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).

Aaronson, Stephanie

PD March 2002. **TI** The Rise in Lifetime Earnings Inequality Among Men. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/21; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 29. **PR** no charge. **JE** I31, J31, J39. **KW** Earnings Inequality. Lifetime Earnings.

AB This paper demonstrates that lifetime earnings inequality has increased over the past 30 years. We first explore how starting wages and wage growth have changed over time and link the changes to trends in lifetime earnings and the lifetime skill-premium. We then calculate a broader measure of lifetime earnings inequality and show that since the late 1960s, lifetime earnings inequality has increased by a third. Between the late 1960s and mid-1970s a rise in within-education-group inequality more than accounts for the increase; since then the growth in between-education-group inequality, accounted for a majority of the rise. These results are consonant with the data on starting wages and wage growth. Finally, we show that the increase in inequality has been largely driven by greater dispersion in hourly wages, although declining hours of work among low-education young men did play a role. The analysis uses data from the March Current Population Survey as well as matched CPS data. Thus we demonstrate how repeated cross-sections and short panels of data can be used to examine issues usually reserved for long panels.

Abbink, Klaus

TI How to Play 3x3 Games: A Strategy Method Experiment. **AU** Selten, Reinhard; Abbink, Klaus; Buchta, Joachim; Sadrieh, Abdolkarim.

Abiad, Abdul G.

PD May 2002. **TI** Markov Chains in Predictive Models of Currency Crises -- With Applications to Southeast Asia. **AU** Abiad, Abdul G.; Gultekin, Bulent; Mariano, Roberto S.; Shabbir, Tayyeb; Tan, Augstine. **AA** Abiad, Gultekin, Mariano, and Shabbir: University of Pennsylvania. Tan: Singapore Management University. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/013; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 34. **PR** free from website. **JE** C22, C52, C53, E37, F47. **KW** Markov Switching Models. Early Warning Systems. Currency Crises. Exchange Rates. Signalling.

AB A Markov regime switching model for exchange rate fluctuations, with time-varying transition probabilities, is used in constructing a monthly model for predicting currency crises in Southeast Asia. The approach is designed to avoid the estimation inconsistency that might arise from misclassification errors in the construction of crisis dummy variables, which other approaches (such as probit/logit and signaling) require. Our methodology also addresses the serial correlations and sudden behavior inherent in crisis occurrence, identifies a set of reliable and observable indicators of impending crisis difficulties, delivers forecast probabilities of future crises over multi-period forecasting horizons, and offers an empirical framework for analyzing contagion effects of a crisis. Our empirical results indicate that the Markov switching model is moderately successful at predicting crisis episodes, but also points to future research in various directions. Most early warning systems for currency crises have used either probit or signaling.

Acemoglu, Daron

PD April 2001. **TI** Deunionization, Technical Change and Inequality. **AU** Acemoglu, Daron; Aghion, Philippe; Violante, Giovanni L. **AA** Acemoglu: MIT and CEPR. Aghion: Harvard University and University College London. Violante: New York University. **SR** CEPR Discussion Paper: 2764; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** J30, J50, O30. **KW** Deunionization. Efficiency-Enhancing Unions. Rent-Seeking Unions. Skill-Biased Technical Change. Wage Inequality.

AB We argue that inequality and rapid deunionization are related, and that skill-biased technical change has been an important factor in deunionization as well as in the rise in inequality. Skill-biased technical change causes deunionization because it increases the outside option of skilled workers, undermining the coalition among skilled and unskilled worker in support of unions. Our approach implies that although deunionization is not the underlying cause of the increase in inequality, it amplifies the direct effect of skill-biased technical change by removing the wage compression imposed by unions. We also show that deunionization may happen inefficiently.

Adjaoute, Kpate

PD July 2001. **TI** Portfolio Diversification: Alive and Well in Euroland! **AU** Adjaoute, Kpate; Danthine, Jean-Pierre. **AA** Adjaoute: HSBC Republic Bank (Suisse) SA. Danthine: University of Lausanne, CEPR, and FAME. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 01/08; Ecole des HEC-DEEP, Department

https://doi.org/10.1017/S0951007900005751 Published online by Cambridge University Press

d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 14. **PR** no charge. **JE** F30, G11, G15. **KW** Portfolio Diversification. Return Dispersions. Euro.

AB Diversification opportunities in Euroland appear to have improved significantly since the advent of the euro, thus invalidating the prospects identified in the last years of the convergence-to-EMU period. We identify low frequency movements in the time series of return dispersions suggestive of cycles and long swings in return correlations. The most recent post-euro period is clearly associated with an important upswing with return dispersions exceeding for the first time their peaks of the early nineties.

Aghion, Philippe

TI Deunionization, Technical Change and Inequality. **AU** Acemoglu, Daron; Aghion, Philippe; Violante, Giovanni L.

PD November 2001. **TI** A Corporate Balance-Sheet Approach to Currency Crises. **AU** Aghion, Philippe; Bacchetta, Philippe; Banerjee, Abhijit. **AA** Aghion: Harvard University, University College London, and CEPR. Bacchetta: Study Center Gerzensee, University of Lausanne, and CEPR. Banerjee: MIT. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 01/14; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 25. **PR** no charge. **JE** E44, F30, F41. **KW** Financial Crisis. Foreign Currency Debt. Monetary Policy. Currency Crisis.

AB We present a general equilibrium currency crisis model of the "third generation", in which the possibility of crises is driven by the interplay between private firms' credit-constraints and nominal price rigidities. Despite our emphasis on microfoundations, the model remains sufficiently simple that the policy analysis can be conducted graphically. The analysis hinges on four features: i) ex post deviations from purchasing power parity; ii) credit constraints a la Bernanke- Gertler; iii) foreign currency borrowing by domestic firms; iv) a competitive banking sector lending to firms and holding reserves and a monetary policy conducted either through open market operations or short-term lending facilities. We first show that with a positive likelihood of a currency crisis, firms may indeed find it optimal to borrow in foreign currency. Second, we derive sufficient conditions for the existence of a sunspot equilibrium with currency crises. Third, we show that a reduction in the monetary base through restrictive open market operations is more likely to eliminate the possibility of currency crises if at the same time the central bank does not impose excessive constraints on short-term lending facilities.

Aglietta, Michel

PD 2001. **TI** Macroeconomic Consequences of Pension Reforms in Europe: An Investigation with the INGENUE World Model. **AU** Aglietta, Michel; Chateau, Jean; Fayolle, Jacky; Juillard, Michel; Le Cacheux, Jacques; Le Garrec, Gilles; Touze, Vincent. **AA** Aglietta: Universite de Paris X-Nanterre and CEPII. Chateau: CEPII. Fayolle: OFCE and Universite de Pierre Mendes-France. Juillard: Universite de Paris VIII-Saint Denis and CEPREMAP. Le Cacheux: Universite de Pau et des Pays de l'Adour and OFCE. Le Garrec: Universite de Paris I-Pantheon Sorbonne and CEPREMAP. Touze: OFCE, THEMA, and Institut d'Etudes Politiques de Lille. **SR** CEPREMAP Discussion Paper: 2001/16; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 35. **PR** between 4 and 5 euros. **JE** C68, D91, F21, H55. **KW** Demographics. International Capital Flows. Overlapping Generations. Europe.

AB This paper presents some results of the computable, general equilibrium, multi-regional overlapping-generations model INGENUE. The purpose of this research is to analyze the issues relating to wealth accumulation and alternative pension reforms in the context of global finance. Hence it focuses on the international capital flows that ought to be induced by differential aging of the various regions of the world, as depicted by the United Nations demographic projections. The first section exhibits the stylized facts which suggest that a world equilibrium approach is appropriate and leads to an analysis of the convergence processes. The second section lays out the analytical structure of the world model and details our choices of calibration. The third section presents a baseline scenario of the world economy in the twenty first century. The fourth and final section analyzes European public pension reforms scenarios.

Ait-Sahalia, Yacine

PD February 2001. **TI** Variable Selection for Portfolio Choice. **AU** Ait-Sahalia, Yacine; Brandt, Michael W. **AA** Ait-Sahalia: Princeton University and NBER. Brandt: University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 8127; 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** C43, D81, G11. **KW** Asset Allocation. Portfolio Choice. Investment.

AB We study asset allocation when the conditional moments of returns are partly predictable. Rather than first model the return distribution and subsequently characterize the portfolio choice, we determine directly the dependence of the optimal portfolio weights on the predictive variables. We combine the predictors into a single index that best captures time-variations in investment opportunities. This index helps investors determine which economic variables they should track and, more importantly, in what combination. We consider investors with both expected utility (mean-variance and CRRA) and non-expected utility (ambiguity aversion and prospect theory) objectives and characterize their market-timing, horizon effects, and hedging demands.

