption expenditures. We demonstrate that this procedure is only valid under the assumption that real consumption of nondurables and services is a constant multiple of aggregate real consumption outlays -- an assumption that represents a very poor description of U.S. data. We develop an alternative approach that is based on the observation that the ratio of these series has historically been stable in nominal terms, and use this approach to examine two basic predictions of the PIH. We obtain significantly different results relative to the traditional approach.

Panetta, Fabio
TI   Consolidation and Efficiency in the Financial Sector: A Review of the International Evidence. AU   Amel, Dean; Barnes, Colleen; Panetta, Fabio; Salleo, Carmelo.

Panunzi, Fausto
TI   Family Firms. AU   Burkart, Mike; Panunzi, Fausto; Shleifer, Andrei.

Pappalardo, Gioacchino
PD   June 2002. TI   Farm Animal Biodiversity Conservation Activities in Europe Under the Framework of Agenda 2000. AU   Pappalardo, Gioacchino; Signorello, Giovanni. AA   University of Catania (DISEAE). SR   Fondazione Eni Enrico Mattei Note di Lavoro: 2002/39; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG   10. PR   no charge; available only on website. JE   Q18, Q20. KW   Farm Animal Biodiversity. Agenda 2000. Rural Development Plans.
AB   We examine the content of farm animal biodiversity conservation measures currently under implementation in the European Union (EU). We surveyed 69 Rural Development Plans (RDPs) set up in EU Member States. Our analysis focuses on six livestock mammalian species: asses, cattle, goats, horses, pigs, and sheep. The starting point for our investigation is the Domestic Animals Diversity-Information System (DAD-IS) FAO database which monitors the status of breeds. We compare breeds included in the DAD-IS FAO database with breeds covered by the various RDPs. We find that many breeds at risk of extinction according to FAO are not included in the RDPs and that the main efforts of the RDPs are devoted to preserving local cattle and sheep breeds. We note that the payments offered to farmers do not take into account the different probabilities of extinction associated with each breed in each country and that payments do not meet all of the relevant criteria stated in the EEC Regulations. In many cases, we observe that it still remains unprofitable to rear local breeds.

These anomalies suggest the need for a revision of the current EU supporting measures related to the conservation of livestock biodiversity.

Parisi, Maria Luisa
TI   Labor Taxes, Wage Setting and the Relative Wage Effect.
AU   Brunello, Giorgio; Parisi, Maria Luisa; Sonedda, Daniela.

Parry, Ian W. H.
PD   March 2002. TI   Does Britain or the United States Have the Right Gasoline Tax? AU   Parry, Ian W. H.; Small, Kenneth A. AA   Parry: Resources for the Future. Small: University of California. SR   Resources for the Future Discussion Paper: 02/12; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG   48. PR   domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE   H21, H23, R48. KW   Gasoline Tax. Pollution. Congestion. Accidents. Fiscal Interactions.
AB   This paper develops an analytical framework for assessing the second-best optimal level of gasoline taxation, taking into account unpriced pollution, congestion, and accident externalities and interactions with the broader fiscal system. We provide calculations of the optimal taxes for the United States and the United Kingdom under a wide variety of parameter scenarios, with the gasoline tax substituting for a distorting tax on labor income. Under our central parameter values, the second-best optimal gasoline tax is $1.01 per gallon for the United States and $1.34 per gallon for the United Kingdom. These values are moderately sensitive to alternative parameter assumptions. The congestion externality is the largest component in both nations, and the higher optimal tax for the United Kingdom is due mainly to a higher assumed value for marginal congestion cost. Revenue-raising needs, incorporated in a "Ramsey" component, also play a significant role, as do accident externalities and local air pollution.

PD   August 2002. TI   Adjusting Carbon Cost Analyses to Account for Prior Tax Distortions. AA   Resources for the Future. SR   Resources for the Future Discussion Paper: 02/47; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG   40. PR   domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE   H21, Q28, Q54, Q58. KW   Carbon Permits. Tax Distortions. Revenue Recycling. General Equilibrium Costs.
AB   This paper discusses how carbon abatement policies interact with the tax system, and how these interactions affect the overall costs of carbon controls. We provide formulas for adjusting cost estimates of auctioned and grandfathered carbon emissions from partial equilibrium energy models into rough estimates of general equilibrium costs that account for fiscal interactions. In the basic model with a tax on labor income, the general equilibrium costs of (revenue-neutral) auctioned permits are around 25% higher than the partial equilibrium costs; those of grandfathered permits, which do not directly raise revenues for recycling, are typically more than 100% higher. However, when allowance is made for complicating factors, such as the effect of tax subsidies on raising the distortionary costs of the tax system, the efficiency gains from recycling revenues from auctioned permits are larger. Indeed the general equilibrium costs of (revenue-neutral) auctioned permits can be negative for modest abatement levels.

PD   October 2002. TI   How Large Are the Welfare Gains from Technological Innovation Induced by Environmental Policies? AU   Parry, Ian W. H.; Pizer, William A.; Fischer, Carolyn. AA   Resources for the Future. SR   Resources for the Future Discussion Paper: 02/57; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG   23. PR   domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE   O32, O33, Q28, Q52, Q58. KW   Innovation. Welfare. Regulation. Endogenous. Technological Change. R&D.
AB   This paper examines whether the welfare gains from technological innovation that reduces future abatement costs are larger or smaller than the "Pigouvian" welfare gains from optimal pollution control. The relative welfare gains from innovation depend on three key factors -- the initially optimal level of abatement, the speed at which innovation reduces future abatement costs, and the discount rate. We calculate the welfare gains from innovation under a variety of different scenarios. Mostly they are less than the Pigouvian welfare gains. To be greater, innovation must reduce abatement costs substantially and quickly and the initially optimal abatement level must be fairly modest.

Pastor, Lubos
PD   June 2002. TI   Stock Valuation and Learning about Profitability. AU   Pastor, Lubos; Veronesi, Pietro. AA   University of Chicago and NBER. SR   National Bureau of Economic Research Working Paper: 8991; 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   G12, G19. KW   Volatility of Profits. Firm Age.
AB   We develop a simple approach to valuing stocks in the presence of learning about average profitability. The market-to-book ratio (M/B) increases with uncertainty about average profitability, especially for firms that pay no dividends. M/B is predicted to decline over a firm's lifetime due to learning, with steeper decline when the firm is young. These predictions are confirmed empirically. Data also support the predictions that younger stocks and stocks that pay no dividends have more volatile returns. Firm profitability has become more volatile recently, helping explain the puzzling increase in average idiosyncratic return volatility observed over the past few decades.

Paul, Anthony
TI   The Effect on Asset Values of the Allocation of Carbon Dioxide Emission Allowances. AU   Burtraw, Dallas; Palmer, Karen; Bharvirkar, Ranjit; Paul, Anthony.

Paull, Gillian
TI   Price and Quality in the UK Childcare Market. AU   Duncan, Alan; Paull, Gillian; Taylor, Jayne.

Pence, Karen M.
PD   June 2002. TI   Nature or Nurture: Why do 401(k) Participants Save Differently than Other Workers? AA   Board of Governors of the Federal Reserve System. SR   Board of

Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/33; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 17. PR no charge. JE E21, H31, H55. KW 401(k). Social Security. Financial Education. Saving.

AB Participants in 401(k) plans are more likely than other workers to list "retirement" as their main reason for saving, to hold individual retirement accounts and to invest in the stock market. There are two possible reasons for these differences: (1) workers who like to save choose to participate in the program; or (2) 401(k) participation educates workers about investing. This paper disentangles these explanations using the 1983-1989 Survey of Consumer Finances. This paper finds that 401(k) participants have a greater interest in saving for retirement than other workers, suggesting that extrapolating from their saving behavior to that of the workforce at large could be misleading. 401(k) participation also appears to increase awareness of retirement saving, but the gains are largest among workers who already prioritize retirement saving.

Pennings, Enrico
TI Imitation, Patent Protection and Welfare.
AU Mukherjee, Arijit; Pennings, Enrico.

Percoco, Marco
PD September 2002. TI Discounting Environmental Effects in Project Appraisal. AA Bocconi University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/71; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 11. PR no charge; available only on website. JE D91, D92, H43, Q51. KW Environmental Effects. Project Appraisal. Social Discounting.

AB The aim of this paper is to present an alternative methodology for discounting distant future externalities generated by an investment project: time-declining discount rates. First I present the experimental evidence on individuals' time-inconsistency. Second I consider the theoretical justification for using hyperbolic discounting in a simple uncertainty framework where marginal social utility is discounted hyperbolically if the investing Government believes that social wealth might increase or decrease over future period with a small probability that wealth will deteriorate below its current level.

Perez, Javier J.
TI Debt Reduction and Automatic Stabilisation.
AU Hiebert, Paul; Perez, Javier J.; Rostagno, Massimo.

Perez-Duarte, Sebastien
TI Wages, Productivity, and Worker Characteristics: A French Perspective. AU Crepon, Bruno; Deniau, Nicolas; Perez-Duarte, Sebastien.

Perotti, Enrico C.
PD April 2003. TI The Political Economy of Bank- and Market Dominance. AU Perotti, Enrico C.; von Thadden, Ernst-Ludwig. AA Perotti: University of Amsterdam and CEPR. von Thadden: University of Lausanne, FAME, and CEPR. SR Universite de Lausanne, Cahiers de Recherches Economiques: 02/14; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e-cahiers.htm. PG 34. PR no charge. JE G34, P16. KW Corporate Governance. Banks Versus Markets. Politics. Median Voter.

AB Legislation affects corporate governance and the return to human and financial capital. We allow the preference of a political majority to determine both the governance structure and the extent of labor rents. In a society where the median voter has relatively more at stake in the form of human capital rather than financial wealth, he prefers a less risky environment even when this reduces profits, as labor rents are exposed to undiversifiable firm-specific risk. In general, labor and lenders prefer less corporate risk, since their claims are a concave function of firm profitability. This congruence of interests can lead the political majority to support bank over equity dominance. As shareholdings by the median voter increase, the dominance structure will move towards favoring equity markets with riskier corporate strategies and higher profits.

Perotti, Roberto
PD August 2002. TI Estimating the Effects of Fiscal Policy in OECD Countries. AA European University Institute and CEPR. SR European Central Bank Working Paper: 168; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 62. PR no charge. JE E62, H30. KW Fiscal Policy. Government Spending. Vector Autoregression. Taxation.

AB This paper studies the effects of fiscal policy on GDP, prices, and interest rates in 5 OECD countries using a structural Vector Autoregression approach. Its mains results can be summarized as follows; 1) The effects of fiscal policy on GDP and its components have become substantially weaker in the last 20 years; 2) The tax multipliers tend to be negative but small; 3) Once plausible values of the price elasticity of governments spending are imposed, the negative effects of government spending on prices that have been frequently estimated become positive, although usually small and not always significant; 4) Government spending shocks have significant effects on the real short interest rate, but uncertain signs; 5) Net tax shocks have very small effects on prices; 6) The US is an outlier in many dimensions; US responses to fiscal shocks are often not representative of the average OECD country included in this sample.

Perri, Fabrizio
TI Competitive Equilibria With Limited Enforcement.
AU Kehoe, Patrick J.; Perri, Fabrizio.

Pesaran, Hashem M.
PD January 2003. TI Estimation and Inference in Large Heterogeneous Panels with Cross Section Dependence. AA University of Cambridge. SR University of Cambridge, DAE Working Paper: 0305; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. PG 51. PR $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. JE C12, C13, C33. KW Cross Section Dependence. Large Panels. Common Correlated Effects. Heterogeneity. Estimation and Inference.

AB This paper presents a new approach to estimation and

inference in panel data models with unobserved common factors possibly correlated with exogenously given individual-specific regressors and/or the observed common effects. The basic idea behind the proposed estimation procedure is to filter the individual-specific regressors by means of (weighted) cross-section aggregates such that, as the cross-section dimension (N) tends to infinity, the differential impact of unobserved common factors is eliminated. The estimation procedure has the advantage that it can be computed by OLS applied to an auxiliary regression where the observed regressors are augmented by cross sectional averages of the dependent variable and the individual specific regressors.

Pesaran, M. Hashem

PD December 2002. TI · How Costly is it to Ignore Breaks when Forecasting the Direction of a Time Series? AU Pesaran, M. Hashem; Timmermann, Allan. AA Pesaran: University of Cambridge. Timmermann: UCSD. SR University of Cambridge, DAE Working Paper: 0306; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. PG 34. PR $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. JE C22, G10. KW Sign Prediction. Estimation Window. Structural Breaks.
AB Empirical evidence suggests that many macroeconomic and financial time-series are subject to occasional structural breaks. In this paper we present analytical results quantifying the effects of such breaks on the correlation between the forecast and the realization, and on the ability to forecast the sign or direction of a time-series that is subject to breaks. Our results suggest that it can be very costly to ignore breaks. Forecasting approaches that condition on the most recent break are likely to perform better over unconditional approaches that use expanding or rolling estimation windows, provided that the break is reasonably large.

Petrucci, Alberto R.

PD January 2002. TI Devaluation (Levels Versus Rates) and Balance of Payments in a Cash- in-Advance Economy. AA Universita del Molise and LUISS G. Carli. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/17; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. PG 16. PR no charge; available only on website. JE F31, F41. KW Devaluation. Balance of Payments. Cash-in-Advance Constraint. Overlapping Generations.
AB This paper investigates the consequences of a currency devaluation, both in levels and rates, on the balance of payments in a cash-in- advance economy with finite horizons, endogenous capital accumulation, and international capital immobility. In this context, a once and for all currency devaluation induces a balance of payments surplus, whereas a sustained increase in the rate of devaluation produces an ambiguous effect on the balance of payments. If, however, non-restrictive assumptions on some structural parameters are made, an increase in the devaluation rate leads to a balance of payments surplus, the exact opposite of Calvo's result (1981).

PD September 2002. TI Government Debt, Agent Heterogeneity and Wealth Displacement in a Small Open Economy. AA LUISS G. Carli and Universita del Molise.

SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/80; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. PG 28. PR no charge; available only on website. JE E62, F41, H63. KW Government Debt. Savers-Spenders. Overlapping-Generations. Capital Formation. Net Foreign Assets. Heterogeneous Agents.
AB The consequences of government debt on capital formation, financial wealth and labor are investigated in a small open economy with demographic heterogeneity. Two alternative types of demographics are considered: one with intragenerational heterogeneity of the "savers- spenders" (SS) type, and one with intergenerational heterogeneity of the OLG type. The effects of debt and the financial crowding out morphology strictly depend on the type of demographic heterogeneity. While in the SS economy debt crowds out capital, increases net foreign assets and contracts labor, in the OLG economy it generates the exact opposite results. Our results differ substantially from those observed in a closed economy, where the type of demographic heterogeneity plays no qualitative role for the effects of debt on wealth and factor employment.

Phaneuf, Louis

TI Why Does the Cyclical Behavior of Real Wages Change Over Time? AU Huang, Kevin X. D.; Liu, Zheng; Phaneuf, Louis.

