Summary of articles

Forecasting Bank Failure: A Non-Parametric Frontier Estimation Approach, by Richard S. Barr, Lawrence M. Seiford and Thomas F. Siems

The dramatic rise in bank failures over the last decade has led to a search for leading indicators so that costly bailouts might be avoided. While the quality of a bank's management is generally acknowledged to be a key contributor to institutional collapse, it is usually excluded from early-warning models for lack of a metric. This paper describes a new approach for quantifying a bank's managerial efficiency, using a data-envelopment-analysis model that combines multiple inputs and outputs to compute a scalar measure of efficiency. This new metric captures an elusive, yet crucial, element of institutional success: management quality. New failure-prediction models for detecting a bank's troubled status which incorporate this explanatory variable have proven to be robust and accurate, as verified by in-depth empirical evaluations, cost sensitivity analyses, and comparisons with other published approaches.

Journal of Economic Literature classification numbers : D24, D69, J21.

Enhancing The Performance of Credit Unions: The Evolution of a Methodology, by Harold O. Fried and C.A. Knox Lovell

In the United States credit unions are not-for-profit cooperative financial institutions, owned by and operated for the benefit of their members. Being part of a cooperative movement enhances the likelihood that credit unions will share performance-enhancing ideas, for the benefit of weak credit unions and the movement as a whole.In this paper we show how a conventional performance *evaluation* methodology has evolved into a novel performance *enhancement* methodology. The evolution of the methodology is the result of cooperations among individual credit union managements, movement officials and the authors. The evolution is illustrated with 1990 data on nearly 9,000 credit unions.

Journal of Economic Literature classification numbers : D24, D69, J21.

Radial and Nonradial Technical Efficiency Measures on a DEA Reference Technology: A Comparison Using US Banking Data, by Gary D. Ferrier, Kristiaan Kerstens and Philippe Vanden Eeckaut

Technical efficiency measure can be classified as either radial or nonradial. While the theorical question of which is the better type of

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measure is unresolved, the radial measures enjoy much greater popularity than the nonradial measures in the empirical literature. To assess the impact of choice of measure, this paper offers an empirical comparison of one radial and three nonradial measures of technical efficiency, relative to a variable returns to scale DEA model with strong disposability. The distributions and ranking of these efficiency scores are examined for a sample of US banks.

Journal of Economic Literature classification numbers : D24, D69, J21.

Anticipations rationnelles et apprentissage. De la pertinence des modèles cohérents, by Marc Germain and Alphonse Magnus

The rational expectations (RE) hypothesis raises the question of knowing how agents acquire the information necessary to realize them. The basic idea that underlies the RE learning literature is to suppose that if agents do not know the equation determining RE, they are able to learn it with time using past experience. If agents know the analytical expression ot the equation governing the economy with RE up to the value of certain parameters, then the learning process is called rational and converges to the RE equilibrium under quite general assumptions. The aim of this note is to extend this notion of rationality to learning models that are less information demanding, and to show with an example that these models are nevertheless able to converge to a RE equilibrium.

Journal of Economic Literature classification number : D84.

A Normative Analysis of Wage Subsidies and Unemployment Benefits under Fixed Number of Working Hours, by Salvador López

In recent years Western governments have introduced a number of emergency measures in their fight against short run unemployment. In this paper a normative analysis concerning the joint implementation of two such measures is offered, viewing unemployment as involuntary, and taking account of the dissatisfaction cost (lack of the social status that having a job provides) borne by unemployed workers. Attention is paid to the existing trade-off between a policy of wage subsidies to the private sector aimed at stimulating employment and a policy of transfer payments to the unemployed intended to increase their purchasing power. In a simple general equilibrium model with wage rigidity, wage subsidy formulas are derived for two settings of incomes control.

Journal of Economic Literature classification numbers : H21, J38, J68.