Aizcorbe, Ana

PD January 2002. **TI** Price Measures for Semiconductor Devices. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/13; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 15. **PR** no charge. **JE** C43, E31, O32. **KW** Price Indicies. Semiconductor Price Indices.

AB This note provides quality-adjusted price indexes and nominal shipments data for highly disaggregate classes of selected semiconductor devices. These data may be used to construct indexes under different assumptions from those in currently available indexes. Because the construction of these building blocks require some assumptions, the indexes are compared with similar price measures constructed by Bruce Grimm (1998) and by the Bureau of Labor Statistics.

PD March 2002. **TI** Why Are Semiconductor Prices Falling So Fast? Industry Estimates and Implications for Productivity Measurement. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/20; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77. Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 15. **PR** no charge. **JE** L63, O31, O33. **KW** Semiconductor Prices. Productivity Measurement.

AB By any measure, price deflators for semiconductors fell at a staggering pace over much of the last decade. These rapid price declines are typically attributed to technological innovations that lower constant-quality manufacturing costs. But, given Intel's dominance in the microprocessor market, those price declines may also reflect changes in Intel's profit margins. Disaggregate data on Intel's operations are used to explore these issues. There are three basic findings. First, the industry data show that Intel's markups from its microprocessor segment shrank substantially from 1993-99. Second, about 3-1/2 percentage points of the average 24 percent price decline in a price index for Intel's chips can be attributed to declines in these profit margins over this period. And, finally, the data suggest that virtually all of the remaining price declines can be attributed to quality increases associated with product innovation.

Al-Najjar, Nabil

PD February 2002. **TI** Unforeseen Consequences. **AU** Al-Najjar, Nabil; Anderlini, Luca; Felli, Leonardo. **AA** Al-Najjar: Northwestern University. Anderlini: Georgetown University. Felli: LSE. **SR** STICERD, LSE Theoretical Economics Discussion Paper: TE/02/431; STICERD, Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. **PG** 52. **PR** no charge. **JE** C69, D81, D89. **KW** Unforeseen Contingencies. Incomplete Contracts. Finite Variance.

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

Albert Ma, Ching-to

PD October 2000. **TI** Public Rationing and Private Cost Incentives. **AA** Boston University. **SR** Boston University, Industry Studies Program Working Paper Series on Economics: 103; Department of Economics, Boston University, 270 Bay State Road, Boston, MA 02215. Website: www.bu.edu/econ/isp/. **PG** 21. **PR** no charge. **JE** D45, H42. **KW** Rationing. Cost Incentive. Contestable Market.

AB This paper considers a public provider's strategic use of rationing in a market served by both public and private providers. Such a "mixed" market structure is common in many industries such as health care, telecommunication, postal service, and public utilities. The technology in the private sector exhibits increasing returns: each firm can expend "effort" in the form of fixed cost to reduce the marginal cost. Firms in the contestable private sector compete and the market equilibrium is characterized by average-cost pricing. The equilibrium private sector market share is too low, resulting in deficient effort. Efficient rationing forces more consumers to use the private sector, restoring cost incentives and implementing the first best. Random rationing may reduce cost inefficiency but does not implement the first best.

Aldrich, John

PD October 2001. **TI** How Likelihood and Identification Went Bayesian. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0111; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 44. **PR** no charge. **JE** C11. **KW** Bayesian. Likelihood. Identification. Sufficiency.

AB This paper considers how the concepts of likelihood and identification became part of Bayesian theory. This makes a nice study in the development of concepts in statistical theory. Likelihood slipped in easily, but there was a protracted debate about how identification should be treated. Initially there was no agreement on whether identification involved the prior, the likelihood or the posterior.

Alesina, Alberto F.

PD May 2001. **TI** Preferences for Redistribution in the Land of Opportunities. **AU** Alesina, Alberto F.; La Ferrara, Eliana. **AA** Alesina: Harvard University, NBER, and CEPR. Ferrara: Bocconi University, IGIER, and CEPR. **SR** National Bureau of Economic Research Working Paper: 8267; 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** D30, I30, J60. **KW** Redistribution. Social Mobility.

AB The poor favor redistribution and the rich oppose it, but that is not all. Social mobility may make some of today's poor into tomorrow's rich and since redistributive policies do not change often, individual preferences for redistribution should depend on the extent and the nature of social mobility. We estimate the determinants of preferences for redistribution using individual level data from the US, and we find that individual support for redistribution is negatively affected by social mobility. Furthermore, the impact of mobility on attitudes towards redistribution is affected by individual perceptions of fairness in the mobility process. People who believe that the American society offers equal opportunities to all are more averse to redistribution in the face of increased mobility. On the other hand, those who see the social rat race as a biased process do not see social mobility as an alternative to redistributive policies.

PD July 2001. **TI** Inequality and Happiness: Are Europeans and Americans Different? **AU** Alesina, Alberto F.; Di Tella, Rafael; MacCulloch, Robert. **AA** Alesina: Harvard University and Centre for Economic Policy Research. Di Tella: Harvard University. MacCulloch: Princeton University. **SR** CEPR Discussion Paper: 2877; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D31, J11, N33, N34. **KW** Happiness. Inequality. Redistribution.

AB The answer to the question posed in the title is "yes." Using a total of 128,106 answers to a survey question about "happiness," this paper finds that there is a large, negative and significant effect of inequality on happiness in Europe but not in the US. There are two potential explanations. First, Europeans prefer more equal societies (inequality belongs in the utility function for Europeans but not for Americans). Second, social mobility is (or is perceived to be) higher in the US so being poor is not seen as affecting future income. These hypotheses are tested by partitioning the sample across income and ideological lines. There is evidence of "inequality generated" unhappiness in the US only for a sub-group of rich leftists. In Europe, inequality makes the poor unhappy, as well as the leftists. This favors the hypothesis that inequality affects European happiness because of their lower social mobility (since no preference for equality exists amongst the rich or the right). The results help explain the greater popular demand for government to fight inequality in Europe relative to the US.

Alexander, Kern

PD March 2001. **TI** Enhancing Corporate Governance for Financial Institutions: The Role of International Standards. **AU** Alexander, Kern; Dhumale, Rahul. **AA** Alexander: University of Cambridge. Dhumale: Federal Reserve Bank of New York. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP196; Publications Secretary, ESRC Centre for Business Research, University of Cambridge, Austin Robinson Building, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 14. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** G21, G38, H73, K22, L51. **KW** Financial Institutions. Systemic Risk. Corporate Governance. Regulation.

AB The threat of systemic risk in international financial markets necessitates the establishment of universal standards for corporate governance of financial institutions. This paper addresses some important issues and concepts in the governance of multinational financial institutions and why international standards are needed to guide financial institutions in assessing and protecting against risk in financial markets. It acknowledges that different structural approaches to corporate governance exist across countries, and encourages practices which can strengthen corporate governance under diverse structures. An important task for supervisors and regulators is to ensure that incentives exist to encourage senior bank management to adopt good regulatory practices that approximate the economic risk exposure of the financial institution. This paper analyses corporate governance within framework of international financial markets and how international standards can be applied in a way that can effectively reduce systemic risk.

Allen, Todd W.

PD April 2001. **TI** Individual Learning about Consumption. **AU** Allen, Todd W.; Carroll, Christopher D. **AA** Allen: Price Waterhouse Coopers. Carroll: John Hopkins University and NBER. **SR** National Bureau of Economic Research Working Paper: 8234; 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** C61, D12, D83, D91, E21. **KW** Consumption. Saving. Consumer Choice. Learning. Dynamic Optimization.

AB The standard approach to modeling consumption/saving problems is to assume that the decision maker is solving a dynamic stochastic optimization problem. However, under realistic descriptions of utility and uncertainty, the optimal consumption/saving decision is so difficult that only recently have economists managed to find solutions, using numerical methods that require previously infeasible amounts of computation. Yet empirical evidence suggests that household behavior conforms fairly well to the prescriptions of the optimal solution, raising the question of how average households can solve problems that economists, until recently, could not. This paper examines whether consumers might be able to find a reasonably good "rule-of-thumb" approximation to optimal behavior by trial-and-error methods, as Friedman (1953) proposed long ago. The paper finds that such individual learning methods can reliably identify reasonably good rules of thumb only if the consumer is able to spend absurdly large amounts of time searching for a good rule.