Phillips, Gordon M.

TI Is There an Optimal Industry Financial Structure? AU MacKay, Peter; Phillips, Gordon M.

Picard, Pierre M.

TI Privatizations in Developing Countries and the Government's Budget Constraint. AU Auriol, Emmanuelle; Picard, Pierre M.

Piga, Claudio

PD March 2001. TI Shall We Meet Halfway? Endogenous Spillovers and Locational Choice. AU Piga, Claudio; Poyago-Theotoky, Joanna. AA University of Nottingham. SR University of Nottingham, Discussion Paper in Economics: 01/04; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/.
PG 15. PR no charge. JE L11, O31, O32, R12. KW Endogenous Spillovers. Quality. R&D. Location.
AB We propose two version of an address model -- namely "mill-pricing" and "discriminatory pricing" -- with quality-enhancing R&D and spillovers that depend on firms' location. Our results show that the distance between locations increases with the degree of product differentiation. Further, we find that minimal quality differentiation always occurs. Minimal product differentiation is associated with no investment in R&D whereas maximal product differentiation engenders the highest R&D effort. We relate these results to the literature on absorptive capacity.

PD July 2002. TI Cooperation in R&D and Sample Selection. AU Piga, Claudio; Vivarelli, Marco. AA Piga: Nottingham University. Vivarelli: Universita Cattolica. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/49;

Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 16. **PR** no charge; available only on website. **JE** O31, O32. **KW** Cooperative R&D. Bivariate Probit. Selectivity. Outsourcing. Business Groups.
AB This study explicitly takes into account that the decision to enter into a cooperative R&D relationship is related to the antecedent decision to carry out R&D. This calls for a methodology that simultaneously permits the joint analysis of the determinants of the two decisions and corrects for the sample selectivity that is intrinsic in the analysis of cooperative R&D. The results indicate the need to explicitly consider the selectivity issue in the empirical analysis of cooperative R&D. Moreover, the empirical evidence suggests that the role of the organizational form, the pursuit of multiple innovative objectives, the incentives to conduct R&D for those firms that are involved in close-knit vertical relationships are important drivers of a firm's decision to engage in R&D both independently and with external partners.

Pignon, Virginie
TI Nordic Electricity Congestion's Arrangement as a Model for Europe: Physical Constraints or Operators' Opportunism? **AU** Glachant, Jean-Michel; Pignon, Virginie.

Pillarisetti, J. Ram
TI International Inequality in Human Development, Real Income and Gender-Related Development. **AU** McGillivray, Mark; Pillarisetti, J. Ram.

Pinar, Abuzer
TI Fiscal Illusion and the Demand for Local Government Expenditures in England and Wales. **AU** Gemmell, Norman; Morrissey, Oliver; Pinar, Abuzer.

Pizer, William A.
TI How Large Are the Welfare Gains from Technological Innovation Induced by Environmental Policies? **AU** Parry, Ian W. H.; Pizer, William A.; Fischer, Carolyn.

PD December 2002. **TI** Technology Adoption and Aggregate Energy Efficiency. **AU** Pizer, William A.; Harrington, Winston; Kopp, Raymond J.; Morgenstern, Richard D.; Shih, Jhih-Shyang. **AA** Resources for the Future. **SR** Resources for the Future Discussion Paper: 02/52; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. **PG** 23. **PR** domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. **JE** O31, O38, Q43, Q48. **KW** Energy Efficiency. Technological Change. Technology Adoption.
AB Improved technology is often cited as a means to alter the otherwise difficult trade-off between the economic burden of regulation and environmental damage. Focusing on energy-saving technologies that mitigate the threat of climate change, we find that both energy prices and financial health influence technology adoption among a sample of industrial plants in four heavily polluting sectors. Based on a model linking technology adoption to growth in aggregate efficiency, we estimate that a doubling of energy prices, after raising the growth rate to 2.1%, would require slightly more than 50 years to generate a 50% improvement in aggregate efficiency relative

to the baseline forecast.

Plantinga, Andrew J.
TI The Effects of Potential Land Development on Agricultural Land Prices. **AU** Lubowski, Ruben N.; Plantinga, Andrew J.; Stavins, Robert N.

Plasmans, Joseph
TI Staying Together or Breaking Apart: Policy-Makers' Endogenous Coalitions Formation in the European Economic and Monetary Union. **AU** Di Bartolomeo, Giovanni; Engwerda, Jacob; Plasmans, Joseph; van Arle, Bas.

Polimenis, Vassilis
TI Affine Term Structure Models. **AU** Gourieroux, Christian; Monfort, Alain; Polimenis, Vassilis.

Pollak, Robert A.
PD August 2002. **TI** An Intergenerational Model of Domestic Violence. **AA** Washington University in St. Louis and NBER. **SR** National Bureau of Economic Research Working Paper: 9099; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 22. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** I12, J12. **KW** Domestic Violence. Marriage Market. Intergenerational.
AB This paper proposes and analyzes an intergenerational model of domestic violence (IMDV) in which behavioral strategies or scripts are transmitted from parents to children. The model rests upon three key assumptions: 1) The probability that a husband will be violent depends on whether he grew up in a violent home; 2) The probability that a wife will remain with a violent husband depends on whether she grew up in a violent home; 3) Individuals who grew up in violent homes tend to marry individuals who grew up in violent homes. The IMDV calls attention to three features neglected in the domestic violence literature. The first is the marriage market. If some men are more likely than others to be violent as husbands and some women are more likely than others to remain in violent marriages, then the probability that such individuals marry each other is crucial. The second neglected feature is divorce: ongoing domestic violence requires the conjunction of a husband who is violent and a wife who stays. Third, variables and policies that reduce the rate of domestic violence in the short run are likely to reduce it even further in the long run.

Pollitt, Michael
TI Strategic Behaviour Under Regulation Benchmarking. **AU** Jamasb, Tooraj; Nillesen, Paul; Pollitt, Michael.

Pommeret, Aude
TI Fiscal Harmonization and Portfolio Choice. **AU** Monfort, Philippe; Pommeret, Aude.

TI Public Capital and Private Investment, a Real Option Approach. **AU** Cruz, Bruno; Pommeret, Aude.

Portes, Richard
TI Defining Benchmark Status: An Application using Euro-Area Bonds. **AU** Dunne, Peter G.; Moore, Michael J.; Portes, Richard.

Poterba, James M.

PD February 2003. TI Inter-Asset Differences in Effective Estate Tax Burdens. AU Poterba, James M.; Weisbenner, Scott J. AA Poterba: MIT. Weisbenner: University of Illinois. SR MIT, Department of Economics Working Paper: 03/08; Linda Woodbury, MIT Department of Economics, E52-251, 50 Memorial Drive, Cambridge, MA 02142. Website: ssrn.com/abstract_id=380063. PG. 8. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE H21, H24. KW Estate Taxation. Bequests. Tax Avoidance.

AB This paper explores the effect of discretion in estate valuation techniques on the effective estate tax burden on different asset classes. For some assets, such as liquid securities, there is relatively little discretion in valuation. For other assets, such as partial interests in closely-held businesses, family limited partnerships, and real assets or collectibles that are traded in thin markets, estate valuations may be more difficult to establish. In 1998, estates that invoked the doctrine of "minority discounts" in valuing non-controlling interests in limited partnerships claimed an average discount of 36 percent for these assets, relative to their estimated market value. More than half of all limited partnership assets reported on estate tax returns were valued using this doctrine. This suggests that for a given statutory estate tax rate, the effective estate tax burden may be greater on assets that are easily valued than on difficult-to-value assets. A comparison of the mix of assets reported on estate tax returns, and the mix the estate tax returns would be predicted to hold, given data from the Survey of Consumer Finances, is consistent with lower relative valuations for difficult-to-value assets.

Poyago-Theotoky, Joanna

TI Shall We Meet Halfway? Endogenous Spillovers and Locational Choice. AU Piga, Claudio; Poyago-Theotoky, Joanna.

Prabhala, Nagpurnanand R.

TI Institutional Allocation in Initial Public Offerings: Empirical Evidence. AU Aggarwal, Reena; Prabhala, Nagpurnanand R.; Puri, Manju.

Prager, Robin A.

TI The Geographic Scope of Retail Deposit Markets. AU Heitfield, Erik; Prager, Robin A.

Puri, Manju

TI Institutional Allocation in Initial Public Offerings: Empirical Evidence. AU Aggarwal, Reena; Prabhala, Nagpurnanand R.; Puri, Manju.

Quadrini, Vincenzo

TI Stock Market Boom and the Productivity Gains of the 1990s. AU Jermann, Urban; Quadrini, Vincenzo.

Quigley, John M.

TI Price Discovery in Time and Space: The Course of Condominium Prices in Singapore. AU Hwang, Min; Quigley, John M.

Quirion, Philippe

PD January 2002. TI Macroeconomic Effects of an Energy Saving Policy in the Public Sector. AA CIRED. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/14; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 13. PR no charge; available only on website. JE E62, H57, Q38. KW Resource Conservation. Energy Conservation. Public Spending. Employment. General Equilibrium. Multi-Sectors Models.

AB Nearly all the macroeconomic literature on environmental policies deals with taxes and tradeable permits. A policy instrument that still needs to be looked at is a switch in government expenditure away from environmentally-damaging goods, in particular fossil fuels, and toward resource- and energy-saving expenditure. We analyze a policy where a natural resource is extracted with diminishing returns and yields a differential rent to its owners. The government purchases natural resources and composite goods from private firms. We show that a switch in public spending from the natural resource to the composite good increases employment. It also raises private consumption and welfare if the initial share of resource in public spending is smaller than that of private consumption, or if the difference is small enough. Simulations show that the last condition holds in France for energy.

TI Implementing Greenhouse Gas Trading in Europe: Lessons from Economic Theory and International Experiences. AU Boemare, Catherine; Quirion, Philippe.

PD September 2002. TI Complying with the Kyoto Protocol Under Uncertainty: Taxes or Tradable Permits? AA CIRED. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/69; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 16. PR no charge; available only on website. JE D81, Q25, Q28. KW Climate Change. Uncertainty. Policy Choice.

AB The Kyoto Protocol on climate change allocates tradable quotas to developed countries, but lets them free to choose the means to respect their quota. There are good reasons for a country not to control its firms through internationally tradable permits. We thus compare a tax and purely domestic tradable permits for the European Union, the U.S and Japan. Information on abatement costs and international permit price is imperfect and stems from nine global models. Permits perform better than a tax for Japan and the U.S., whereas both instruments yield a similar outcome for Europe. Applying Weitzman (1974)'s framework in this new context, we show that these results are due to the positive correlation between costs and benefits: models that predict a low abatement cost in one country generally do so in others too, thereby forecasting a low international permit price.

Rabin, Matthew

TI Addiction and Present-Biased Preferences. AU O'Donoghue, Ted; Rabin, Matthew.

PD February 2002. TI A Perspective on Psychology and Economics. AA UC Berkeley. SR University of California, Berkeley, Department of Economics Working Paper: 02/313; University of California, Berkeley, WP orders, F502 Haas Building #1922, Berkeley, CA 94720-1922. Website: iber.berkeley.edu/wps/econwp.html. PG 42. PR $3.50 U.S. and Canada; $7.50 International; make checks

payable to "Regents of the University of California".
JE A12, B49, D11. KW Behavioral Economics.
Psychology.
AB This essay provides a perspective on the trend towards
integrating psychology into economics. Some topics are
discussed, and arguments are provided for why movement
towards greater psychological realism in economics will
improve mainstream economics.

TI Procrastination on Long-Term Projects.
AU O'Donoghue, Ted; Rabin, Matthew.

TI Understanding Social Preferences with Simple Tests.
AU Charness, Gary; Rabin, Matthew.

Raff, Daniel M. G.
TI Beyond Markets and Hierarchies: Toward a New
Synthesis of American Business History. AU Lamoreaux,
Naomi R.; Raff, Daniel M. G.; Temin, Peter.

Ramadorai, Tarun
TI Currency Returns, Institutional Investor Flows, and
Exchange Rate Fundamentals. AU Froot, Kenneth A.;
Ramadorai, Tarun.

Ramanan, Prasad
TI Transmission Pricing of Distributed Multilateral Energy
Transactions to Ensure System Security and Guide Economic
Dispatch. AU Ilic, Marija; Hsieh, Eric; Ramanan, Prasad.

Ramlogan, Carlyn
TI Why Do Rates of Convergence Differ? A Meta-
Regression Analysis. AU Dobson, Stephen; Ramlogan,
Carlyn; Strobl, Eric.

Rand, John
PD December 2001. TI Business Cycles in Developing
Countries: Are They Different? AU Rand, John; Tarp, Finn.
AA University of Copenhagen. SR University of
Nottingham, CREDIT Research Paper: 01/21; CREDIT
Secretary, School of Economics, University of Nottingham,
University Park, Nottingham, NG7 2RD, United Kingdom.
Website: www.nottingham.ac.uk/economics/credit/. PG 33.
PR no charge. JE E32, E63. KW Business Cycles.
Developing Countries. Stabilization.
AB According to Lucas (1981) understanding business cycles
is the first step in designing appropriate stabilization policies.
In this paper, we demonstrate a series of ways in which
developing countries differ from their developed counterparts
when focus is on the nature and characteristics of
macroeconomic fluctuations. Cycles are shorter, making it
necessary to modify the filtering procedures normally applied
for industrialized countries. This leads to different stylized facts
of the business cycle across countries and regions, and the
developing countries are more diverse than the rather uniform
industrialized countries. Great care is therefore needed when
the causal mechanisms in economic models are specified. A
"one-size fits all" approach is unlikely to be appropriate.

Rangel, Antonio
TI Democratic Policy Making with Real-Time Agenda
Setting: Part 1. AU Bernheim, B. Douglas; Rangel, Antonio;
Rayo, Luis.

Rappaport, Jordan
PD September 2003. TI Moving to Nice Weather.
AA Federal Reserve Bank of Kansas City. SR Federal
Reserve Bank of Kansas City Research Working Paper:
RWP03/07; Public Affairs, Federal Reserve Bank of Kansas
City, 925 Grand Blvd., Kansas City, MO 64198. Website:
www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 27.
PR no charge. JE D12, J11, R11. KW Population
Density. Migration. Quality of Life. Nice Weather.
AB U.S. residents, both old and young, have been moving en
masse to places with nice weather. Well known is the migration
towards places with warmer winter weather, which is often
attributed to the introduction of air conditioning. But people
have also been moving to places with cooler, less-humid
summer weather, which is the opposite of what would be
expected from the introduction of air conditioning. The latter
trend suggests that a large portion of weather-related moves are
due to an increasing valuation of quality-of-life consumption
amenities. Cross-sectional population growth regressions are
able to achieve a relatively good match with an a priori ranking
of the weather's contribution to local quality of life.

Rausser, Gordon C.
TI Agricultural Biotechnology's Complementary
Intellectual Assets. AU Graff, Gregory D.; Rausser, Gordon
C.; Small, Arthur A.

TI Complementarities and Spill-Overs in Agricultural
Biotechnology Mergers. AU Marco, Alan C.; Rausser,
Gordon C.

TI Complementarities and Spill-Overs in Mergers: An
Empirical Investigation Using Patent Data. AU Marco, Alan
C.; Rausser, Gordon C.

TI The Social Costs of an MTBE Ban in California
(Condensed Version). AU Adams, Gregory D.; Montgomery,
W. David; Rausser, Gordon C.; Smith, Anne E.

TI The Social Costs of an MTBE Ban in California (Long
Version). AU Adams, Gregory D.; Montgomery, W. David;
Rausser, Gordon C.; Smith, Anne E.

Rayner, Tony A. J.
TI Supply Response of Peasant Farmers in Ethiopia: A
Farmer-Level Profit Function Analysis. AU Abrar, Suleiman;
Morrissey, Oliver; Rayner, Tony A. J.

TI Policy Intervention and Supply Response: The British
Potato Marketing Scheme in Retrospect. AU Lloyd, Tim A.;
Morgan, C. Wyn; Rayner, Tony A. J.

Rayo, Luis
TI Democratic Policy Making with Real-Time Agenda
Setting: Part 1. AU Bernheim, B. Douglas; Rangel, Antonio;
Rayo, Luis.

Razin, Assaf
PD June 2002. TI Gains from FDI Inflows with
Incomplete Information. AU Razin, Assaf; Sadka, Efraim.
AA Razin: Tel Aviv University and NBER. Sadka: Tel Aviv
University. SR National Bureau of Economic Research
Working Paper: 9008; Working Papers, NBER, 1050
Massachusetts Avenue, Cambridge, MA 02138-5398. Website:
www.nber.org. PG 7. PR $10.00 per copy (plus $10.00

per order for shipping outside U.S.). **JE** F21, F23. **KW** Foreign Direct Investment. Incomplete Information.
AB The paper develops an international macroeconomic model of FDI flows with a unique feature: a hands-on management ability to react in real time to changing economic environments. Anticipating this advantage, foreign direct investors can outbid other investors in a certain industry in which they specialize in the source country. The model can explain both two-way FDI flows among developed countries and one-way FDI flows from developed to developing country. The unique gains from FDI to the host country stem from the increased efficiency of domestic investment.

Redding, Stephen
TI Factor Price Equalization in the UK? **AU** Bernard, Andrew B.; Redding, Stephen; Schott, Peter K.; Simpson, Helen.

Rehdanz, Katrin
PD June 2002. **TI** On National and International Trade in Greenhouse Gas Emission Permits. **AU** Rehdanz, Katrin; Tol, Richard S. J. **AA** Rehdanz: Hamburg University. Tol: Hamburg University, Vrije Universiteit, and Carnegie Mellon University. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/37; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 26. **PR** no charge; available only on website. **JE** Q25, Q28. **KW** Climate Change. Emissions Trading. Environmental Policy. Liability and Compliance.
AB This paper considers the conditions under which domestic markets of emission permits would and should merge to become an international market. In a two-country model, we find that it is in both countries' interests to form an international market, and it may even be beneficial to the environment. Three different policy instruments of the importing country are examined, namely a price instrument (tariff) and two quantity instruments (discount and import quota). All instruments restrict trade. The importing country (and regulator) prefers an import tariff and an import quota to a carbon discount. If the exporting country releases additional permits, the importing country should not try to keep total emissions constant, as that would be ineffective if not counterproductive. Instead, the importing country should aim to keep the total import constant; this would impose costs on the exporting country that are independent of the policy instrument; an import quota would be the cheapest option for the importing country. Compliance and liability issues constrain the market further. However, both the importing and the exporting country would prefer that the permit seller is liable in case of non-compliance as this constrains the market less.

Reis, Ricardo
TI What Measure of Inflation Should a Central Bank Target? **AU** Mankiw, Gregory; Reis, Ricardo.

Ricci, Francesco
PD January 2002. **TI** Environmental Policy and Growth When Inputs are Differentiated in Pollution Intensity. **AA** EUREQua, Universite Paris 1. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/16; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.

PG 24. **PR** no charge; available only on website. **JE** H32, O30, O41, Q28. **KW** Endogenous Growth. Environmental Policy. Technological Change.
AB Environmental policy affects the distribution of market shares if intermediate goods are differentiated in pollution intensity. When innovations are environmental friendly, a tax on emissions skews demand towards new goods, which are the most productive. In this case along a balanced growth path the tax has to increase to keep the market shares of goods of different vintages constant. An increase in the burden of taxation lowers output on impact but, comparing balanced growth paths, we find that it spurs innovation. Through this channel environmental policy may increase the growth rate of the economy.

Ricci, Luca
TI Capital Account Liberalization and Economic Performance: Survey and Synthesis. **AU** Edison, Hali J.; Klein, Michael W.; Ricci, Luca; Sloek, Torsten.

Riganti, Patrizia
TI Can People Value the Aesthetic and Use Services of Urban Sites? Evidence from a Survey of Belfast Residents. **AU** Alberini, Anna; Longo, Alberto; Riganti, Patrizia.

Rigobon, Roberto
TI Identifying the Efficacy of Central Bank Interventions: The Australian Case. **AU** Kearns, Jonathan; Rigobon, Roberto.

Robert, Christian Y.
TI Privileging and Dealer Inventory. **AU** Lescourret, Laurence; Robert, Christian Y.

Roberts, Mark A.
PD January 2002. **TI** Central Wage Setting Under Multiple Technological Equilibria: A Mechanism for Equilibrium Elimination. **AA** University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 02/01; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 20. **PR** no charge. **JE** J30, J50. **KW** Central Bargaining. Imperfect Competition. Strategic Complementarity. Multiple Equilibria. Minimum Wage.
AB Instituting an initial round of centralized wage setting before an ultimate round of decentralized wage bargaining may raise actually raise employment. A general multi-equilibrium model is presented with strategic complementarities in the implementation of a new technology through aggregate demand spill-overs. Centralized wage setting in establishing an outside option wage, which is selectively binding on lo-tech firms, may achieve the "big push" to a hi-tech general equilibrium with higher employment, output, wages, and profits.

PD March 2002. **TI** Employment Under Wage-Only and Wage-Employment Bargaining: The Role of the Government Budget Constraint. **AA** University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 02/02; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/

research/dp/school_dp/. **PG** 9. **PR** no charge. **JE** C78, J50. **KW** Wage-Only Bargaining. Wage-Employment Bargaining. Unions. Employment.
AB The result that employment is higher where firms and unions bargain over both wages and employment is a partial equilibrium result which does not always extend to general equilibrium, but depends on the elasticity of factor substitution (Layard and Nickell (1990)). We consider the bordering, unit elastic case of a Cobb-Douglas technology to focus on the role of the government budget constraint. Distortions from the fiscal instrument assigned to balance the budget then cause second-round employment effects. Employment will be higher under wage- employment bargaining, if unemployment benefits payments are endogenously set to balance the budget and under wage-only bargaining where a distortionary labor tax is assigned this role.

PD April 2002. **TI** Can the Capital Gain Arising From an Unfunded Pensions Reform Make it Pareto-Improving? **AA** University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 02/03; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/.
PG 17. **PR** no charge. **JE** D91, H55. **KW** Pay-As-You Go Pensions. Land. Reform. Transition. Double-Burden. Capital Gains. Tax.
AB If unfunded pensions crowd-out private savings, pension reform should raise the time path of capital. Even if reform has long-run benefits, there will still be a "double-burden" problem for a transitional generation. Assuming that there is an asset which discounts the present value of an income flow, which is positively related to the path of capital, a surprise reform will generate unexpected capital gains. We consider whether the taxation of these extraordinary capital gains could raise enough revenue to fully compensate the transitional generation. An OLG model is presented with land, both as a store of value and a factor of production.

PD July 2002. **TI** Can Pay-As-You-Go Pensions Raise the Capital Stock? **AA** University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 02/05; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 21. **PR** no charge. **JE** D91, H55. **KW** Imperfect Competition. Finance. Pensions. Savings. Crowding-Out. Capital.
AB We reconsider pay-as-you-go pensions (PAYG) policy in a version of the Diamond (1965) overlapping generations model with an imperfectly competitive financial sector and with a low rate of tax on its profits. PAYG then has two effects on capital: the well-known negative crowding- out effect in displacing savings and a positive effect in reducing a second form of crowding-out caused by the displacement of "productive savings" in capital by "non-productive savings" in financial sector equity. These two countervailing effects may generate a hump-shaped steady-state relationship between the PAYG contribution rate and the capital stock. If the overriding goal of policy is to raise the level of economic activity, a radical overhaul of PAYG pensions may be ineffective or even counter-productive unless financial sector profits or dividends are taxed at a high rate. If this secondary policy is infeasible, the scale of any proposed reform of PAYG should be measured against the degree of competition in the financial sector.

TI Funded Pensions, Labor Market Participation, and Economic Growth. **AU** Fisher, Eric; Roberts, Mark A.

TI International Labour Mobility and Unemployment. **AU** Bleaney, Michael; Roberts, Mark A.

Robin, Jean-Mare
TI The Dynamics of Local Employment in France. **AU** Combes, Pierre-Philippe; Magnac, Thierry; Robin, Jean-Mare.

Rochet, Jean-Charles
TI Efficient Pricing of Large Value Interbank Payment Systems. **AU** Holthausen, Cornelia; Rochet, Jean-Charles.

Rogers, John H.
TI Identifying the Effects of Monetary Policy Shocks on Exchange Rates Using High Frequency Data. **AU** Faust, Jon; Rogers, John H.; Swanson, Eric; Wright, Jonathan H.

Rogoff, Kenneth
TI Global Implications of Self-Oriented National Monetary Rules. **AU** Obstfeld, Maurice; Rogoff, Kenneth.

Roland, Gerard
TI Optimal Debt Design and the Role of Bankruptcy. **AU** von Thadden, Ernst-Ludwig; Bergloef, Erik; Roland, Gerard.

Roldos, Jorge
TI Monetary Policy in a Financial Crisis. **AU** Christiano, Lawrence J.; Gust, Christopher; Roldos, Jorge.

Roller, Lars-Hendrik
TI Market Power in Outputs and Inputs: An Empirical Application to Banking. **AU** Adams, Robert M.; Roller, Lars-Hendrik; Sickles, Robin C.

Romer, David
PD June 2002. **TI** It's Fourth Down and What Does the Bellman Equation Say? A Dynamic- Programming Analysis of Football Strategy. **AA** UC Berkeley and NBER. **SR** National Bureau of Economic Research Working Paper: 9024; 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** D21, L10, L83. **KW** Bellman Equation. Dynamic Programming. Football.
AB This paper uses play-by-play accounts of virtually all regular season National Football League games for 1998-2000 to analyze teams' choices on fourth down between trying for a first down and kicking. Dynamic programming is used to estimate the values of possessing the ball at different points on the field. These estimates are combined with data on the results of kicks and conventional plays to estimate the average payoffs to kicking and going for it under different circumstances. Examination of teams' actual decisions shows systematic, overwhelmingly statistically significant, and quantitatively large departures from the decisions the dynamic-programming analysis implies are preferable.

Rosato, Paolo
TI The Use of Common Property Resources: A Dynamic

Model. AU Moretto, Michele; Rosato, Paolo.

TI Multi-Criteria Analysis and Decision-Support for Water Management at the Catchment Scale: An Application to Diffuse Pollution Control in the Venice Lagoon. AU Giupponi, Carlo; Rosato, Paolo.

TI Individual Travel Cost Method and Flow Fixed Costs. AU Defrancesco, Edi; Rosato, Paolo.

Roson, Roberto
PD January 2002. TI Dynamic and Distributional Effects of Environmental Revenue Recycling Schemes: Simulations With a General Equilibrium Model of the Italian Economy. AA Universita Ca Foscari and FEEM. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/15; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 18. PR no charge; available only on website. JE H21, H23, Q01. KW General Equilibrium. Double Dividend. Environmental Taxation. Italy.
AB A dynamic general equilibrium model of the Italian economy is used to assess the impact of carbon taxation (or auctioned carbon permits), where additional revenue is used to cut either existing taxes on labor or on capital income. Simulation results do not support the existence of the so-called "double dividend" when labor taxes are reduced, whereas lower tax rates on capital have mild positive effects on growth and welfare, with progressivity properties on income distribution. These findings hinge on the assumptions of an open economy, a given world interest rate, and capital mobility.

TI Conflicting Perspectives in Trade and Environmental Negotiations. AU Buchner, Barbara K.; Roson, Roberto.

Rostagno, Massimo
TI Debt Reduction and Automatic Stabilisation. AU Hiebert, Paul; Perez, Javier J.; Rostagno, Massimo.

Rouse, Cecilia Elena
TI Using Market Valuation to Assess Public School Spending. AU Barrow, Lisa; Rouse, Cecilia Elena.

Rudd, Jeremy
PD May 2002. TI Does the Labor Share of Income Drive Inflation? AU Rudd, Jeremy; Whelan, Karl. AA Rudd: Board of Governors of the Federal Reserve System. Whelan: Central Bank of Ireland. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/30; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 20. PR no charge. JE E31. KW Inflation. Labor Share. Output Gap. Phillips Curve.
AB Woodford (2001) has presented evidence that the new-Keynesian Phillips curve fits the empirical behavior of inflation well when the labor income share is used as a driving variable, but fits poorly when deterministically detrended output is used. He concludes that the output gap -- the deviation between actual and potential output -- is better captured by the labor income share, in turn implying that central banks should raise interest rates in response to increases in the labor share. We show that the empirical evidence generally suggests that the labor share version of the new-Keynesian Phillips curve is a very poor model of price inflation. We conclude that there is little reason to view the labor income share as a good measure of the output gap or as an appropriate variable for incorporation in a monetary policy rule.

TI On the Relationships Between Real Consumption, Income, and Wealth. AU Palumbo, Michael; Rudd, Jeremy; Whelan, Karl.

TI Taxation and the Taylor Principle. AU Edge, Rochelle M.; Rudd, Jeremy.

PD November 2002. TI A Note on the Cointegration of Consumption, Income, and Wealth. AU Rudd, Jeremy; Whelan, Karl. AA Rudd: Board of Governors of the Federal Reserve System. Whelan: Central Bank of Ireland. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/53; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 19. PR no charge. JE E21, E44. KW Consumption. Asset Returns. Cointegration. Budget Constraints.
AB Lettau and Ludvigson (2001) argue that a log-linearized approximation to an aggregate budget constraint predicts that log consumption, assets, and labor income will be cointegrated. They conclude that this cointegrating relationship is present in U.S. data, and that the estimated cointegrating residual forecasts future asset growth. This note examines whether the cointegrating relationship suggested by Lettau and Ludvigson's theoretical framework actually exists. We demonstrate that we cannot reject the hypothesis that cointegration is absent from the data once we employ measures of consumption, assets, and labor income that are jointly consistent with an underlying budget constraint. By contrast, Lettau and Ludvigson use a set of variables that do not belong together in an aggregate budget constraint, thereby testing a cointegrating relationship that is not implied by their theory.