Alvarez, Fernando

PD July 2001. **TI** The Size of the Permanent Component of Asset Pricing Kernels. **AU** Alvarez, Fernando; Jermann, Urban J. **AA** Alvarez: University of Chicago and National Bureau of Economic Research. Jermann: Federal Reserve Bank of Minneapolis, University of Pennsylvania, and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8360; 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** E21, E43, G12. **KW** Asset Pricing. Investment. Interest Rates.

AB This paper derives a lower bound for the size of the permanent component of asset pricing kernels. The bound is based on return properties of long-term zero-coupon bonds, risk-free bonds, and other risky securities. It is found that the permanent component of the pricing kernel is very large; its volatility is about 100% of the volatility of the stochastic discount factor. This result implies that, if the pricing kernel is a function of consumption, innovations to consumption need to have permanent effects.

Amable, Bruno

PD 2001. **TI** The Diversity of Social Systems of Innovation and Production during the 1990s. **AU** Amable, Bruno; Petit, Pascal. **AA** Amable: Universite Paris X-Nanterre, CEPREMAP. Petit: CNRS and CEPREMAP.

SR CEPREMAP Discussion Paper: 2001/15; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 27. **PR** between 4 and 5 euros. **JE** D21, E21, E23, O21. **KW** Technical Change. Innovation Systems. Growth. Comparative Economics. Institutional Complementarity.

AB The notion of Social System of Innovation and Production (SSIP) refers to an approach that tries to incorporate institutional elements into the economic analysis of technological change and to study the impact of these elements on long-term economic performance. The complementarities that exist between institutions are fully taken into account, leading to characterize broad configurations of institutions more comprehensively than usually retained in approaches in terms of national systems of innovation. Once the diversity of these patterns and of their influence on economic performance is assessed, the paper attempts to track down the trends of convergence and divergence among the groups of countries distinguished are considered showing to what extent SSIPs will remained rather diverse, a diversity that European and national innovation policies should clearly take into account in order to be efficient.

Amato, Jeffery D.

PD May 2001. **TI** Implications of Habit Formation for Optimal Monetary Policy. **AU** Amato, Jeffery D.; Laubach, Thomas. **AA** Amato: Bank for International Settlements. Laubach: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/58; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 26. **PR** no charge. **JE** E31, E32, E52. **KW** Habit Formation. Optimal Monetary Policy. Interest Rate Rules.

AB We study the implications for optimal monetary policy of introducing habit formation in consumption into a general equilibrium model with sticky prices. Habit formation affects the model's endogenous dynamics through its effects on both aggregate demand and households' supply of output. We show that the objective of monetary policy consistent with welfare maximization includes output stabilization, as well as inflation and output gap stabilization. We find that the variance of output increases under optimal policy, even though it acquires a higher implicit weight in the welfare function. We also find that a simple interest rate rule nearly achieves the welfare-optimal allocation, regardless of the degree of habit formation. In this rule, the optimal responses to inflation and the lagged interest rate are both declining in the size of the habit, although super-inertial policies remain optimal.

PD December 2001. **TI** Rule-of-Thumb Behaviour and Monetary Policy. **AU** Amato, Jeffery D.; Laubach, Thomas. **AA** Amato: Bank for International Settlements. Laubach: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/05; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 29. **PR** no charge. **JE** E31, E32, E52. **KW** Rule of Thumb. Optimal Monetary Policy. Interest Rate Rules.

AB We investigate the implications of rule-of-thumb behavior on the part of consumers or price setters for optimal monetary policy and simple interest rate rules. The existence of such behavior leads to endogenous persistence in output and inflation; changes the transmission of shocks to these variables; and alters the policymaker's welfare objective. Our main finding is that highly inertial policy is optimal regardless of the fraction of agents that occasionally follow a rule of thumb. We also find that the interest rate rule that implements optimal policy in the purely optimizing case, and a first-difference version of Taylor's (1993) rule, have desirable properties in all of the cases we consider. By contrast, the coefficients in other optimized simple rules tend to be extremely sensitive with respect to the fraction of rule-of- thumb behavior and changes in other parameters of the model.

PD September 1998. **TI** The Real-Time (In)Significance of M2. **AA** Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP98/05; 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** E31, E41, E52. **KW** Granger Causality. Variance Decomposition. Money Rule. Data Revision.

AB This paper examines the relationships between output, prices, interest rates, and M2 using data sets which were available in real time from 1973:1 to 1997:4. The purpose is threefold. First, the paper delineates a potential role for M2 in policymaking. Second, it provides a more accurate basis for interpreting historical policymaking. Third, it evaluates the cause and effect of the historical redefinitions of M2. The latter two objectives make it necessary to use data which was available to policymakers at the time decisions were made. In regard to the fist objective, the approach is both novel and complementary to the existing literature.

Amiti, Mary

PD May 2001. **TI** Location of Vertically Linked Industries: Agglomeration versus Comparative Advantage. **AA** University of Melbourne and CEPR. **SR** CEPR Discussion Paper: 2800; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F10, F12, F15. **KW** Downstream Firms. Trade Costs. Trade Liberalization. Upstream Firms. Vertical Links.

AB This paper analyzes the effects of reducing trade costs on the location of manufacturing firms that are vertically linked and differ in factor intensities. The paper extends the new economic geography literature, by embedding a model with vertical linkages within a Heckscher-Ohlin framework. Firms can choose to locate either in a labor-abundant country or a capital-abundant country. The paper shows that lower trade costs on intermediate inputs and final goods can lead to an agglomeration of all upstream and downstream firms in one country, even when they differ in factor intensities. Hence, for some ranges of trade costs, industries may locate in countries where standard trade models would suggest they would not locate. For example labor-intensive industries may locate in capital abundant countries. This also has implications for whether trade liberalization leads in the direction of factor price equalization. If the share of manufacturing is high, trade liberalization (from high to medium) leads to an increase in the return to both factors in the country where manufacturing agglomerates.

Anderlini, Luca

TI Unforeseen Consequences. **AU** Al-Najjar, Nabil; Anderlini, Luca; Felli, Leonardo.

Andersen, Torben G.

PD April 2002. **TI** Micro Effects of Macro Announcements: Real-Time Price Discovery in Foreign Exchange. **AU** Andersen, Torben G.; Bollerslev, Tim; Diebold, Francis X.; Vega, Clara. **AA** Andersen: Northwestern University. Bollerslev: Duke University. Diebold and Vega: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/011; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 36. **PR** free from website. **JE** C30, F31, G10. **KW** Exchange Rates. Jumps. High-Frequency Data. Expectations. Asset Return Volatility.

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

PD July 2002. **TI** Parametric and Nonparametric Volatility Measurement. **AU** Andersen, Torben G.; Bollerslev, Tim; Diebold, Francis X. **AA** Andersen: Northwestern University. Bollerslev: Duke University. Diebold: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/019; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 69. **PR** free from website. **JE** C32, C50, G10. **KW** Realized Volatility. ARCH Models. Risk Management. Continuous Time Models.

AB Volatility has been one of the most active areas of research in empirical finance and time series econometrics during the past decade. This chapter provides a unified continuous-time, frictionless, no- arbitrage framework for systematically categorizing the various volatility concepts, measurement procedures, and modeling procedures. Three different volatility concepts are defined: (i) the notional volatility corresponding to the ex-post sample-path return variability over a fixed time interval, (ii) the ex-ante expected volatility over a fixed time interval, and (iii) the instantaneous volatility corresponding to the strength of the volatility process at a point in time.

Andolfatto, David

PD July 1999. **TI** Monetary Policy Regimes and Beliefs. **AU** Andolfatto, David; Gomme, Paul. **AA** Andolfatto: University of Waterloo and CREFE/UQAM. Gomme: Federal Reserve Bank of Cleveland and CREFE/UQAM. **SR** Federal Reserve Bank of Cleveland Working Paper: 9905; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clev.frb.org. **PG** 38. **PR** no charge. **JE** E13, E31, E42, E52. **KW** Monetary Policy. Regime Switching. Beliefs.

AB This paper investigates the role of beliefs over monetary policy in propagating the effects of monetary policy within the context of a dynamic, stochastic general equilibrium model. In our model, monetary policy periodically switches between low and high money growth regimes. When individuals are unable to directly observe the current regime, they will assign some probability to the low money growth, low inflation regime based on observed money growth rates. We show that for an empirically relevant money growth process, beliefs evolve slowly in the wake of regime change. As a result, our model is able to capture some of the observed persistence of real and nominal variables following such a regime change.