Ruenstler, Gerhard
PD September 2002. TI The Information Content of Real-Time Output Gap Estimates: An Application to the Euro Area. AA European Central Bank. SR European Central Bank Working Paper: 182; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 44. PR no charge. JE C52, E31, E32. KW Output Gap. UOC Models. Filtering and Information. Inflation Dynamics.
AB The paper investigates real-time output gap estimates for the euro area obtained from various unobserved components (UOC) models. Based on a state space modeling framework, three criteria are used to evaluate real-time estimates, i.e. standard errors, unbiasedness and conditional inflation forecasts. Real-time estimates from univariate moving average filters and from bivariate UOC models based on output and inflation are found to be rather uninformative. Extended models, which employ the information from cyclical indicators and factor inputs, however, improve substantially upon the former models on all criteria. The pessimism on the reliability of real-time output gap estimates expressed in earlier literature may therefore be overstated.

Sack, Brian
PD June 2002. TI Treasury Inflation-Indexed Debt: A Review of the U.S. Experience. AU Sack, Brian; Elsasser,

Robert. AA Sack: Board of Governors of the Federal Reserve System. Elsasser: Federal Reserve Bank of New York. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/32; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 39. PR no charge. JE E60, G10. KW Inflation-Indexed Debt. .
AB This paper reviews the U.S. experience with inflation-indexed debt. To date, treasury inflation-indexed securities have not been highly valued by investors, with the spread between the yields on nominal and inflation-indexed securities falling consistently below most measures of long-run inflation expectations. A number of factors might have contributed to the low relative valuation of Treasury inflation-indexed security, including the difficulty for investors of adjusting to a new asset class, the concentration of participation in the market, the lower liquidity of Treasury inflation-indexed security relative to nominal Treasury securities, and the divergent trends in the supply of nominal and inflation-indexed Treasury debt. As a result, inflation-indexed debt has not yet lived up to one of its main purposes-to reduce financing costs to the Treasury. However, there are signs that the Treasury inflation-indexed securities market is still evolving, which could affect the valuation of Treasury inflation-indexed securities going forward.

TI Market-Based Measures of Monetary Policy Expectations. AU Gurkaynak, Refet S.; Sack, Brian; Swanson, Eric.

PD September 2002. TI Extracting the Expected Path of Monetary Policy from Futures Rates. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/56; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 33. PR no charge. JE E52, G14. KW Futures Rates. Monetary Policy Expectations. Risk Premia.
AB Federal funds and eurodollar futures contracts are among the most useful instruments for deriving expectations of the future path of monetary policy. However, reading policy expectations from those instruments is complicated by the presence of risk premia. This paper demonstrates how to extract the expected policy path under the assumption that risk premia are constant over time, and under a simple model that allows risk premia to vary. In the latter case, the risk premia are identified under the assumption that policy expectations level out after a long enough horizon. The results provide evidence that the risk premia on these futures contracts vary over time. The impact of this variation is fairly limited for futures contracts with short horizons, but it increases as the horizon of the contracts lengthens.

Sadka, Efraim
TI Gains from FDI Inflows with Incomplete Information. AU Razin, Assaf; Sadka, Efraim.

Saez, Emmanuel
PD July 2002. TI Optimal Progressive Capital Income Taxes in the Infinite Horizon Model. AA UC Berkeley and NBER. SR National Bureau of Economic Research Working Paper: 9046; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 34. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G18, H21. KW Capital Income Taxation. Progressive Taxation. Infinite Horizon Model.
AB This paper analyzes optimal progressive capital income taxation in an infinite horizon model where individuals differ only through their initial wealth. We show that, in that context, progressive taxation is a much more powerful and efficient tool to redistribute wealth than the linear taxation that previous literature has focused on. We consider progressive capital income tax schedules taking a simple two-bracket form with an exemption bracket at the bottom and a single marginal tax rate above a time varying exemption threshold. Individuals are taxed until their wealth is driven down to the exemption threshold. When the intertemporal elasticity of substitution is not too large and the top tail of the initial wealth distribution is infinite and sufficiently thick, the optimal exemption threshold converges to a finite limit. As a result, the optimal tax system drives all the large fortunes down a finite level and produces a truncated long-run wealth distribution. A number of numerical simulations illustrate the theoretical result.

Salleo, Carmelo
TI Consolidation and Efficiency in the Financial Sector: A Review of the International Evidence. AU Amel, Dean; Barnes, Colleen; Panetta, Fabio; Salleo, Carmelo.

Sanchirico, James N.
PD May 2002. TI Marine Protected Areas: Economic and Social Implications. AU Sanchirico, James N.; Cochran, Kathryn A.; Emerson, Peter M. AA Sanchirico: Resources for the Future. Cochran and Emerson: Environmental Defense, Austin, Texas. SR Resources for the Future Discussion Paper: 02/26; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 20. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE Q22, Q25, Q28. KW Marine Protected Areas. Marine Reserves. Fisheries.
AB This paper is a guide for citizens, scientists, resource managers, and policy makers, who are interested in understanding the economic and social value of marine protected areas (MPAs). We discuss the potential benefits and costs associated with MPAs as a means of illustrating the economic and social tradeoffs inherent in implementation decisions. In general, the effectiveness of a protected area depends on a complex set of interactions between biological, economic, and institutional factors. While MPAs might provide protection for critical habitats and cultural heritage sites and, in some cases, conserve biodiversity, as a tool to enhance fishery management their impact is less certain. The uncertainty stems from the fact that MPAs only treat the symptoms and not the fundamental causes of overfishing and waste in fisheries.

TI Fishing Quota Markets. AU Newell, Richard G.; Sanchirico, James N.; Kerr, Suzi.

PD December 2002. TI Reserve Site Selection in a Limited-Entry Fishery. AA Resources for the Future. SR Resources for the Future Discussion Paper: 02/69; Resources for the Future, 1616 P Street, NW, Washington, DC

20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. **PG** 19. **PR** domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. **JE** Q22, Q25, Q57. **KW** Fisheries. Limited-Entry. Marine Reserves. Marine Reserve Networks.

AB Marine reserves are gaining attention around the world as a tool to both conserve ocean resources and improve the conditions of the fishing industry. Such a win-win outcome occurs when the dispersal benefits from the reserve are greater than the opportunity cost of closing the area to fishing. In a limited-entry setting, we investigate the inherent bioeconomic trade-offs associated with reserve site selection -- that is, the trade-offs between the degree of connectedness of a site and the biological and economic habitat heterogeneity. We find that choosing patches that have the greatest potential to provide spillover to other patches is not necessarily the best bioeconomic strategy. It is a good strategy when the bioeconomic system is homogeneous, but as the degree of bioeconomic heterogeneity increases, it is the bioeconomic habitat conditions combined with the nature of the linkages that are the critical drivers.

Sartzetakis, Eftichios S.
TI Stable International Environmental Agreements: An Analytical Approach. **AU** Diamantoudi, Effrosyni; Sartzetakis, Eftichios S.

Schaller, Huntley
TI The Interest Rate, Learning, and Inventory Investment. **AU** Maccini, Louis J.; Moore, Bartholomew; Schaller, Huntley.

Scharfstein, David
TI Entrepreneurship in Equilibrium. **AU** Gromb, Denis; Scharfstein, David.

Schiantarelli, Fabio
TI Inventories, Employment and Hours. **AU** Galeotti, Marzio; Maccini, Louis J.; Schiantarelli, Fabio.

Schlenker, Wolfram
TI The Impact of Global Warming on U.S. Agriculture: An Econometric Analysis. **AU** Fisher, Anthony C.; Hanemann, W. Michael; Schlenker, Wolfram.

Schmukler, Sergio L.
PD July 2002. **TI** Pricing Currency Risk: Facts and Puzzles from Currency Boards. **AU** Schmukler, Sergio L.; Serven, Luis. **AA** The World Bank. **SR** National Bureau of Economic Research Working Paper: 9047; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 38. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F31, F36, G12, G15. **KW** Currency Boards. Currency Premia. Argentina. Hong Kong.

AB Hard pegs, such as currency boards, intend to reduce or even eliminate currency risk. This paper investigates the patterns and determinants of the currency risk premium in two currency boards -- Argentina and Hong Kong. Despite the presumed rigidity of currency boards, the currency premium is almost always positive and at times very large. Its term structure is usually upward sloping, but flattens out or even becomes inverted at times of turbulence. Currency premia differ across markets. The forward discount typically exceeds the currency premium derived from interbank rates, particularly in times of crisis. The large magnitude of these cross-market differences can be the consequence of unexploited arbitrage opportunities, market segmentation, or other risks embedded in typical measures of currency risk. The premium and its term structure depend on domestic and global factors related to devaluation expectations and risk perceptions.

Schott, Peter K.
TI Factor Price Equalization in the UK? **AU** Bernard, Andrew B.; Redding, Stephen; Schott, Peter K.; Simpson, Helen.

Schreft, Stacey L.
PD February 2003. **TI** The Social Value of Risk-Free Government Debt. **AU** Schreft, Stacey L.; Smith, Bruce D. **AA** Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP03/02; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. **PG** 24. **PR** no charge. **JE** E62, E63, G11. **KW** Government Debt. Fiscal Policy. Monetary Policy. Portfolio Allocation. Welfare.

AB This paper considers whether eliminating the stock of government debt outstanding would reduce welfare. It models an economy with three assets, a transactions role for money, and a demand for liquidity and thus a role for banks. The Friedman rule is not optimal in this economy, so there is potentially a role for interest-bearing, risk-free government bonds. Because the government must raise enough revenue to meet its interest obligations on any bonds outstanding, the social value of government debt hinges on whether the benefits from greater portfolio diversification outweigh the costs associated with the necessary revenue-raising efforts. The paper shows that a positive stock of government debt is optimal only if interest payments on the debt are financed via money creation, agents are not too risk averse, there is a primary government budget deficit, and the economy is operating on the bad side of the Laffer curve. But under these conditions, welfare would be even higher if monetary policy were conducted to put the economy on the good side of the Laffer curve and there were no government bonds outstanding. Thus, there is little support for keeping a stock of interest-bearing, risk-free government debt outstanding.

TI Currency Competition: A Partial Vindication of Hayek. **AU** Martin, Antoine; Schreft, Stacey L.

Sena, Vania
TI Unions: Rent Extractors or Creators? **AU** Aidt, Toke S.; Sena, Vania.

Sepahvand, Mehrdad
PD June 2002. **TI** Privatisation in a Regulated Market, Open to Foreign Competition. **AA** University of Nottingham. **SR** University of Nottingham, Discussion Paper in Economics: 02/04; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. **PG** 19. **PR** no charge. **JE** F13,

L33. KW Privatization. Mixed Oligopoly. Strategic Trade Policy.
AB The emerging literature on interaction between strategic trade theory and privatization uses a simple example to argue that the irrelevance result is invalidated if the domestic market is open to foreign competition. This paper uses a fairly general framework to show that anything a regulated privatized industry can achieve can always be mimicked by instructing the public firm to pursue an appropriate policy in a regulated mixed market structure. In the presence of a foreign competitor, this requires the public firm to follow the adjusted marginal cost pricing rule. But the public firm will not follow this rule if it is obliged to move with the private firms simultaneously. Hence, this study suggests that in the first best world open to foreign competition, we may concentrate on timing of the game as a source of inefficiency in a regulated mixed market structure rather than the ownership of the domestic firms.

Sertel, Murat
PD July 2002. TI Ranking Committees, Words or Multisets. AU Sertel, Murat; Slinko, Arkadii. AA Sertel: Bogazici University. Slinko: University of Auckland. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/50; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 23. PR no charge; available only on website. JE C65, D71. KW Multiset. Additive Linear Orders. Expected Utility Structure.
AB We investigate the ways in which a linear order on a finite set A can be consistently extended to a linear order on a set Pk(A) of multisets on A of fixed cardinality k. We show that for card(A) = 3 all linear orders on Pk(A) are additive and classify them by means of Farey fractions. For card(A) minor/equal 4 we show that there are non-additive consistent linear orders of Pk(A), we prove that they cannot be extended to a linear order of Pk(A) for k sufficiently large. We give the lower bounds for the number of additive linear orders in P2(A) and the total number of consistent linear orders in P2(A).

Serven, Luis
TI Pricing Currency Risk: Facts and Puzzles from Currency Boards. AU Schmukler, Sergio L.; Serven, Luis.

Shen, Pu
PD May 2002. TI Market-Timing Strategies That Worked. AA Federal Reserve Bank of Kansas City. SR Federal Reserve Bank of Kansas City Research Working Paper: RWP02/01; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 12. PR no charge. JE G11, G12, G14. KW Investment. Stock Market. Earning Yields.
AB In this paper, we present a few simple market-timing strategies that appear to outperform the "buy-and-hold" strategy, with real-time data from 1970 to 2000. Our focus is on spreads between the E/P ratio of the S&P500 index and interest rates. Extremely low spreads, as compared to their historical ranges, appear to predict higher frequencies of subsequent market downturns in monthly data. We construct "horse races" between switching strategies based on extremely low spreads and the market index. Switching strategies call for investing in the stock market index unless spreads are lower than predefined thresholds. We find that switching strategies outperformed the market index in the sense that they provide higher mean returns and lower variances. In particular, the strategy based on the spread between the E/P ratio and a short-term interest rate comfortably and robustly beat the market index even when transaction costs are incorporated.

Shibata, Miyuki
TI Private Capital Inflows and Macroeconomic Stability in Sub-Saharan African Countries. AU Morrissey, Oliver; Shibata, Miyuki.

Shih, Jhih-Shyang
TI Measuring the Contribution to the Economy of Investments in Renewable Energy: Estimates of Future Consumer Gains. AU Macauley, Molly K.; Shih, Jhih-Shyang; Aronow, Emily; Austin, David; Bath, Tom; Darmstadter, Joel.

TI The Near-Term Impacts of Carbon Mitigation Policies on Manufacturing Industries. AU Morgenstern, Richard D.; Ho, Mun S.; Shih, Jhih-Shyang; Zhang, Xuehua.

TI A Flexible Inventory Model for MSW Recycling. AU Louis, Garrick; Shih, Jhih-Shyang.

Shleifer, Andrei
TI Family Firms. AU Burkart, Mike; Panunzi, Fausto; Shleifer, Andrei.

Shogren, Jason F.
TI Unprotected Resources and Voracious World Markets. AU Margolis, Michael; Shogren, Jason F.

Shore-Sheppard, Lara D.
TI Using Discontinuous Eligibility Rules to Identify the Effects of the Federal Medicaid Expansions on Low Income Children. AU Card, David; Shore-Sheppard, Lara D.

Sichel, Daniel E.
TI Information Technology and Productivity: Where Are We Now and Where Are We Going? AU Oliner, Stephen D.; Sichel, Daniel E.

Sickles, Robin C.
TI Market Power in Outputs and Inputs: An Empirical Application to Banking. AU Adams, Robert M.; Roller, Lars-Hendrik; Sickles, Robin C.

Sieg, Holger
TI Price Uncertainty, Tax Policy, and Addiction: Evidence and Implications. AU Coppejans, Mark; Sieg, Holger.

TI General Equilibrium Benefit Transfers for Spatial Externalities: Revisiting EPA's Prospective Analysis. AU Smith, V. Kerry; Sieg, Holger; Banzhaf, H. Spencer; Walsh, Randy.

Signorello, Giovanni
TI One-and-One-Half-Bound Dichotomous Choice Contingent Valuation. AU Cooper, Joseph C.; Hanemann, W. Michael; Signorello, Giovanni.

TI Farmer Premiums for the Voluntary Adoption of Conservation Plans. AU Cooper, Joseph C.; Signorello,

Giovanni.

TI   Farm Animal Biodiversity Conservation Activities in Europe Under the Framework of Agenda 2000. AU   Pappalardo, Gioacchino; Signorello, Giovanni.

Silverman, Brian S.
TI   Academic Earmarks and the Returns to Lobbying. AU   de Figueiredo, John M.; Silverman, Brian S.

Simon, Nathalie B.
TI   Does the Value of a Statistical Life Vary with Age and Health Status? Evidence from the United States and Canada. AU   Alberini, Anna; Cropper, Maureen; Krupnick, Alan; Simon, Nathalie B.

Simpson, Helen
TI   Factor Price Equalization in the UK? AU   Bernard, Andrew B.; Redding, Stephen; Schott, Peter K.; Simpson, Helen.

Simpson, R. David
PD   November 2002. TI   Tax Rules, Land Development, and Open Space. AA   Resources for the Future. SR   Resources for the Future Discussion Paper: 02/61; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG   19. PR   domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE   H23, H41, H71, Q57, Q58, R14. KW   Income Tax. Property Tax. Tax Deductions. Use-Value Assessment. Ecosystem Services. Open Space. Conservation. Amenity Value.
AB   Concern about "open space" is growing. Conservation advocates worry that private land use decision makers preserve too little open space. Yet private land developers are deciding on their own to preserve open space in new developments because it provides amenities to purchasers of lots. Moreover, tax provisions provide incentives for preserving more open space than would be privately optimal. Many jurisdictions have adopted "use-value assessment" standards granting favorable tax treatment to lands maintained in open space. Also, donations of open space can be deducted from income in computing tax liabilities. Both factors may be empirically important, although tax deductibility may have larger conservation effects than does use-value assessment. These conclusions raise several unanswered questions: How important are tax incentives in practice? Do they motivate enough conservation of open space? Do tax incentives target the right conservation priorities?.

PD   November 2002. TI   Definitions of Biodiversity and Measures of Its Value. AA   Resources for the Future. SR   Resources for the Future Discussion Paper: 02/62; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG   14. PR   domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE   Q51, Q57. KW   Biological Diversity. Biodiversity. Diversity Index. Abundance. Search. Variability. Consistency. Contingent Valuation. Diminishing Returns. Increasing Returns.
AB   The destruction of natural habitats has prompted concerns about the loss of biological diversity. Regrettably, however, there is no consensus among either biologists or economists on the most meaningful measures of biodiversity. Fundamentally different definitions are useful in asking fundamentally different questions. Considerable attention has been given to the value of diversity in search models. A measure of "aggregate variability" is appropriate to such models. Values derived from search models tend to be well behaved: they exhibit diminishing returns in diversity. In contrast, a definition of diversity as "relative abundance" is more appropriate to more complex objective functions. Values derived in these models are not necessarily well behaved. The differences between diversity values arising in search models and those arising from more general objectives are demonstrated. An example shows that "consistency tests" applied to measures of valuation may not be useful when diversity per se is being valued.

Sindelar, Jody L.
TI   Drug Treatment as a Crime Fighting Tool. AU   Jofre-Bonet, Mireia; Sindelar, Jody L.

Skamnelos, Ilias
PD   March 2001. TI   Sunspot Panics, Information-Based Bank Runs and Suspension of Deposit Convertibility. AA   University of Nottingham. SR   University of Nottingham, Discussion Paper in Economics: 01/05; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/. PG   17. PR   no charge. JE   G19, G21. KW   Bank Runs. Panics. Deposit Contracts. Deposit Convertibility.
AB   In a model where sunspot panics and information-based bank runs co- exist, we study the importance of the suspension of deposit convertibility rule. Respecting the sequential service constraint and taking salvage value of long-term illiquid investments into account, we show that such a policy, although eliminating the random withdrawal risk that causes sunspot panics, can also make the banking system more vulnerable to bad information about the bank's portfolio investments. This arises due to the one-way bet nature of suspension of convertibility.

Skiba, Alexandre
TI   Shipping the Good Apples Out? An Empirical Confirmation of the Alchian-Allen Conjecture. AU   Hummels, David; Skiba, Alexandre.

Slinko, Arkadii
TI   Ranking Committees, Words or Multisets. AU   Sertel, Murat; Slinko, Arkadii.

Sloek, Torsten
TI   Capital Account Liberalization and Economic Performance: Survey and Synthesis. AU   Edison, Hali J.; Klein, Michael W.; Ricci, Luca; Sloek, Torsten.

Sluchynsky, Alexi
TI   Does It Pay to Work? AU   Gokhale, Jagadeesh; Kotlikoff, Laurence J.; Sluchynsky, Alexi.

Small, Arthur A.
TI   Agricultural Biotechnology's Complementary

Intellectual Assets. AU Graff, Gregory D.; Rausser, Gordon C.; Small, Arthur A.

Small, Kenneth A.
TI Does Britain or the United States Have the Right Gasoline Tax? AU Parry, Ian W. H.; Small, Kenneth A.

Smeers, Yves
TI Cross-Border Trade: A Two-Stage Equilibrium Model of the Florence Regulatory Forum Proposals. AU Daxhelet, O.; Smeers, Yves.

Smets, Frank
PD August 2002. TI An Estimated Stochastic Dynamic General Equilibrium Model of the Euro Area. AU Smets, Frank; Wouters, Raf. AA Smets: European Central Bank. Wouters: National Bank of Belgium. SR European Central Bank Working Paper: 171; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 70. PR no charge. JE C11, E32. KW SDGE Models. Monetary Policy. Euro Area.
AB This paper develops and estimates a stochastic dynamic general equilibrium (SDGE) model with sticky prices and wages for the euro area. The model incorporates various other features such as habit formation, costs of adjustment in capital accumulation and variable capacity utilization. It is estimated with Bayesian techniques using seven key macro-economic variables: GDP, consumption, investment, prices, real wages, employment and the nominal interest rate. The introduction of ten orthogonal structural shocks (including productivity, labor supply, investment, preference, cost-push, and monetary policy shocks) allows for an empirical investigation of the effects of such shocks and of their contribution to business cycle fluctuations in the euro area. Using the estimated model, the paper also analyses the output (real interest rate) gap, defined as the difference between the actual and model-based potential output (real interest rate).

Smetters, Kent
TI Moral Hazard in Reinsurance Markets. AU Doherty, Neil; Smetters, Kent.

Smith, Andrew S. J.
TI Assessing the Efficient Cost of Sustaining Britain's Rail Network: Perspectives Based on Zonal Comparisons. AU Kennedy, John; Smith, Andrew S. J.

Smith, Anne E.
TI The Social Costs of an MTBE Ban in California (Condensed Version). AU Adams, Gregory D.; Montgomery, W. David; Rausser, Gordon C.; Smith, Anne E.

TI The Social Costs of an MTBE Ban in California (Long Version). AU Adams, Gregory D.; Montgomery, W. David; Rausser, Gordon C.; Smith, Anne E.

Smith, Bruce D.
TI The Social Value of Risk-Free Government Debt. AU Schreft, Stacey L.; Smith, Bruce D.

TI Estimation of Household Demand for Goods and Services in California's Dynamic Revenue Analysis Model.

AU Berck, Peter; Hess, Peter; Smith, Bruce D.

Smith, Christopher L.
TI Why Do School District Budget Referenda Fail? AU Ehrenberg, Ronald G.; Ehrenberg, Randy A.; Smith, Christopher L.; Zhang, Liang.

TI Why Do School District Budget Referenda Fail? AU Ehrenberg, Ronald G.; Ehrenberg, Randy A.; Smith, Christopher L.; Zhang, Liang.

Smith, Jeffrey
TI The Performance of Performance Standards. AU Heckman, James J.; Heinrich, Carolyn; Smith, Jeffrey.

Smith, V. Kerry
PD September 2002. TI General Equilibrium Benefit Transfers for Spatial Externalities: Revisiting EPA's Prospective Analysis. AU Smith, V. Kerry; Sieg, Holger; Banzhaf, H. Spencer; Walsh, Randy. AA Smith: North Carolina State University and Resources for the Future. Sieg: Carnegie Mellon University. Banzhaf: Resources for the Future. Walsh: University of Colorado. SR Resources for the Future Discussion Paper: 02/44; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 20. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE Q25, R13. KW Air Quality. Clean Air Act. Non-Market Valuation. Tiebout Model.
AB Environmental policy analyses increasingly require evaluation of benefits from large changes in spatially differentiated public goods. Such changes will likely induce general equilibrium effects through changes in household expenditures and local migration, yet current practice "transfers" constant marginal values for even the largest changes. Moreover, it ignores important distributional effects of policy. This paper demonstrates that recently developed locational equilibrium models can provide transferable general equilibrium benefit measures. Our results suggest that taking account of the potential for adjustment and household heterogeneity is important. Applying benefits estimated from this method to the effect of the Clean Air Act amendments in Los Angeles, we find that the estimated annual general equilibrium benefits in 2000 and 2010 are dramatically different by income group and location. The gains range from $33 to about $2,400 per household. These differences arise from variations in air quality conditions, income, and effects of general equilibrium price adjustment.

Sobrero, Maurizio
TI The Effects of Privatization on R&D Investments and Patent Productivity. AU Munari, Federico; Sobrero, Maurizio.

Sokoloff, Kenneth L.
TI Intermediaries in the U.S. Market for Technology, 1870-1920. AU Lamoreaux, Naomi R.; Sokoloff, Kenneth L.

Sonedda, Daniela
TI Labor Taxes, Wage Setting and the Relative Wage Effect. AU Brunello, Giorgio; Parisi, Maria Luisa; Sonedda, Daniela.

Song, Lina
TI Reducing Child Malnutrition: How Far Does Income Growth Take Us? AU Alderman, Harold; Appleton, Simon; Haddad, Lawrence; Song, Lina; Yohannes, Yisehac.

TI Reducing Child Malnutrition: How Far Does Income Growth Take Us? AU Alderman, Harold; Appleton, Simon; Haddad, Lawrence; Song, Lina; Yohannes, Yisehac.

Soubeyran, Antoine
PD June 2002. TI Do Investments in Specialized Knowledge Lead to Composite Good Industries? AU Soubeyran, Antoine; Stahn, Hubert. AA Soubeyran: Universite de la Mediterranee. Stahn: BETA-Theme and Universite Louis Paste. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/33; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 18. PR no charge; available only on website. JE D23, D43, L22, L23. KW Composite Goods. Incomplete Contracts. Property Rights. Cournot Duopoly. Lateral Disintegration.
AB There are more and more industries in which firms are specialized in the production of a component of the final good. This is especially true in high-tech industries. The basic question is why don't these firms merge? We paradoxically show that industries which are typical candidates for composite good industries, are those in which high levels of investments in specialized and component based knowledge are a major source of benefits. In this important case, strictly complementary assets should be separately owned. The basic argument is linked to imperfect competition which changes the ability to extract payoff (power) and the effect of specialized investments on the quality of the composite good. Separate ownership in the case of at least 3 components both powers the individual incentive to invest and is stable with respect to unilateral deviations.

Stabile, Mark
TI Socioeconomic Status and Health: Why is the Relationship Stronger for Older Children? AU Currie, Janet; Stabile, Mark.

Stahn, Hubert
TI Do Investments in Specialized Knowledge Lead to Composite Good Industries? AU Soubeyran, Antoine; Stahn, Hubert.

Stavins, Robert N.
TI National Environmental Policy During the Clinton Years. AU Cavanagh, Sheila M.; Hanh, Robert W.; Stavins, Robert N.

TI Muffled Price Signals: Household Water Demand Under Increasing-Block Prices. AU Cavanagh, Sheila M.; Hanemann, W. Michael; Stavins, Robert N.

TI Environmental Policy and Technological Change. AU Jaffe, Adam B.; Newell, Richard G.; Stavins, Robert N.

PD April 2002. TI Lessons From the American Experiment With Market-Based Environmental Policies. AA Harvard University and Resources for the Future. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/30; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 15. PR no charge; available only on website. JE P16, Q58. KW Environmental Policy. Market-Based Instruments. Incentives.
AB This paper provides an overview of the U.S. experience with market-based instruments with four categories: emission charges, tradable permit systems, market friction reduction, and government subsidy reduction. Following that, I examine normative lessons that can be learned from these experiences, and then focus on positive political economy lessons. A final section offers some conclusions.

TI The Effects of Potential Land Development on Agricultural Land Prices. AU Lubowski, Ruben N.; Plantinga, Andrew J.; Stavins, Robert N.

PD July 2002. TI Experience With Market-Based Environmental Policy Instruments. AA Harvard University and Resources for the Future. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/52; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 46. PR no charge; available only on website. JE Q28, Q58. KW Environmental Policy. Market-Based Instruments.
AB Environmental policies typically combine the identification of a goal with some means to achieve that goal. This chapter for the forthcoming Handbook of Environmental Economics focuses exclusively on the second component, the means -- the "instruments" -- of environmental policy, and considers, in particular, experience around the world with the relatively new breed of economic-incentive or market-based policy instruments. I define these instruments broadly, and consider them within four categories: charge systems; tradable permits; market friction reductions; and government subsidy reductions. By defining market-based instruments broadly, I cast a large net for this review of applications. As a consequence, the review is extensive. But this should not leave the impression that market-based instruments have replaced the conventional, command-and-control approach to environmental protection. Further, even where these approaches have been used in their purest form and with some success, such as in the case of tradable-permit systems in the United States, they have not always performed as anticipated. In the final part of the paper, I ask what lessons can be learned from our experiences. In particular, I consider normative lessons for: design and implementation; analysis of prospective and adopted systems; and identification of new applications.

TI Cost Heterogeneity and the Potential Savings From Market-Based Policies. AU Newell, Richard G.; Stavins, Robert N.