Ang, Andrew

PD July 2001. **TI** A No-Arbitrage Vector Autoregression of Term Structure Dynamics with Macroeconomic and Latent Variables. **AU** Ang, Andrew; Piazzesi, Monika. **AA** Ang: Columbia Business School and National Bureau of Economic Research. Piazzesi: University of California, Los Angeles and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8363; 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** E40, E50, G00. **KW** Vector Autoregression. Forecasting.

AB This paper describes the joint dynamics of bond yields and macroeconomic variables in a Vector Autoregression (VAR), where identifying restrictions are based on the absence of arbitrage. Using a term structure model with inflation and economic growth factors, the paper investigates how macro variables affect bond prices and the dynamics of the yield curve. The setup accommodates higher order autoregressive lags for the macro factors. The macro variables are augmented by traditional unobserved term structure factors. It is found that the forecasting performance of a VAR improves when no-arbitrage restrictions are imposed. Models that incorporate macro factors forecast better than traditional term structure models with only unobservable factors. Variance decompositions show that macro factors explain up to 85% of the variation in bond yields. Macro factors primarily explain movements at the short end and middle of the yield curve while unobservable factors still account for most of the movement at the long end of the yield curve.

Angrist, Joshua

PD June 2001. **TI** Vouchers for a Private Schooling in Colombia: Evidence from a Randomized Natural Experiment. **AU** Angrist, Joshua; Bettinger, Eric; Bloom, Erik; King, Elizabeth; Kremer, Michael. **AA** Angrist: Massachusetts Institute of Technology and National Bureau of Economic Research. Bettinger: Case Western Reserve University. Bloom: Research Triangle Institute. King: The World Bank. Kremer: University of Cambridge and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8343; 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** H43, H52, I22, I28, O54. **KW** Educational Vouchers. Private Schools. Colombia. **AB** Colombia's PACES program provided 125,000 students from poor neighborhoods with vouchers that covered half the cost of private secondary school. Since many vouchers were allocated by lottery, differences in outcomes between lottery winners and losers were used to assess program effects. Three years into the program, winners were 15 percentage points more likely to have attended private school, had completed .1 more years of schooling, and were about 10 percentage points more likely to have finished 8th grade, primarily because they were less likely to repeat grades. The program did not significantly affect dropout rates. Winners scored .2 standard deviations higher on standardized tests. There is some evidence that winners worked less than losers and were less likely to marry or cohabit as teenagers. On average, winners increased their educational expenditure by about 70% of the value of the voucher. Since winners also worked less, they devoted more total resources to education. Compared to an equivalent expansion of the public education system, the voucher program increased annual government educational expenditure by about $24 per winner. However, the costs to the government and to participants were probably much less than the increase in winners' earnings due to greater educational attainment.

Anson, Jose

TI La reelection des Conseillers federaux: Sanctions ciblees ou resultats predetermines? Une analyse econometrique des reelections au Conseil federal. (The Re-elections of Swiss Federal Ministers: Personal Scoring or Predetermined Results?) **AU** Bacher, Hansueli; Lambelet, Jean-Christian; Anson, Jose.

Aragones, Enriqueta

PD August 2002. **TI** Accuracy vs. Simplicity: A Complex Trade-Off. **AU** Aragones, Enriqueta; Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David. **AA** Aragones: Institut d'Analisi Economica. Gilboa: Tel-Aviv University. Postlewaite: University of Pennsylvania. Schmeidler: Tel- Aviv University and Ohio State University. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/027; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 50. **PR** free from website. **JE** D83. **KW** Complexity. Induction. Learning.
AB Inductive learning aims at finding general rules that hold true in a database. Targeted learning seeks rules for the prediction of the value of a variable based on the values of others, as in the case of linear or non-parametric regression analysis. Non-targeted learning finds regularities without a specific prediction goal. We model the product of non-targeted learning as rules that state that a certain phenomenon never happens, or that certain conditions necessitate another. For all types of rules, there is a trade-off between the rule's accuracy and its simplicity. Thus, rule selection can be viewed as a choice problem, among pairs of degree of accuracy and degree of complexity. However, one cannot in general tell what is the feasible set in the accuracy complexity space. Formally, we show that finding out whether a point belongs to this set is computationally hard.

Arellano, Manuel

PD April 2001. **TI** The Distribution of Earnings in Spain During the 1980s: The Effects of Skill, Unemployment and Union Power. **AU** Arellano, Manuel; Bentolila, Samuel; Bover, Olympia. **AA** Arellano and Bentolila: Centre for Monetary and Financial Studies and CEPR. Bover: Banco de Espana. **SR** CEPR Discussion Paper: 2770; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D30, J31, J51, J64. **KW** Earnings Distributions. Returns to Skill and Experience. Unions. Unemployment Rates. Spain.
AB This paper analyzes changes in the conditional distributions of male earnings in Spain during the 1980s. It uses a large new database of records on individual workers and firms from the Spanish Social Security System for the period 1980-87. The data set is an unbalanced panel subject to censoring due to top and bottom coding. The paper analyzes the behavior of returns to skill and experience, across sectors and over time. It also studies how these returns have been affected over the period by a host of aggregate and sector-specific factors, including unemployment rates and the sectoral coverage of trade union collective agreements.

Armour, John

PD March 2001. **TI** The Law and Economics of Corporate Insolvency: A Review. **AA** University of Nottingham. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP197; Publications Secretary, ESRC Centre for Business Research, University of Cambridge, Austin Robinson Building, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 48. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** G33, G38, K22, Z13. **KW** Law and Economics. Corporate Insolvency. Financial Distress. Social Norms.
AB Law and economics scholarship has contributed greatly to our understanding of corporate insolvency law. This paper provides an overview of this literature. It begins by defining some relevant terminology, and then reviews theories about the goals of insolvency law. It then considers Jackson's well-known claim that insolvency law exists as a response to a common pool problem, and continues by looking at suggestions for reducing the costs of financial distress both ex post and ex ante. Finally, it asks whether a solution to the common pool problem might not be sought through contract, or indeed through reliance on social norms.

Arping, Stefan

PD February 2002. **TI** Corporate Leverage and Product Differentiation Strategy. **AU** Arping, Stefan; Loranth, Gyongyi. **AA** Arping: University of Lausanne. Loranth: London Business School. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/06; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 16. **PR** no charge. **JE** E22, G30, L10. **KW** Product Differentiation. Capital Structure. Bankruptcy Free Cash Flow Theory. Leverage.
AB We explore the joint determination of a firm's product differentiation strategy and capital structure in a setting where (1) product differentiation is valued by customers; (2) debt is necessary to discipline managers; and (3) bankruptcy/liquidation is costly for customers, in particular,

when products are highly differentiated from competitors' products. We find that when managerial incentive problems call for high leverage, firms position their products closer to competitors in order to encourage potential customers to purchase. Our findings are consistent with a number of stylized facts in the computer and software industries.

PD February 2002. **TI** Strategic Cannibalization in Venture Financing. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/07; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 26. **PR** no charge. **JE** G24, L10, L20, L40. **KW** Venture Capital. Strategic Substitutabilities. Financial Contracting.

AB We consider the effects of strategic substitutabilities between a venture capitalist's portfolio firms on incentives and venture performance. We find that in some cases a VC will finance an actual or potential competitor of an existing portfolio firm in order to prevent the venture from seeking finance elsewhere and to soften its aggressiveness. In many other cases, however, the VC will rationally back the venture although the competitive stance of the VC's portfolio firm would have been less eroded if the venture were financed by an independent investor. We confront the model's implications with a case study of the investment activities of US venture capital firm Kleiner & Perkins in the networking equipment space.

Aruoba, S. Boragan

PD September 2002. **TI** Search, Money and Capital: A Neoclassical Dichotomy. **AU** Aruoba, S. Boragan; Wright, Randall. **AA** University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/036; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 29. **PR** free from website. **JE** D83, E40. **KW** Search. Money. Capital. Markets.

AB Recent work has reduced the gap between search-based monetary theory and mainstream macroeconomics by incorporating into the search model some centralized markets as well as some decentralized markets where money is essential. This paper takes a further step towards this integration by introducing labor, capital and neoclassical firms. The resulting framework nests the search-theoretic monetary model and a standard neoclassical growth model as special cases. Perhaps surprisingly, it also exhibits a dichotomy: one can determine the equilibrium path for the value of money independently of the paths of consumption, investment and employment in the centralized market.