PD September 2002. TI Interpreting Sustainability in Economic Terms: Dynamic Efficiency Plus Intergenerational Equity. AU Stavins, Robert N.; Wagner, Alexander F.; Wagner, Gernot. AA Harvard University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/61; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 6. PR no charge; available only on website. JE Q20, Q30. KW Sustainability. Dynamic Efficiency. Intergenerational Equity.
AB Economists have expended considerable effort to develop economically meaningful definitions of the somewhat elusive concept of "sustainability." We relate such a definition of

sustainability to well known concepts from neoclassical economics, in particular, potential Pareto improvements (in the Kaldor-Hicks sense) and inter-personal compensation. In the inter-temporal realm, we find that dynamic efficiency is a necessary but no sufficient condition for a notion of sustainability that has normative standing as a goal for the public policy. We define sustainability as dynamic efficiency plus intergenerational equity. Further, we argue that it is not unreasonable for economists to focus on the efficiency element, leaving equity considerations to the political process. The analogy to the relationship between potential Pareto improvements and (intragenerational) transfers can facilitate discussions about sustainability, both within the economics community and as part of an interdisciplinary discourse, and makes the basic concepts easier to operationalize.

TI   Increasing Participation and Compliance in International Climate Change Agreements. AU   Barrett, Scott; Stavins, Robert N.

Steinmeier, Thomas L.
TI   The New Social Security Commission Personal Accounts: Where Is the Investment Principal? AU   Gustman, Alan L.; Steinmeier, Thomas L.

Stern, Scott
TI   Are All Patent Examiners Equal? The Impact of Examiner Characteristics on Patent Statistics and Litigation Outcomes. AU   Cockburn, Iain M.; Kortum, Samuel; Stern, Scott.

Sterner, Thomas
TI   Monitoring and Enforcement: Is Two-Tier Regulation Robust? AU   Kathuria, Vinish; Sterner, Thomas.

Stiroh, Kevin J.
TI   Projecting Productivity Growth: Lessons from the U.S. Growth Resurgence. AU   Jorgenson, Dale W.; Ho, Mun S.; Stiroh, Kevin J.

Strobl, Eric
TI   Defining Unemployment in Developing Countries: The Case of Trinidad and Tobago. AU   Byrne, David; Strobl, Eric.

TI   The Incidence of Visible Underemployment: Evidence for Trinidad and Tobago. AU   Goerg, Holger; Strobl, Eric.

PD   July 2001. TI   Minimum Wages and Compliance: The Case of Trinidad and Tobago. AU   Strobl, Eric; Walsh, Frank. AA   University College, Dublin. SR   University of Nottingham, CREDIT Research Paper: 01/12; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG   18. PR   no charge. JE   J30, J38, J63. KW   Minimum Wages. Trinidad. Tobago. Employment.
AB   On April the 6th of 1998 the government of the Republic of Trinidad and Tobago introduced a National Minimum Wage for the first time. Using the Trinidad and Tobago labor force survey we show that potential costs, if there had been full compliance, could have been substantial. An examination of employment and the wage distribution in aggregate shows that the actual degree of compliance was fairly low however. Nevertheless, an econometric investigation on a panel of

individuals provides evidence that the minimum wage did cause some individuals to experience a wage increase, while others consequently lost their job. Differential impacts across firm size suggest that the "formality" of the firm may be an important factor in compliance.

TI   Relative   Wages,   Openness   and   Skill-Biased Technological Change in Ghana. AU   Goerg, Holger; Strobl, Eric.

PD   January 2002. TI   Do Large Employers Pay More in Developing Countries? The Case of Five African Countries. AU   Strobl, Eric; Thornton, Robert. AA   Strobl: University College, Dublin. Thornton: Lehigh University. SR   University of Nottingham, CREDIT Research Paper: 02/01; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG   27. PR   no charge. JE   J31, O33. KW   Wages. Developing Countries. Africa. Technology.
AB   Using comparable data sets for five African countries we estimate, and evaluate possible explanations for, the employer size wage effect across these. Our results indicate, just as has been generally found for other developing and developed nations, that apart from observable worker characteristics most potential theories cannot explain very much of the wage premium received in larger firms. Moreover, we find that the employer size wage effect does not differ greatly across the five African countries. Like other developing nations it is, however, larger than that found in the industrialized world, and, unlike the industrialized world, larger for white than blue collar workers. Additionally, data for one of the African countries in conjunction with other evidence suggests that this may in part be because skill biased technology affects the firm size wage distribution across skill groups in developing countries more.

PD   March 2002. TI   Getting it Right: Employment Subsidy or Minimum Wage? Evidence from Trinidad and Tobago. AU   Strobl, Eric; Walsh, Frank. AA   University College, Dublin. SR   University of Nottingham, CREDIT Research Paper: 02/07; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG   18. PR   no charge. JE   J22, J28, J38. KW   Minimum Wage. Employment Subsidy. Trinidad. Tobago. Monopsony.
AB   In monopsony models of the labor market either a minimum wage or an employment subsidy financed by a lump sum tax on profits can achieve the efficient level of employment and output. Incorporating working conditions into a monopsony model where higher wages raise firm labor supply, but less attractive working conditions reduce it, changes these policy implications. Specifically, a minimum wage policy could, in contrast to an employment subsidy, cause working conditions to deteriorate and welfare to fall. Empirical evidence from the Republic of Trinidad and Tobago shows that a minimum wage did appear to cause working conditions to worsen.

PD   August 2002. TI   Is Education Used as a Signaling Device for Productivity in Developing Countries? Evidence from   Ghana.   AA   University   College,   Dublin. SR   University of Nottingham, CREDIT Research Paper: 02/15; CREDIT Secretary, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: www.nottingham.ac.uk/economics/credit/. PG   8. PR   no charge. JE   D24, I21. KW   Education.

Signaling. Productivity. Ghana.
AB This paper investigates whether education is used as a signaling device for worker productivity in developing countries. To do such we employ a simple test of employer learning on Ghana manufacturing data. We find no evidence of educational signaling for individuals who were hired through direct contacts in the firm, and thus for workers for which employers arguably have more information about their true abilities. In contrast, education acts as signal for workers who were hired through more formal channels, although only for those that do not receive on-the-job-training.

TI Why Do Rates of Convergence Differ? A Meta-Regression Analysis. AU Dobson, Stephen; Ramlogan, Carlyn; Strobl, Eric.

TI Dry Times in Africa. AU Barrios, Salvador; Bertinelli, Luisito; Strobl, Eric.

Stulz, Rene M.
TI Are Financial Assets Priced Locally or Globally? AU Karolyi, G. Andrew; Stulz, Rene M.

TI Daily Cross-Border Equity Flows: Pushed or Pulled? AU Griffin, John M.; Nardari, Federico; Stulz, Rene M.

Subramanian, Guhan
TI The Powerful Antitakeover Force of Staggered Boards: Theory, Evidence and Policy. AU Bebchuk, Lucian Arye; Coates, John C., IV..; Subramanian, Guhan.

Surico, Paolo
TI What Does Monetary Policy Reveal About Central Bank's Preferences? AU Castelnuovo, Efrem; Surico, Paolo.

PD April 2002. TI Geographic Concentrations and Increasing Returns: A Survey of Evidence. AA Bocconi University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/29; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 21. PR no charge; available only on website. JE C52, F12, R12. KW Increasing Returns. Market Access. Demand and Cost Linkages. Large- Scale Agglomeration.
AB Economic activities are highly clustered. Why is geographic concentration becoming a predominant feature of modern economies? On the basis of the empirical models developed by the 'new' theories of international trade, our answer is that increasing returns are the driving force of economic geography in the US as well as in Europe. In so doing, we review econometric methods proposed in the literature to separate and to test alternative theoretical paradigms.

PD September 2002. TI US Monetary Policy Rules: The Case for Asymmetric Preferences. AA Bocconi University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/66; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 19. PR no charge; available only on website. JE E32, E52. KW Monetary Policy Rules. Asymmetric Loss Function. Central Bank. Euler Equation.
AB This paper investigates the empirical relevance of a new framework for monetary policy analysis in which decision makers are allowed to weight differently positive and negative deviations of inflation and output from the target values. The specification of the central bank objective is general enough to nest the symmetric quadratic form as a special case, thereby making the derived policy rule potentially nonlinear. This forms the basis of our identification strategy which is used to develop a formal hypothesis testing for the presence of asymmetric preferences. Reduced-form estimates of postwar US policy rules indicate that the preferences of the Fed have been highly asymmetric in both inflation and output gaps, with the asymmetries on the latter becoming relatively more pronounced during the post-79 tenures.

Sutherland, Alan
PD September 2002. TI International Monetary Policy Coordination and Financial Market Integration. AA University of St. Andrews. SR European Central Bank Working Paper: 174; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 44. PR no charge. JE E52, E58, F42. KW Monetary Policy. International Coordination. Financial Integration. Risk Sharing.
AB The welfare gains from international coordination of monetary policy are analyzed in a two-country model with sticky prices. The gains from coordination are compared under two alternative structures for financial markets: financial autarky and risk sharing. The welfare gains from coordination are found to be largest when there is risk sharing and the elasticity of substitution between home and foreign goods is greater than unity. When there is no risk sharing, the gains to coordination are almost zero. It is also shown that the welfare gain from risk sharing can be negative when monetary policy is uncoordinated.

Swallow, Brent
TI Using Conjoint Analysis to Estimate Farmer's Preferences for Cattle Traits in West Africa. AU Faminow, Merle D.; Kamuanga, Mulumba; Swallow, Brent; Tano, Kouadio.

Swanson, Eric
TI Market-Based Measures of Monetary Policy Expectations. AU Gurkaynak, Refet S.; Sack, Brian; Swanson, Eric.

TI Identifying the Effects of Monetary Policy Shocks on Exchange Rates Using High Frequency Data. AU Faust, Jon; Rogers, John H.; Swanson, Eric; Wright, Jonathan H.

Swanson, Timothy M.
TI The Impact of International Environmental Agreements: The Case of the Montreal Protocol. AU Mason, Robin; Swanson, Timothy M.

TI Lost Horizons: The Noncooperative Management of an Evolutionary Biological System. AU Goeschl, Timo; Swanson, Timothy M.

Szalay, Dezsoe
PD April 2003. TI The Economics of Clear Advice and Extreme Options. AA University of Lausanne. SR Universite de Lausanne, Cahiers de Recherches Economiques: 03/09; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website:

www.hec.unil.ch/deep/publications-english/e-	cahiers.htm.
PG 22. **PR** no charge. **JE** D11, D82. **KW** Discretion.
Freedom of Action. Endogenous Information.
AB This paper is about freedom of choice and rigidity of
choice rules as incentive devices. We study the optimal design
of an agent's freedom of choice when his information is
endogenous and costly to acquire. We show that curtailing the
agent's authority over decision-making may be optimal even if
the agent's and the principal's ex post objectives coincide. The
agent is forced to depart from prior optimal choices and to take
a clear stance on a matter. Having the agent choose from
extreme options is derived as a second best optimal contract
when his information acquisition technology is "success
enhancing" and use of contingent monetary compensation
infeasible.

Tano, Kouadio
TI Using Conjoint Analysis to Estimate Farmer's
Preferences for Cattle Traits in West Africa. **AU** Faminow,
Merle D.; Kamuanga, Mulumba; Swallow, Brent; Tano,
Kouadio.

Tarp, Finn
TI Business Cycles in Developing Countries: Are They
Different? **AU** Rand, John; Tarp, Finn.

TI On the Empirics of Foreign Aid and Growth.
AU Dalgaard, Carl-Johan; Hansen, Henrik; Tarp, Finn.

Taylor, Jayne
TI Price and Quality in the UK Childcare Market.
AU Duncan, Alan; Paull, Gillian; Taylor, Jayne.

Taylor, Michael R.
PD October 2002. **TI** The U.S. Patent System and
Developing Country Access to Biotechnology: Does the
Balance Need Adjusting? **AU** Taylor, Michael R.; Cayford,
Jerry. **AA** Resources for the Future. **SR** Resources for the
Future Discussion Paper: 02/51; Resources for the Future, 1616
P Street, NW, Washington, DC 20036. Contact Person: Scott
Hase at hase@rff.org. Website: www.rff.org. **PG** 66.
PR domestic first class $10; book rate $6; foreign air mail
$15; foreign surface mail $8; make checks payable to
Resources for the Future. **JE** O34, Q16. **KW** United States
Patents. Agricultural Biotechnology. Developing Countries.
Food Security.
AB For commercial and other reasons, applications of
biotechnology that might benefit developing country farmers
are unlikely in the foreseeable future to be developed and
disseminated through commercial channels. At the same time,
noncommercial, public sector researchers report that their
access to tools of biotechnology is impeded by the existing
patents on biotechnology. After reviewing the basis for these
observations, this paper outlines the theory and objectives of
the U.S. patent system, its application to agricultural
biotechnology, the resulting "patent thicket", and the pro-patent
orientation of the U.S. Patent and Trademark Office. The paper
then describes how the U.S. patent system affects developing
country access to biotechnology, based in part on an informal
survey the authors conducted among experts and stakeholders
in this field, and outlines a normative and analytical framework
for evaluating possible changes in patent policy to improve
developing country access without undercutting the patent

system's incentives for invention.

Tchernis, Rusty
TI Interfirm Mobility, Wages, and the Returns to Seniority
and Experience in the U.S. **AU** Buchinsky, Moshe; Fougere,
Denis; Kramarz, Francis; Tchernis, Rusty.

te Velde, Dirk Willem
PD November 2001. **TI** Foreign Ownership and Wages:
Evidence from Five African Countries. **AU** te Velde, Dirk
Willem; Morrissey, Oliver. **AA** te Vilde: ODI. Morrissey:
ODI and University of Nottingham. **SR** University of
Nottingham, CREDIT Research Paper: 01/19; CREDIT
Secretary, School of Economics, University of Nottingham,
University Park, Nottingham, NG7 2RD, United Kingdom.
Website: www.nottingham.ac.uk/economics/credit/. **PG** 26.
PR no charge. **JE** F23, G32, J31, L60. **KW** Ownership
Structure. Wages. Africa.
AB This paper uses data on individual wages in
manufacturing industry for five African countries in the early
1990s to test whether firms owned by foreigners pay higher
wages than do firms owned by locals for apparently equivalent
workers, and whether such benefits accrue to all or only certain
types of workers. We present two main findings. First, foreign
ownership is associated with a 20-40 per cent increase in
individual wages (conditional on age, tenure and education) on
average. This is halved to 8-23 per cent if we take into account
the fact that foreign-owned firms are larger and locate in high-
wage sectors and regions. Secondly, there is a tendency in some
countries for more skilled workers to benefit more from foreign
ownership than less skilled workers, and this conclusion holds
after accounting for the size distribution of foreign firms. We
discuss, but cannot directly test, the plausibility of two
explanations for these findings: 1) foreign-owned firms employ
technologies that are more skill-biased than technologies in
local firms and 2) skilled workers in foreign firms are more
effective in rent-sharing than other workers. We contend that
these explanations may not be mutually exclusive, hence
cannot be empirically distinguished.

PD September 2002. **TI** Spatial Inequality for
Manufacturing Wages in Five African Countries. **AU** te
Velde, Dirk Willem; Morrissey, Oliver. **AA** te Velde: ODI.
Morrissey: ODI and University of Nottingham.
SR University of Nottingham, CREDIT Research Paper:
02/18; CREDIT Secretary, School of Economics, University of
Nottingham, University Park, Nottingham, NG7 2RD, United
Kingdom. Website: www.nottingham.ac.uk/economics/credit/.
PG 20. **PR** no charge. **JE** J31, L60.
KW Manufacturing. Wages. Africa. Location.
AB This paper uses data on individual earnings in
manufacturing industry for five African countries to test
whether firms located in the capital city pay higher earnings
than do firms located elsewhere, and whether such benefits
accrue to all or only certain types of workers. Earnings
equations are estimated that take into account worker
characteristics and relevant firm characteristics. Any location
effect identified is therefore additional to appropriate control
variables. There are two main findings. First, we find evidence
of a "capital city premium" that varies between 12% and 28% in
the five countries. This location premium does not always
exceed plausible consumer price differentials, between the
capital and other areas, and therefore does not demonstrate that
real (purchasing power) manufacturing wages are higher in the

capital city. This suggests that spatial inequality in real earnings is unlikely to be significant for manufacturing employees. Second, while we find that skilled workers earn a higher wage premium in the capital city than less skilled workers, this is not because of location effects on earnings per se, but rather because of other firm characteristics of firms located in the capital city such as size and foreign ownership.

Temin, Peter
TI Beyond Markets and Hierarchies: Toward a New Synthesis of American Business History. AU Lamoreaux, Naomi R.; Raff, Daniel M. G.; Temin, Peter.

Tenreyro, Silvana
TI Optimal Currency Areas. AU Alesina, Alberto; Barro, Robert J.; Tenreyro, Silvana.

Thornton, Robert
TI Do Large Employers Pay More in Developing Countries? The Case of Five African Countries. AU Strobl, Eric; Thornton, Robert.

Tietenberg, Tom
PD June 2002. TI The Tradable Permits Approach to Protecting the Commons: What Have We Learned? AA Colby College. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/36; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 22. PR no charge; available only on website. JE Q22, Q25, Q28. KW Emissions Trading. Individual Tradable Quotas. Water Rights. Pollution Control Policy. Economic Incentives. Tradable Permits.
AB This essay reviews the implementation experience with three main applications of tradable permit systems: air pollution control, water supply, and fisheries management. Opening with a brief summary of the theory behind these programs and both the economic and environmental consequences anticipated by this theory, it proceeds with a description of the common elements these programs share and the design questions posed by the approach. These include the setting of the limit on access, the initial allocation of rights, transferability rules (both among participants and across time) as well as procedures for monitoring and enforcement. It continues by examining how these design questions have been answered by these three applications and how the answers have been influenced by changing technology, increased familiarity with the system and a desire to respond to some of the controversies surrounding the use of these approaches. The hard evidence on the economic and environmental consequences of adopting these approaches is juxtaposed with the expectations created by the economic theory of tradable permits. The final section draws together some tentative lessons that can be drawn from this experience.

Timmermann, Allan
TI How Costly is it to Ignore Breaks when Forecasting the Direction of a Time Series? AU Pesaran, M. Hashem; Timmermann, Allan.

Tinsley, P. A.
TI Term Premia: Endogenous Constraints on Monetary Policy. AU Kozicki, Sharon; Tinsley, P. A.

TI Alternative Sources of the Lag Dynamics of Inflation. AU Kozicki, Sharon; Tinsley, P. A.

Tjornhorn, Jessica D.
TI Decomposing the Persistence of International Equity Flows. AU Froot, Kenneth A.; Tjornhorn, Jessica D.

Toba, Natsuko
PD March 2003. TI Welfare Impacts of Electricity Generation Sector Reform in the Philippines. AA University of Cambridge. SR University of Cambridge, DAE Working Paper: 0316; Publications Secretary, Department of Applied Economics, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. PG 34. PR $10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. JE D61, L43, L94. KW Electricity. Cost-Benefit-Analysis. Institutional Change.
AB This paper reports an empirical, investigation into the welfare impacts of an introduction of private sector participation into the Philippines electricity generation sector, by liberalizing the market for independent power producers (IPPs) during the power crisis of 1990- 1993. This study uses a social cost and benefit analysis. The main benefits came from IPPs, who contributed to resolving the crisis, and promoted economic and social development. Consumers and investors are net gainers, while the Government lost and there was an air pollution cost. The paper concludes that the reform with private sector participation increased social welfare.

Tol, Richard S. J.
TI On National and International Trade in Greenhouse Gas Emission Permits. AU Rehdanz, Katrin; Tol, Richard S. J.

Toman, Michael
TI Optimal Investment in Clean Production Capacity. AU Fischer, Carolyn; Toman, Michael; Withagen, Cees.

PD May 2003. TI The Roles of the Environment and Natural Resources in Economic Growth Analysis. AA Resources for the Future. SR Resources for the Future Discussion Paper: 02/71; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 33. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE O40, Q01. KW Economic Growth. Natural Resources. Sustainable Development.
AB The primary aim of this paper is pedagogical. We first present and discuss a "wiring diagram" framework in order to elucidate the general links between economic growth and "natural capital." After developing the general framework, we develop parallel frameworks applicable to several specific sectors of the economy (agriculture, forestry, and manufacturing). Two appendices provide a mathematical formulation of the economy-wide framework and a brief historical review of the role of natural resources and the environment in economic growth theory.

Tomlin, KaSaundra
TI Tariff-Jumping FDI and Domestic Firms' Profits. AU Blonigen, Bruce A.; Tomlin, KaSaundra; Wilson, Wesley W.

Traeger, Rolf
TI   An Account of Geographic Concentration Patterns in Europe. AU   Bruelart, Marius; Traeger, Rolf.

Trebbi, Francesco
TI   Endogenous Political Institutions.   AU   Aghion, Philippe; Alesina, Alberto; Trebbi, Francesco.

Tressou, Jessica
TI   Evaluation of Food Risk Exposure Based on Extreme Value Theory: Application to Heavy Metals from Sea Products. AU   Bertail, Patrice; Crepet, Amelie; Feinberg, Max; Tressou, Jessica.

Trimbur, Thomas M.
TI   Cyclical Components in Economic Time Series: A Bayesian Approach. AU   Harvey, Andrew C.; Trimbur, Thomas M.; van Dijk, Herman K.

Turner, Sarah E.
PD   July 2002. TI   Closing the Gap or Widening the Divide: The Effects of the G.I. Bill and World War II on the Educational Outcomes of Black Americans. AU   Turner, Sarah E.; Bound, John. AA   Turner: University of Virginia and NBER. Bound: University of Michigan and NBER. SR   National Bureau of Economic Research Working Paper: 9044; 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   I21. KW   Education. Black Americans. G. I. Bill.
AB   The effects of the G.I. Bill on collegiate attainment may have differed for black and white Americans owing to differential returns to education and differences in opportunities at colleges and universities, with men in the South facing explicitly segregated colleges. The empirical evidence suggests that World War II and the availability of G.I. benefits had a substantial and positive impact on the educational attainment of white men and black men born outside the South. However, for those black veterans likely to be limited to the South in their educational choices, the G.I. Bill had little effect on collegiate outcomes, resulting in the exacerbation of the educational differences between black and white men from southern states.

Turrini, Alessandro
TI   How Important are Market Access Issues for Developing Countries in the Doha Agenda? AU   Cernat, Lucian; Laird, Sam; Turrini, Alessandro.

Ulus, Mustafa
TI   Unemployment Insurance and Labor Reallocation. AU   Malherbet, Franck; Ulus, Mustafa.

Upward, Richard
TI   Employer Search, Vacancy Duration and Skill Shortages. AU   Andrews, Martyn J.; Bradley, Steve; Upward, Richard.

Uribe, Martin
PD   October 2002. TI   A Fiscal Theory of Sovereign Risk. AA   University of Pennsylvania and NBER. SR   European Central Bank Working Paper: 187; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main,

Germany. Website: www.ecb.int/pub/. PG   40. PR   no charge. JE   E62, F41. KW   Default. Country Risk. Public Debt.
AB   This paper presents a fiscal theory of sovereign risk and default. Under certain monetary-fiscal regimes, the risk of default, and thus the emergence of sovereign risk premia, is inevitable. The paper characterizes the equilibrium processes of the sovereign risk premium and the default rate under a number of alternative monetary policy arrangements. It is argued that, given the fiscal stance, monetary policy plays a crucial role in shaping the equilibrium behavior of the country risk premium and the default rate. For instance, under some of the monetary policy rules considered, the expected default rate and the sovereign risk premium are zero (and therefore unforecastable) although the government defaults regularly. Under other monetary regimes the default rate and the sovereign risk premium are serially correlated (and therefore forecastable). In addition, environments are characterized under which delaying default is counterproductive.

Vahey, Shaun P.
TI   A Real Time Tax Smoothing Based Fiscal Policy Rule. AU   Loukoianova, Elena; Vahey, Shaun P.; Wakerly, Elizabeth C.

Vainio, Matti
PD   October 2002. TI   Pathways to European Greenhouse Gas Emissions Trading History and Misconceptions. AU   Vainio, Matti; Zapfel, Peter. AA   DG Environment. SR   Fondazione Eni Enrico Mattei Note di Lavoro: 2002/85; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG   25. PR   no charge; available only on website. JE   Q54, Q58. KW   Climate Policy. Emissions Trading. Greenhouse Gases. Kyoto Protocol. European Union.
AB   We develop and discuss the three approaches to European Greenhouse Gas Emissions Trading: a top-down scheme based on the Kyoto Protocol of the UNFCCC, a bottom-up scheme linking national trading systems of EU Member States, and an EU-wide regional scheme based on the founding principles of the European Union. We review how the debate on greenhouse gas emissions trading has evolved in Europe since the adoption of the Kyoto Protocol in 1997 in three phases. We also review a set of influential misconceptions in the European discussion concerning emissions trading and, while dispelling them, try to establish why such misconceptions have arisen.

van Arle, Bas
TI   Staying Together or Breaking Apart: Policy-Makers' Endogenous Coalitions Formation in the European Economic and Monetary Union. AU   Di Bartolomeo, Giovanni; Engwerda, Jacob; Plasmans, Joseph; van Arle, Bas.

van Dijk, Herman K.
TI   Cyclical Components in Economic Time Series: A Bayesian Approach. AU   Harvey, Andrew C.; Trimbur, Thomas M.; van Dijk, Herman K.

van Regemorter, Denise
TI   Is Kyoto Fatally Flawed? An Analysis with MacGEM. AU   Eyckmans, Johan; van Regemorter, Denise; van

Steenberghe, Vincent.

van Steenberghe, Vincent
TI Is Kyoto Fatally Flawed? An Analysis with MacGEM.
AU Eyckmans, Johan; van Regemorter, Denise; van Steenberghe, Vincent.

van Wincoop, Eric
TI A Theory of the Currency Denomination of International Trade. AU Bacchetta, Philippe; van Wincoop, Eric.

TI A Theory of the Currency Denomination of International Trade. AU Bacchetta, Philippe; van Wincoop, Eric.

TI Why Do Consumer Prices React less than Import Prices to Exchange Rates? AU Bacchetta, Philippe; van Wincoop, Eric.

Vanzetti, David
TI Market Access Proposals for Non-Agricultural Products. AU de Cordoba, Santiago Fernandez; Laird, Sam; Vanzetti, David.

Ventura, Jaume
TI Current Accounts in the Long and Short Run. AU Kraay, Aart; Ventura, Jaume.

Veronesi, Pietro
TI Stock Valuation and Learning about Profitability. AU Pastor, Lubos; Veronesi, Pietro.

Verschoor, Arjan
TI Aid, Pro-Poor Government Spending and Welfare. AU Gomanee, Karuna; Morrissey, Oliver; Mosley, Paul; Verschoor, Arjan.

Viceira, Luis M.
TI Foreign Currency for Long-Term Investors. AU Campbell, John Y.; Viceira, Luis M.; White, Joshua S.

Villavicenco, Arturo
TI How Can Economies in Transition Pursue Emissions Trading or Joint Implementation? AU Missfeldt, Fanny; Villavicenco, Arturo.

Vivarelli, Marco
TI Cooperation in R&D and Sample Selection. AU Piga, Claudio; Vivarelli, Marco.

von Thadden, Ernst-Ludwig
TI The Political Economy of Bank- and Market Dominance. AU Perotti, Enrico C.; von Thadden, Ernst-Ludwig.

PD August 2003. TI Optimal Debt Design and the Role of Bankruptcy. AU von Thadden, Ernst-Ludwig; Bergloef, Erik; Roland, Gerard. AA von Thadden: University of Lausanne, FAME, and CEPR. Bergloef: SITE, CEPR, and WDI. Roland: UC Berkeley, CEPR, and WDI. SR Universite de Lausanne, Cahiers de Recherches Economiques: 03/13; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e- cahiers.htm. PG 44. PR no charge. JE G33, K22. KW Bankruptcy. Debt Structure.

Contracts.
AB This paper integrates the problem of designing corporate bankruptcy rules into a theory of optimal debt structure. We show that, in an incomplete-contracts framework with imperfect renegotiation, having multiple creditors increases a firm's debt capacity while increasing its incentives to default strategically. The optimal debt contract gives creditors claims that are jointly inconsistent in case of default. Bankruptcy rules are therefore a necessary part of the overall financing contract as they make claims consistent and prevent a value reducing run for the assets of the firm. It is not optimal to treat creditors asymmetrically in default, but creditors may be protected by different security rights.

von Ungern-Sternberg, Thomas
PD February 2003. TI Governance und Unabhaengigkeit von Nationalbanken: das Beispiel der Schweizerischen Nationalbank. (Governance and Independence of National Banks: the Example of the Swiss National Bank). AA University of Lausanne. SR Universite de Lausanne, Cahiers de Recherches Economiques: 03/01; Ecole des HEC-DEEP, University of Lausanne, BFSH 1, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications-english/e- cahiers.htm. PG 16. PR no charge. JE E52, E58. KW Central Bank. Independence. Accountability. Profit Distribution.
AB We argue that there is a natural trade-off between the independence and the accountability of a central bank. Economists' emphasis on the independence aspect has contributed to creating situations where the central banks' accountability is largely deficient. Attempts to resolve this issue by giving the central bank a clear legal mandate are no solution. A central bank with insufficient accountability can violate its legal mandate. We illustrate this by comparing the legal rules defining the Swiss central bank's profit distribution with its actual behaviour over the last 3 decades. (This paper is available in German only).

TI Assessing the Efficiency of an Insurance Provider -- A Measurement Error Approach. AU Jametti, Mario; von Ungern-Sternberg, Thomas.

Wadhwani, Sushil
TI Asset Prices in a Flexible Inflation Targeting Framework. AU Cecchetti, Stephen G.; Genberg, Hans; Wadhwani, Sushil.

Wagner, Alexander F.
TI Interpreting Sustainability in Economic Terms: Dynamic Efficiency Plus Intergenerational Equity. AU Stavins, Robert N.; Wagner, Alexander F.; Wagner, Gernot.