Askenazy, Philippe

PD May 2001. **TI** New Organizational Practices and Working Conditions: Evidence from France in the 1990s. **AU** Askenazy, Philippe; Caroli, Eve; Marcus, Vincent. **AA** Askenazy: CNRS and CEPREMAP. Caroli: INRA-LEA and CEPREMAP. Marcus: Ecole Normale Superieure and ENSAE. **SR** CEPREMAP Discussion Paper: 2001/06; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 31. **PR** between 4 and 5 euros. **JE** J28, L23. **KW** French. New Work Practices. Technology. Occupational Injuries. Working Conditions.

AB We investigate the impact of new work practices on working conditions. We use a unique French dataset providing information on individual workers for year 1998. New work practices which play a key role in the success of the new economy, include job rotation and the use of quality norms. Working conditions are captured by occupational injuries as well as indicators of mental strain. Using Rubin's causal model, we show that, even after controlling for employees and jobs characteristics and correcting for sample selection bias, workers involved in the new work practices still face working conditions that are significantly worse than those of non innovative workers.

PD September 2001. **TI** Minimum Wage, Exports and Growth. **AA** CNRS and CEPREMAP. **SR** CEPREMAP Discussion Paper: 2001/09; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 19. **PR** between 4 and 5 euros. **JE** F43, J31. **KW** Minimum Wage. Endogenous Growth. Welfare. Exports.

AB Using an endogenous growth model in an open economy, we study the impact of minimum wages on growth for an innovator country. We state that minimum wage shifts efforts from production to research and development, but only in an open economy. Thus, it speeds up long-run growth in proportional to exports. Calibrations suggest the growth surplus can be significant. An empirical study on 11 OECD countries illustrates these results. The impact on welfare is ambiguous because the minimum wage induces unemployment. However, we show that in an open economy, a minimum wage associated with unemployment benefits can pareto dominate laissez faire.

Atkeson, Andrew

PD December 2001. **TI** Measuring Organization Capital. **AU** Atkeson, Andrew; Kehoe, Patrick J. **AA** Atkeson: UCLA, Federal Reserve Bank of Minneapolis, and NBER. Kehoe: Federal Reserve Bank of Minneapolis, University of Minnesota, and NBER. **SR** Federal Reserve Bank of Minneapolis Staff Report: 291R; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 26. **PR** no charge. **JE** E13, E22. **KW** Unmeasured Capital. National Income. Unmeasured Output. Knowledge Capital.

AB In the manufacturing sector of the U.S. economy, nearly 9% of output is not accounted for as payments to either physical capital or labor. The value of this output is a little larger than the value of the stock of physical capital. We build a model to measure how much of this output can be attributed to payments to organization capital, organization-specific knowledge that is built up with experience. We find that roughly 4% of output can be accounted for as payments to organization capital and that this capital has roughly two-thirds the value of the stock of physical capital.

Attanasio, Orazio P.

PD April 2001. **TI** Differential Mortality in the UK. **AU** Attanasio, Orazio P.; Emmerson, Carl. **AA** Attanasio: IFS, University College London, and NBER. Emmerson: IFS. **SR** National Bureau of Economic Research Working Paper: 8241; 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** D30, I10, J10. **KW** Health. Mortality. Wealth.
AB This paper uses the two waves of the British Retirement Survey (1988/89 and 1994) to quantify the relationship between socio-economic status and health outcomes. The paper finds that, even after conditioning on the initial health status, wealth rankings are important determinants of mortality and the evolution of the health indicator in the survey. For men aged 65, moving from the 40th percentile to the 60th percentile in the wealth distribution increases the probability of survival between 2.4 and 3.4 percentage points depending on the measure of wealth used. A slightly smaller effect is found for women of between 1.5 and 1.9 percentage points. In the process of estimating these effects the paper controls for non-random attrition from the sample.

Auerbach, Alan J.

PD February 2001. **TI** Generalized Cash Flow Taxation. **AU** Auerbach, Alan J.; Bradford, David F. **AA** Auerbach: University of California, Berkeley and NBER. Bradford: Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 8122; 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** G11, H24. **KW** Realization Accounting. Capital Income Tax. Wealth Tax.
AB We show the unique form that must be taken by a tax system based entirely on realization accounting to implement a uniform capital income tax, or, equivalently, a uniform wealth tax. This system combines elements of an accrual based capital income tax and a traditional cash flow tax, having many of the attributes of the latter while still imposing a tax burden on marginal capital income. Like the traditional cash flow tax, this system may be integrated with a tax on labor income. We also show how such a tax can be supplemented with an optional accounting for a segregated subset of actively traded securities, subjected separately to mark-to-market taxation at the uniform capital income tax rate, to permit a fully graduated tax system applicable to labor income.

Aumann, Robert J.

PD July 2001. **TI** Incomplete Information. **AU** Aumann, Robert J.; Heifetz, Aviad. **AA** Aumann: Hebrew University of Jerusalem, State University of New York at Stony Brook, and Stanford University. Heifetz: Tel Aviv University and California Institute of Technology. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/24; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 19. **PR** no charge. **JE** C72, D82. **KW** Incomplete Information. Interactive Epistemology. Semantic Belief Systems. Syntactic Belief Systems. Common Priors.
AB In interactive contexts such as games and economies, it is important to take account not only of what the players believe about substantive matters (such as payoffs), but also of what they believe about the beliefs of other players. Two different but equivalent ways of dealing with this matter, the semantic and syntactic, are set forth. Canonical and universal semantic systems are then defined and constructed, and the concepts of common knowledge and common priors formulated and characterized. The last two sections discus relations with Bayesian games of incomplete information and their applications, and with interactive epistemology -- the theory of multi-agent knowledge and belief as formulated in mathematical logic.

Autor, David H.

PD June 2001. **TI** The Rise in Disability Recipiency and the Decline in Unemployment. **AU** Autor, David H.; Duggan, Mark G. **AA** Autor: Massachusetts Institute of Technology and National Bureau of Economic Research. Duggan: University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8336; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 35. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H53, I12, J68. **KW** Welfare Programs. Disability. Unemployment.
AB Between 1984 and 2000, the share of non-elderly adults receiving benefits from the Social Security Disability Insurance (DI) and Supplemental Security Income (SSI) programs rose from 3.1 to 5.3 percent. This growth is traced to reduced screening stringency and, due to the interaction between growing wage inequality and a progressive benefits formula, a rising earnings replacement rate. The implications of these changes for the level of labor force participation among the less skilled and their employment responses to adverse employment shocks are explored. Following program liberalization in 1984, DI application and recipiency rates became two to three times as responsive to plausibly exogenous labor demand shocks. Contemporaneously, male and female high school dropouts became increasingly likely to exit the labor force rather than enter unemployment in the event of an adverse shock. The liberalization of the disability program appears to explain both facts. Accounting for the role of disability in inducing labor force exit among the low- skilled unemployed, it is calculated that the U.S. unemployment rate would be two-thirds of a percentage point higher at present were it not for the liberalized disability system.

PD June 2001. **TI** The Skill Content of Recent Technological Change: An Empirical Exploration. **AU** Autor, David H.; Levy, Frank; Murnane, Richard J. **AA** Autor: Massachusetts Institute of Technology and National Bureau of Economic Research. Levy: Massachusetts Institute of Technology and Russell Sage Foundation. Murnane: Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8337; 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** E23, J23, J31, O30. **KW** Labor Demand. Technological Innovation. Computerization.
AB By applying an understanding of what computers do -- the execution of procedural or rules-based logic - this paper studies how computer technology alters job skill demands. It is contended that computer capital (1) substitutes for a limited and well-defined set of human activities, those involving routine (repetitive) cognitive and manual tasks; and (2) complements activities involving non-routine problem solving and interactive tasks. Provided these tasks are imperfect

substitutes, the model implies measurable changes in the task content of employment, which is explored using representative data on job task requirements over 1960-1998. Computerization is associated with declining relative industry demand for routine manual and cognitive tasks and increased relative demand for non-routine cognitive tasks. Shifts are evident within detailed industries, within detailed occupations, and within education groups within industries. Translating observed task shifts into educational demands, the sum of within-industry and within-occupation task changes explains thirty to forty percent of the observed relative demand shift favoring college versus non-college labor during 1970 to 1998, with the largest impact felt after 1980. Changes in task content within nominally identical occupations explain more than half of the overall demand shift induced by computerization.

Bacchetta, Philippe

PD November 2001. **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. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 01/13; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 27. **PR** no charge. **JE** F31, F41. **KW** Currency Invoicing. New Open Economy. Exchange Rates. Nominal Rigidities.

AB Nominal rigidities due to menu costs have become a standard element in closed economy macroeconomic modelling. 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, 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.

TI A Corporate Balance-Sheet Approach to Currency Crises. **AU** Aghion, Philippe; Bacchetta, Philippe; Banerjee, Abhijit.

Bacher, Hansueli

PD May 2002. **TI** La reelection des Conseillers federaux: Sanctions ciblees ou resultats predetermines? Une analyse econometrique des reelections au Conseil federal. (The Re-elections of Swiss Federal Ministers: Personal Scoring or Predetermined Results?) **AU** Bacher, Hansueli; Lambelet, Jean-Christian; Anson, Jose. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/09; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 28. **PR** no charge. **JE** D72, H11. **KW** Swiss Federal Government. Re-Elections. Actual and Future Scores.

AB (This paper is written in French). The re-elections to the Swiss Federal Government have not been much studied so far. We propose an econometric (or politometric) model of these re-elections, consisting of three identities and two equations, the first of the latter explaining the score of the candidates and the second a residual category dominated by blank votes. Simulating the model, we find that the scores are predetermined by a number of systematic factors on which the candidates have no influence. The simulation residuals, i.e. the difference between the actual and the simulated scores, can be interpreted as the personal "sanctions" (negative or positive) inflicted on the candidates by the Federal Chambers on the basis of their policy and personality. The results of some individual re-elections thus appear a good deal less "brilliant" or "deplorable" than would appear on first sight. We finally show that the curve of the scores and that of the requisite majorities tend to get closer and could cross before too long, meaning that non re-elections could occur in the more or less distant future.

Bai, Chong-En

PD May 2001. **TI** A Multi-Task Theory of the State Enterprise Reform. **AU** Bai, Chong-En; Li, David; Tao, Zhigang; Wang, Yijiang. **AA** Baii and Tao: University of Hong Kong. Li: Hong Kong University of Sciencei and Technology. Wang: University of Minnesota. **SR** CEPR Discussion Paper: 2781; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D21, J23, L20, P20, P23. **KW** Dual-Track Reform. Multi-Task. Social Stability. Unemployment.

AB During transition, maintaining employment and providing a social safety net for the unemployed are important to social stability, which in turn is crucial for the productivity of the whole economy. Because independent institutions for social safety are lacking and firms with strong profit incentives have little incentive to promote social stability due to its public good nature, state-owned enterprises (SOEs) are needed to continue their role in providing social welfare. Charged with the multi-tasks of efficient production as well as social welfare provision, SOEs continue to be given low profit incentives and consequently, their financial performance continues to be poor.

Baily, Martin N.

PD April 2001. **TI** Do We Have A New E-Conomy? **AU** Baily, Martin N.; Lawrence, Robert Z. **AA** Baily: Institute for International Economics. Lawrence: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8243; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 8. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E22, O30, O40. **KW** Information Technology. Productivity Growth. Innovations.

AB Used properly, the term "new e-conomy" is warranted. Since 1995, there has been a wave of innovation associated with both the production and use of information technology that has been translated into improved US economic performance. In particular, there has been a substantial acceleration in trend total factor productivity growth. Most of this acceleration actually took place outside of the computer sector. Almost none of the acceleration was cyclical. There is now clear supportive evidence of an acceleration of productivity in service industries that are major purchasers of information technology such as finance and wholesale and retail trade. These gains reflect not only increased investment in information technology but also complementary innovations in business organization and policy. To be sure, as evidenced by recent financial market volatility, there have been speculative excesses, but these should not obscure the fundamental gains that have been made.

Ball, Laurence

PD May 2001. **TI** Intergenerational Risk Sharing in the Spirit of Arrow, Debreu, and Rawls, with Applications to Social Security Design. **AU** Ball, Laurence; Mankiw, N. Gregory. **AA** Ball: Johns Hopkins University and NBER. Mankiw: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8270; 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** E00, H00, H55. **KW** Risk Sharing. Overlapping Generations. Contingent Claims Markets.

AB This paper examines the optimal allocation of risk in an overlapping-generations economy. It compares the allocation of risk the economy reaches naturally to the allocation that would be reached if generations behind a Rawlsian "veil of ignorance" could share risk with one another through complete Arrow-Debreu contingent-claims markets. The paper then examines how the government might implement optimal intergenerational risk sharing with a social security system. One conclusion is that the system must either hold equity claims to capital or negatively index benefits to equity returns.

Bamezai, Anil

TI Asian Economic Trends and Their Security Implications. **AU** Wolf, Charles, Jr..; Bamezai, Anil; Yeh, K. C.; Zycher, Benjamin.

Bandiera, Oriana

PD April 2002. **TI** Land Distribution, Incentives and the Choice of Production Techniques in Nicaragua. **AA** LSE and CEPR. **SR** STICERD, LSE Development Economics Discussion Paper: DEDPS/34; STICERD, Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. **PG** 36. **PR** no charge. **JE** D23, D82, O12, Q15. **KW** Agricultural Productivity. Asymmetric Information. Crop Choice.

AB Does the distribution of land rights affect the choice of contractible techniques? I present evidence suggesting that Nicaraguan farmers are more likely to grow effort-intensive crops on owned rather than on rented plots. I consider two theoretical arguments that illustrate why property rights might matter. In the first the farmer is subject to limited liability; in the second the owner cannot commit to output-contingent contracts. In both cases choices might be inefficient regardless of land distribution. The efficiency loss, however, is lower when the farmer owns the land. Further evidence suggests that, in this context, the inefficiency derives from lack of commitment.

Banerjee, Abhijit

TI A Corporate Balance-Sheet Approach to Currency Crises. **AU** Aghion, Philippe; Bacchetta, Philippe; Banerjee, Abhijit.

Bar-Isaac, Heski

PD October 2001. **TI** Self-Confidence and Survival. **AA** LSE. **SR** STICERD, LSE Theoretical Economics Discussion Paper: TE/01/428; STICERD, Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. **PG** 48. **PR** no charge. **JE** C61, C73, D42, D83, L15. **KW** Reputation. Signalling. Learning. One-Armed Bandit. Monopolist. Private Information. Public Information.

AB We consider the impact of history on the survival of a monopolist selling single units in discrete time periods, whose quality is learned slowly. If the seller learns her own quality at the same rate as customers, a sufficiently bad run of luck could induce her to stop selling. When she knows her quality, a good seller never stops selling. Furthermore, a seller with positive, though imperfect, information sells for the same number of periods whether her information is private or public. We further consider the robustness of the central result when the seller's opportunities for strategic behavior are limited.

Barbie, Martin

PD June 2000. **TI** Dynamic Efficiency and Pareto Optimality in a Stochastic OLG Model with Production and Social Security. **AU** Barbie, Martin; Hagedorn, Marcus; Kaul, Ashok. **AA** Barbie: University of Bonn. Hagedorn and Kaul: Institute for the Study of Labor (IZA), Germany. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/08; Graduate School of Economics, University of Bonn, Adenaueralle 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 20. **PR** no charge. **JE** D61, H55. **KW** Stochastic. Overlapping Generations. Dynamic Efficiency. Social Security. Risk Sharing.

AB We analyze the interaction between risk sharing and capital accumulation in a stochastic overlapping generations model with production. We give a complete characterization of interim Pareto optimality. Our characterization also subsumes equilibria with a pay- as-you-go social security system. In a competitive equilibrium interim Pareto optimality is equivalent to intergenerational exchange efficiency, which in turn implies dynamic efficiency. Furthermore, dynamic efficiency does not rule out a Pareto-improving role for a social security system. Social security can provide insurance against macroeconomic risk, namely aggregate productivity risk in the second period of life (old age) through dynamic risk sharing. We briefly relate our results to models without uncertainty where the notions of exchange efficiency, dynamic efficiency, and interim Pareto optimality are all equivalent in a competitive equilibrium.

Barinci, Jean-Paul

PD 2001. **TI** Real Business Cycles and the Animal Spirits Hypothesis in a CIA Economy. **AU** Barinci, Jean-Paul; Cheron, Arnaud. **AA** Barinci: Universite d'Evry and Universite de Paris 1. Cheron: Universite du Maine and CEPREMAP. **SR** CEPREMAP Discussion Paper: 2001/10; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 10. **PR** between 4 and 5 euros. **JE** E21, E32, E41. **KW** Money. Indeterminacy. Sunspots. Business Cycle. Cash-

In-Advance.
AB This paper examines the dynamical properties of a one-sector cash- in-advance constraint model with constant returns to scale. Its aim is to overcome some of the difficulties encountered by earlier models in establishing the empirical relevance of indeterminacy and sunspots. It is first established that, in opposition to available results, indeterminacy occurs for values of the intertemporal elasticity of substitution in consumption consistent with the bulk of empirical estimates. It is then shown that sunspot shocks generate procyclical movements in consumption. Lastly, allowing beliefs and technological disturbances, the model is found to perform as well as real sunspot models with increasing returns to scale in matching the business cycle.