Wagner, Gernot
TI Interpreting Sustainability in Economic Terms: Dynamic Efficiency Plus Intergenerational Equity. AU Stavins, Robert N.; Wagner, Alexander F.; Wagner, Gernot.

Wainger, Lisa
TI Measuring Ecosystem Service Benefits: The Use of Landscape Analysis to Evaluate Environmental Trades and Compensation. AU Boyd, James; Wainger, Lisa.

Wakerly, Elizabeth C.
TI A Real Time Tax Smoothing Based Fiscal Policy Rule.
AU Loukoianova, Elena; Vahey, Shaun P.; Wakerly, Elizabeth C.

Walker, David I.
TI Managerial Power and Rent Extraction in the Design of Executive Compensation. AU Bebchuk, Lucian Arye; Fried, Jesse M.; Walker, David I.

Walls, Margaret
PD June 2002. TI The Organization of Local Solid Waste and Recycling Markets: Public and Private Provision of Services. AU Walls, Margaret; Macauley, Molly K.; Anderson, Soren T. AA Resources for the Future. SR Resources for the Future Discussion Paper: 02/35; Resources for the Future, 1616 P Street, NW, Washington, DC 20036. Contact Person: Scott Hase at hase@rff.org. Website: www.rff.org. PG 15. PR domestic first class $10; book rate $6; foreign air mail $15; foreign surface mail $8; make checks payable to Resources for the Future. JE H42, Q53. KW Market Organization. Solid Waste Management. State and Local Government.
AB Managing the generation, disposal, and recycling of solid waste challenges policymakers around the world. The use of contractual arrangements between local governments and the private sector is an increasingly common approach to organizing waste management services, yet very little attention has been paid to how these contracts are structured. We describe trends in, and some of the historical and other reasons for, organization of waste management in U.S. communities; review the existing literature on communities' choices of service delivery methods and the costs of those various methods; and offer some new econometric results explaining some of these relationships.

Walsh, Frank
TI Minimum Wages and Compliance: The Case of Trinidad and Tobago. AU Strobl, Eric; Walsh, Frank.

TI Getting it Right: Employment Subsidy or Minimum Wage? Evidence from Trinidad and Tobago. AU Strobl, Eric; Walsh, Frank.

Walsh, Randy
TI General Equilibrium Benefit Transfers for Spatial Externalities: Revisiting EPA's Prospective Analysis. AU Smith, V. Kerry; Sieg, Holger; Banzhaf, H. Spencer; Walsh, Randy.

Weeks, Melvyn
TI Non-Nested Models and the Likelihood Ratio Statistic: A Comparison of Simulation and Bootstrap-Based Tests. AU Kapetanios, George; Weeks, Melvyn.

Weinstein, David E.
TI Technological Superiority and the Losses from Migration. AU Davis, Donald R.; Weinstein, David E.

Weisbenner, Scott J.
TI Investor Behavior and the Purchase of Company Stock in 401(k) Plans -- The Importance of Plan Design. AU Liang, Nellie; Weisbenner, Scott J.

TI Inter-Asset Differences in Effective Estate Tax Burdens. AU Poterba, James M.; Weisbenner, Scott J.

Welch, Theodora
TI How Does Trade Sale Privatization Work? Evidence from the Fixed-Line Telecommunications Sector in Developing Economies. AU Molz, Rick; Welch, Theodora.

Werner, Jan
TI Implementing Arrow-Debreu Equilibria by Trading Infinitely-Lived Securities. AU Huang, Kevin X. D.; Werner, Jan.

Weymark, John A.
TI Multidimensional Generalized Gini Indices. AU Gajdos, Thibault; Weymark, John A.

Whelan, Karl
TI Does the Labor Share of Income Drive Inflation? AU Rudd, Jeremy; Whelan, Karl.

TI On the Relationships Between Real Consumption, Income, and Wealth. AU Palumbo, Michael; Rudd, Jeremy; Whelan, Karl.

TI A Note on the Cointegration of Consumption, Income, and Wealth. AU Rudd, Jeremy; Whelan, Karl.

White, Eugene N.
TI U.S. Stock Market Crashes and Their Aftermath: Implications for Monetary Policy. AU Mishkin, Frederic S.; White, Eugene N.

TI How Could Everyone Have Been So Wrong? Forecasting the Great Depression with the Railroads. AU Landon-Lane, John; White, Eugene N.

White, Joshua S.
TI Foreign Currency for Long-Term Investors. AU Campbell, John Y.; Viceira, Luis M.; White, Joshua S.

White, Michelle J.
TI Bankruptcy and Small Firms' Access to Credit. AU Berkowitz, Jeremy; White, Michelle J.

Wieland, Volker
TI Inflation Dynamics and International Linkages: A Model of the United States, the Euro Area and Japan. AU Coenen, Gunter; Wieland, Volker.

Williams, John C.
TI Imperfect Knowledge, Inflation Expectations and Monetary Policy. AU Orphanides, Athanasios; Williams, John C.

Williams, Noah
TI Modeling Model Uncertainty. AU Onatski, Alexei; Williams, Noah.

Williamson, Jeffrey G.
TI Where Do U.S. Immigrants Come From, and Why? AU Clark, Ximena; Hatton, Timothy J.; Williamson, Jeffrey G.

TI The Roots of Latin American Protectionism: Looking Before the Great Depression. AU Coatsworth, John H.; Williamson, Jeffrey G.

Willis, Jonathan L.
PD December 2001. TI Magazine Prices Revisited. AA Federal Reserve Bank of Kansas City. SR Federal Reserve Bank of Kansas City Research Working Paper: RWP01/15; Public Affairs, Federal Reserve Bank of Kansas City, 925 Grand Blvd., Kansas City, MO 64198. Website: www.kc.frb.org/publicat/reswkpap/rwpmain.htm. PG 18. PR no charge. JE C14, D40, L16. KW Menu Costs. Price Adjustment. Nonparametric Methods.
AB This paper examines price adjustment behavior in the magazine industry. In a frequently cited study, Cecchetti (1986) constructs a reduced-form (S,s) model for firms. Cecchetti assumes that a firm's pricing rules are fixed for non-overlapping three-year intervals and estimates the model using a conditional logit specification from Chamberlain (1980). The estimates are inconsistent, however, due to the state-dependent specification of the model. I illustrate the econometric problems in Cecchetti's results through a Monte Carlo exercise and then suggest a method for producing consistent estimates based upon Heckman and Singer (1984). The corrected results provide strong support for models of state-dependent pricing.

TI The Economics of Labor Adjustment: Mind the Gap. AU Cooper, Russell; Willis, Jonathan L.

Wilson, Wesley W.
TI Tariff-Jumping FDI and Domestic Firms' Profits. AU Blonigen, Bruce A.; Tomlin, KaSaundra; Wilson, Wesley W.

Winters, L. Alan
TI Trade Liberalization and Poverty: The Empirical Evidence. AU McCulloch, Neil; McKay, Andrew; Winters, L. Alan.

Withagen, Cees
TI Optimal Investment in Clean Production Capacity. AU Fischer, Carolyn; Toman, Michael; Withagen, Cees.

Woglom, Geoffrey
TI The S&P 500 Effect: Not Such Good News in the Long Run. AU Cooper, Daniel; Woglom, Geoffrey.

Wolken, John
TI Small Business Loan Turndowns, Personal Wealth and Discrimination. AU Cavalluzzo, Ken; Wolken, John.

Wolman, Alexander L.
TI Regional Inflation in a Currency Union: Fiscal Policy vs. Fundamentals. AU Duarte, Margarida; Wolman, Alexander L.

Worrall, Tim
TI Cost Padding in Regulated Monopolies. AU Bougheas, Spiros; Worrall, Tim.

Wouters, Raf
TI An Estimated Stochastic Dynamic General Equilibrium Model of the Euro Area. AU Smets, Frank; Wouters, Raf.

Wright, Jonathan H.
TI Identifying the Effects of Monetary Policy Shocks on Exchange Rates Using High Frequency Data. AU Faust, Jon; Rogers, John H.; Swanson, Eric; Wright, Jonathan H.

Xiang, Chong
TI The Home Market Effect and Bilateral Trade Patterns. AU Hanson, Gordon H.; Xiang, Chong.

Xu, Lixin Colin
TI Privatization, Competition, and Corruption: How Characteristics of Bribe Takers and Payers Affect Bribe Payments to Utilities. AU Clarke, George R. G.; Xu, Lixin Colin.

Yanez, Jorge Andres Ferrando
PD December 2002. TI Incentive Regulation in Vertically Related Industries: Welfare Effects of Industry Structure and Institutional Coordination. AA CREST-INSEE, Universite Paris 1 Pantheon Sorbonne, Pontificia Universidad Catolica. SR INSEE Documents de Travail du CREST: 2002/47; Mme Nadine GUEDJ, INSEE-CREST, 15 Boulevard Gabriel Peri, 92245 Malakoff Cedex, France. Website: www.crest.fr/doctravail/documents.html. PG 35. PR no charge. JE L43, L51, L94, L95, L98. KW Regulated Industries. Natural Gas. Electricity. Double Marginalization.
AB Some regulated industries, like natural gas and electricity, are closely related: besides being substitutes for consumption, one product is an important input for producing the other. Thus, regulation of one industry necessarily interferes with the other, and these interactions should be accounted for. First, we show that under perfect information, with no regulation and linear pricing, the welfare gains due to increased competition do not outweigh the losses stemming from double marginalization, which is an argument for firm integration. We then show that informational asymmetries can reverse this result. We also show that, regardless of the prevailing industry structure, two sector specific regulators cannot achieve incentive compatibility without at least some form of coordination, even if they share their information and contract in all available variables. Worse still, if they do not share their information, lack of coordination might lead to monopoly pricing. We characterize the set of globally incentive compatible linear regulatory contracts, which includes price caps, cost-plus, and other combined forms, and show how the optimal choice of regulation and industry structure varies according to the substitutability in consumption and technical dependency in production of the regulated goods and services.

Yates, Tony
PD October 2002. TI Monetary Policy and the Zero Bound to Interest Rates: A Review. AA Bank of England. SR European Central Bank Working Paper: 190; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 82. PR no charge. JE E31, E52. KW Liquidity Trap. Zero Bound. Stabilization. Inflation. Monetary Policy.
AB This paper reviews the literature on what the zero bound to nominal interest rates implies for the conduct of monetary policy. The aim is to evaluate the risks of hitting the zero bound; and to evaluate policies that are said to be able to reduce that risk, or policies that are proposed as a means of

helping the economy escape if it is in a zero bound "trap". I conclude that policies aimed at "cure" are arguably more uncertain tools than those aimed at "prevention", so prevention is a less risky strategy for policymakers. But since the risks of hitting the zero bound seem quite small anyway, and the risks of encountering a deflationary spiral smaller still, it is conceivable that inflation objectives that typify modern monetary regimes already have more than enough insurance built into them to deal with the zero bound problem.

Yavas, Cemile
TI When Does Trade Hurt? Market, Transition and Developing Economies. AU Krishna, Kala; Yavas, Cemile.

TI Trade with Labor Market Distortions and Heterogeneous Labor: Why Trade Can Hurt. AU Krishna, Kala; Mukhopadhyay, Abhiroop; Yavas, Cemile.

Yoshino, Yutaka
TI Multilateral Trade Agreements and Market-Based Environmental Policies. AU Fischer, Carolyn; Hoffmann, Sandra A.; Yoshino, Yutaka.

Yu, Zhihao
PD June 2002. TI A Theory of Strategic Vertical DFI and the Missing Pollution-Haven Effect. AA University of Nottingham. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/46; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 17. PR no charge; available only on website. JE F18, F23, Q56. KW Trade and Environment. Pollution-Haven Hypothesis. Vertical DFI/FDI.
AB This paper develops a theory of strategic vertical DFI (direct foreign investment) to suggest an explanation for the empirical puzzle of the missing "pollution-haven" effect. It focuses on a firm's strategic incentive to create multi-market interdependence (in addition to other conventional incentives for DFI) and suggests that the empirical investigations of pollution-haven effects based on environmental compliance costs might be complicated by such strategic behavior. The theory provides particular implications for the empirical research in this area and some broader implications for the theory of DFI.

Zapfel, Peter
TI Pathways to European Greenhouse Gas Emissions Trading History and Misconceptions. AU Vainio, Matti; Zapfel, Peter.

Zgovu, Evious
TI Export Response to Trade Liberalization in the Presence of High Trade Costs: Evidence for a Landlocked African Economy. AU Milner, Chris; Zgovu, Evious.

Zha, Tao
TI Empirical Analysis of Policy Interventions. AU Leeper, Eric M.; Zha, Tao.

Zhang, Frank
TI Trading Activity and Price Volatility in the Municipal Bond Market. AU Downing, Chris; Zhang, Frank.

Zhang, Jiangfeng
TI Bayesian Learning and the Regulation of Greenhouse Gas Emissions. AU Karp, Larry; Zhang, Jiangfeng.

TI Controlling a Stock Pollutant with Endogenous Investment and Asymmetric Information. AU Karp, Larry; Zhang, Jiangfeng.

Zhang, Xuehua
TI The Near-Term Impacts of Carbon Mitigation Policies on Manufacturing Industries. AU Morgenstern, Richard D.; Ho, Mun S.; Shih, Jhih-Shyang; Zhang, Xuehua.

TI The Ancillary Carbon Benefits of SO2 Reductions from a Small-Boiler Policy in Taiyuan, PRC. AU Morgenstern, Richard D.; Krupnick, Alan; Zhang, Xuehua.

Zhang, ZhongXiang
TI The Economic and Environmental Implications of the US Repudiation of the Kyoto Protocol and the Subsequent Deals in Bonn and Marrakech. AU Loeschel, Andreas; Zhang, ZhongXiang.

Zilibotti, Fabrizio
TI Distance to Frontier, Selection, and Economic Growth. AU Acemoglu, Daron; Aghion, Philippe; Zilibotti, Fabrizio.

Zoli, Claudio
PD December 2000. TI Inverse Stochastic Dominance, Inequality Measurement and Gini Indices. AA University of Nottingham. SR University of Nottingham, Discussion Paper in Economics: 00/30; Dr. Mark Roberts, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, England. Website: www.nottingham.ac.uk/economics/research/dp/school_dp/.
PG 21. PR no charge. JE C65, D30. KW Lorenz Curve. Gini Coefficient. Stochastic Dominance. Transfers. Third Degree.
AB We investigate the relationship between the third degree inverse stochastic dominance criterion introduced in Muliere and Scarsini (1989) and inequality dominance when Lorenz curves intersect. We propose a new definition of transfer sensitivity aimed at strengthening the Pigou-Dalton Principle of Transfers. Our definition is dual to that suggested by Shorrocks and Foster (1987). It involves a regressive transfer and a progressive transfer both from the same donor and leaving the Gini index unchanged. We prove that finite sequences of these transfers and/or progressive transfers characterize the third degree inverse stochastic dominance criterion. This criterion allows us to make unanimous inequality judgments even when Lorenz curves intersect. The Gini coefficient becomes relevant in these cases in order to conclusively rank the distributions.