Barrios, Salvador

PD November 2001. **TI** A Tale of Two Cycles: Co-Fluctuations Between UK Regions and the Euro Zone. **AU** Barrios, Salvador; Brulhart, Marius; Elliott, Robert J. R.; Sensier, Marianne. **AA** Barrios: Universite Catholique de Louvain. Brulhart: University of Lausanne. Sensier: University of Manchester. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 01/10; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 20. **PR** no charge. **JE** E32, F40, R12. **KW** Business Cycles. Co-Fluctuations. UK Regions. European Monetary Union. Optimum Currency Areas.
AB We examine the patterns and determinants of business-cycle correlations among eleven UK regions and six euro-zone countries over the 1966-1997 period, using GMM to allow for sampling error in comparing estimated correlations. The British business cycle is found to be persistently out of phase with that of the main euro-zone economies, and the trend is towards lower correlations. We detect only minor cyclical heterogeneity among UK regions. Differences in sectoral specialization drive some of the asymmetry in GDP fluctuations, but they do not appear significant in explaining the observed reduction in UK-EU business-cycle correlations over time.

Barros, Pedro Luis Pita

TI Universal Service and Entry: The Role of Uniform Pricing and Coverage Constraints. **AU** Hoernig, Steffen; Barros, Pedro Luis Pita.

Bassanini, Andrea

PD December 2001. **TI** Labour Market Regulation, Industrial Relations, and Technological Regimes: A Tale of Comparative Advantage. **AU** Bassanini, Andrea; Ernst, Ekkehard. **AA** Bassanini: OECD. Ernst: OECD and CEPREMAP. **SR** CEPREMAP Discussion Paper: 2001/17; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 27. **PR** between 4 and 5 euros. **JE** J53, O31, O33. **KW** Regulation. Industrial Relations. Comparative Advantage. Technological Regimes. Competence Accumulation.
AB In this paper we present comparative evidence from OECD countries concerning the impact of labor market institutions and regulations on technological specialization. The interplay between the degree of labor market flexibility, the systems of industrial relations and the knowledge base of different industries determines the viability of different human resource strategies thereby shaping the patterns of comparative advantage. Our empirical results show that countries with coordinated industrial-relations systems and strict employment protection tend to specialize in industries with a cumulative knowledge base. We argue that two mechanisms explain these patterns. The larger the scope for resorting to internal labor markets, the lower the adjustment costs imposed by labor market regulation. Furthermore, employment protection and coordinated industrial-relations regimes, by aligning workers' and firms' objectives, encourage firm-sponsored training as well as the accumulation of firm-specific competencies, allowing firms to fully exploit the potential of the internal labor market.

Basu, Susanto

PD July 2001. **TI** Productivity Growth in the 1990s: Technology, Utilization, or Adjustment? **AU** Basu, Susanto; Fernald, John G.; Shapiro, Matthew D. **AA** Basu and Shapiro: University of Michigan and National Bureau of Economic Research. Fernald: Federal Reserve Bank of Chicago. **SR** National Bureau of Economic Research Working Paper: 8359; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 51. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E22, E23, O47. **KW** Productivity. Technological Change.
AB Measured productivity growth increased substantially during the second half of the 1990s. This paper examines whether this increase owes to an increase in the rate of technological change or whether it can be explained by non-technological factors relating to factor utilization, factor accumulation, or returns to scale. It finds that the recent increase in productivity growth does appear to arise from an increase in technological change. Cyclical utilization raised measured productivity growth relative to technology growth in the first part of the expansion, but lowered it subsequently. Factor adjustment leads to a steady-state understatement of technology growth by measured productivity growth. The understatement was greater in the second half of the expansion than the first. Changes in the distribution of inputs across industries with different returns to scale lead to a modest understatement in the growth in technology. Although the increase in technological change is most pronounced in durable manufacturing, technological change also increased outside of manufacturing.

Beaudry, Paul

PD January 2002. **TI** Changes in US Wages 1976-2000: Ongoing Skill Bias or Major Technological Change? **AU** Beaudry, Paul; Green, David A. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/08; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 44. **PR** international. **JE** J30, O33. **KW** Wages. Returns to Education. Technological Adoption.
AB This paper examines the determinants of changes in the US wage structure over the period 1976-2000. The objective is the evaluation of whether these changes are best described as the result of ongoing skill-biased technological change, or alternatively, as the outcome of an adjustment process

associated with a major change in both the level of wages and the returns to skill over this period. This appears to be primarily driven by changes in the ratio of human capital (as measured by effective units of skilled workers) to physical capital. Although at first pass this pattern may appear difficult to interpret, it conforms extremely well to a simple model of technological adoption following a major change in technological opportunities. In contrast, there is not much empirical support for the view that ongoing (factor-augmenting) skill-biased technological process has been an important driving force over this period, nor is there much support for the view that physical capital accumulation has contributed to the increased differential between more and less educated workers; in fact, the opposite is found.

PD April 2002. **TI** An Equilibrium Analysis of Information Aggregation and Fluctuations in Markets with Discrete Decisions. **AU** Beaudry, Paul; Gonzalez, Francisco M. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/09; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 38. **PR** international. **JE** D80, E30, G10. **KW** Investment Fluctuations. Information Aggregation. Equilibrium Randomness.

AB This paper shows how the interaction between decentralized information gathering and discreteness of investment decisions at the individual level can generate random fluctuations in aggregate investment that involve occasionally large allocation errors. This is illustrated in a simple model in which private information is costly to acquire and prices reveal information. The unique rational expectations equilibrium outcome of the model is necessarily noisy and characterized by investment levels which may be high simply because uninformed investors are buying under the impression that the high price is a signal of good investment opportunities. Moreover, the equilibrium exhibits an interesting tradeoff between the size and the frequency of aggregate allocative errors, whereby, as the cost of gathering information declines, the size of allocative errors increases while their occurrence decreases.

Bebchuk, Lucian Arye

PD April 2001. **TI** Pre-Contractual Reliance. **AU** Bebchuk, Lucian Arye; Ben-Shahar, Omri. **AA** Bebchuk: Harvard Law School and NBER. Ben-Shahar: University of Michigan Law School. **SR** National Bureau of Economic Research Working Paper: 8235; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 50. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** C78, D23, K12. **KW** Bargaining Theory. Contract Law.

AB During contractual negotiations, parties often make (reliance) expenditures that would increase the surplus should a contract be made. This paper analyzes decisions to invest in pre-contractual reliance under alternative legal regimes. Investments in reliance will be socially suboptimal in the absence of any pre-contractual liability -- and will be socially excessive under strict liability for all reliance expenditures. Given the results for these polar cases, the paper focuses on exploring how "intermediate" liability rules could be best designed to induce efficient reliance decisions. One of the results indicates that the case for liability is shown to be stronger when a party retracts from terms that it has proposed or from preliminary understandings reached by the parties. The results have implications for various contract doctrines and debates. Finally, the paper shows that pre-contractual liability does not necessarily have an overall adverse effect on parties' decisions to enter into contractual negotiations.

PD May 2001. **TI** A New Approach to Valuing Secured Claims in Bankruptcy. **AU** Bebchuk, Lucian Arye; Fried, Jesse M. **AA** Bebchuk: Harvard Law School, NBER, and CEPR. Fried: UC Berkeley. **SR** National Bureau of Economic Research Working Paper: 8276; 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** G33, K22. **KW** Bankruptcy. Litigation. Valuation of Collateral.

AB In many business bankruptcies in which the firm is to be preserved as a going concern, one of the most difficult and important problems is that of valuing the assets that serve as collateral for secured creditors. Valuing a secured creditor's collateral is needed to determine the amount of the creditor's secured claim, which in turn affects the payout that must be made to the creditor. Such valuation has generally been believed to require either litigation or bargaining among the parties, which in turn give rise to uncertainty, delay, and deviations from parties' entitlements. This paper puts forward a new approach to valuing collateral that involves neither bargaining nor litigation. Under this approach, a market-based mechanism would determine the value of collateral in such a way that no participant in the bankruptcy would have a basis for complaining that secured creditors are either over-or under-compensated. The approach would considerably improve the performance of business bankruptcy and could constitute an important element of any proposal for bankruptcy reform.

Behrman, Jere R.

PD November 2001. **TI** Program Evaluation with Unobserved Heterogeneity and Selective Implementation: The Mexican Progresa Impact on Child Nutrition. **AU** Behrman, Jere R.; Hoddinott, John. **AA** Behrman: University of Pennsylvania. Hoddinott: Dalhousie University. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/006; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 35. **PR** free from website. **JE** H43, I12, I38, O15. **KW** Program Evaluation. Child Health. Mexico. Nutrition.

AB The assessment of the impact of social programs is the subject of lively, sometimes heated debate over whether program evaluation is best conducted either by comparing mean outcomes from a randomized intervention or by using econometric techniques with nonrandom samples. This paper contributes to this debate through an examination of.

PD January 2002. **TI** Social Networks, Family Planning and Worrying About AIDS: What Are the Network Effects if Network Partners are Not Determined Randomly? **AU** Behrman, Jere R.; Kohler, Hans-Peter; Watkins, Susan Cotts. **AA** Behrman and Watkins: University of Pennsylvania. Kohler: Max-Planck Institute for Demographic Research. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/002; Penn Institute for Economic Research,

3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 50. **PR** free from website. **JE** I12, J10, O15. **KW** AIDS. Health. Social Networks. Family Planning. Kenya.
AB This study presents new estimates of the impact of social networks on attitudes and behavior in two areas, family planning and AIDS. The study explicitly allows for the possibility that social networks are not chosen randomly, but rather that important characteristics such as unobserved preferences and community characteristics determine not only the outcomes of interest but also the conversational networks in which they are discussed. To examine this issue, longitudinal survey data from rural Kenya are used. The major findings are: first, the endogeneity of social networks can substantially distort the usual cross-sectional estimates of network influences. Second, the estimates indicate that social networks have significant and substantial effects even after controlling for unobserved factors that may determine the nature of the social networks. Third, these network effects generally are nonlinear and asymmetric.

PD February 2002. **TI** Parental Allocations to Children: New Evidence on Bequest Differences Among Siblings. **AU** Behrman, Jere R.; Rosenzweig, Mark R. **AA** University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/007; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 9. **PR** free from website. **JE** D10, D13. **KW** Bequests. Intergenerational Transfers. Intergenerational Visits. Household Models.
AB We use new survey-based data on siblings to assess the potential role of bequests in either redistributing income among siblings or affecting offspring behavior as implied by prominent models. The data are not focused on the upper tail of the wealth distribution and include both own and sib reports on own bequests and on sib's bequests, enabling the use of a flexible measurement model. Our results indicate that bequests are received by almost two-thirds of eligible decedents, average bequest amounts are a significant fraction of annual earnings, and there are significant differences between siblings with respect to schooling, earnings, and visits with parents. However, there are not significant sib differences in bequests once measurement error is incorporated into the analysis.

PD July 2002. **TI** Improving the Quality Versus Increasing the Quantity of Schooling: Evidence for Rural Pakistan. **AU** Behrman, Jere R.; Ross, David; Sabot, Richard. **AA** Behrman: University of Pennsylvania. Ross: Bryn Mawr College. Sabot: Williams College. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/022; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 37. **PR** free from website. **JE** I21, J24, O15. **KW** School Quality. Wages and Schooling. Economic Development. Pakistan.
AB Interest in estimating the impact of school quality on earnings has increased. But most studies on this topic have important limitations, particularly in studies for developing countries. They tend to ignore behavioral decisions regarding schooling and individual and family background characteristics, use school quality measures aggregated to the regional level, and rely on crude indicators of teacher quality. These limitations may explain why the micro evidence of important school quality effects is scant. Moreover, the question of the relative rates of return, in terms of earnings, to improving school quality versus raising quantity has not been addressed. The data demands for estimating such rates of return are considerable. This paper presents a conceptual framework for undertaking such estimates, uses special data collected for this study, and makes estimates within a framework that controls for important individual and household choices, including the duration of schooling and subsequent participation in the wage labor market.

Bekaert, Geert

PD April 2001. **TI** Does Financial Liberalization Spur Growth? **AU** Bekaert, Geert; Harvey, Campbell R.; Lundblad, Christian. **AA** Bekaert: Columbia University and NBER. Harvey: Duke University and NBER. Lundblad: Board of Governors of the Federal Reserve System. **SR** National Bureau of Economic Research Working Paper: 8245; 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** F00, F30, G00, G10, O10, O40. **KW** Economic Growth. Liberalization. Financial Development.
AB This paper shows that equity market liberalizations, on average, lead to a one percent increase in annual real economic growth over a five- year period. The liberalization effect is not spuriously accounted for by macro-economic reforms and does not reflect a business cycle effect. Although financial liberalizations further financial development, measures of financial development fail to fully drive out the liberalization effect. The investment/GDP ratio increases post liberalization, with the investment partially financed by foreign capital inducing worsened trade balances. Differentiating across liberalizing countries, a large secondary school enrollment, a small government sector and an Anglo-Saxon legal system tend to enhance the liberalization effect. Finally, the conditional convergence effect is larger once financial liberalization is accounted for.

Ben-Shahar, Omri

TI Pre-Contractual Reliance. **AU** Bebchuk, Lucian Arye; Ben-Shahar, Omri.

Benhamouche, Zoubir

PD May 2002. **TI** Reformes Institutionnelles et Reformes Economiques (Institutional Reforms and Economic Reforms). **AA** CEPREMAP and Universite d'Evry. **SR** CEPREMAP Discussion Paper: 2002/09; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 38. **PR** between 4 and 5 euros. **JE** O11, P41. **KW** Political Economy. Economic Reforms. Developing Countries. Democracy. Gradualism. Big Bang.
AB Big Bang dominates gradualism because of the delaying cost induced by the later and also because of complementarities between reforms. But social cooperation, broadly defined, being crucial for the success of reforms, Big Bang may have very poor results without institutional changes which give the right incentives to the people and the governants. We examine in what circumstances a policy that reforms institutions and does economic reforms gradually is better than a big bang reform process even if big bang is also accompanied by institutional reforms. Finally in the presence of credibility problems of democratization, Gradualism may be a better way

of doing reforms. This paper is written in French.

Benigno, Gianluca

TI Price Stability as a Nash Equilibrium in Monetary Open-Economy Models. **AU** Benigno, Pierpaolo; Benigno, Gianluca.

Benigno, Pierpaolo

PD April 2001. **TI** Price Stability as a Nash Equilibrium in Monetary Open-Economy Models. **AU** Benigno, Pierpaolo; Benigno, Gianluca. **AA** Benigno, P.: New York University and CEPR. Benigno, G.: not available. **SR** CEPR Discussion Paper: 2757; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E52, F41. **KW** Nash Equilibrium. Open Economy. Optimal Monetary Policy. Price Stability.

AB A two-country dynamic general-equilibrium model with imperfect competition and price stickiness is considered. This work shows the conditions under which price stability can implement the flexible-price allocation as a Nash equilibrium. This is possible if and only if both countries maintain a certain positive degree of monopolistic competition. In such equilibrium, the monetary policymakers have no incentive to surprise price setters ex post.

PD July 2001. **TI** High Public Debt in Currency Crises: Fundamentals versus Signaling Effects. **AU** Benigno, Pierpaolo; Missale, Alessandro. **AA** Benigno: New York University and Centre for Economic Policy Research. Missale: Universita di Milano. **SR** CEPR Discussion Paper: 2862; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E52, H63. **KW** Credibility. Fixed Exchange Rates. Nominal Debt Maturity. Yield Curve.

AB This paper examines how public debt, government credibility and external circumstances affect the probability of exchange rate devaluations in a three-period open-economy version of the Barro-Gordon (1983) model with nominal public debt. Public debt creates a link between current and future policy actions: resisting a crisis may enhance or undermine the sustainability of the exchange-rate regime depending on whether the government's reputation or fundamentals -- i.e. the level of public debt -- are critical for sustainability. The focus is on the impact of public debt, debt maturity and government credibility on the expected devaluation for the current and future periods. This allows us to identify factors affecting the short-term interest rate and the forward rate and hence to derive predictions on the level and the slope of the term structure of interest rates.

Bentolila, Samuel

TI The Distribution of Earnings in Spain During the 1980s: The Effects of Skill, Unemployment and Union Power. **AU** Arellano, Manuel; Bentolila, Samuel; Bover, Olympia.

Ber, Hedva

PD January 2002. **TI** Monetary Policy in an Open Economy: The Differential Impact on Exporting and Non-Exporting Firms. **AU** Ber, Hedva; Blass, Asher; Yosha, Oved. **AA** Ber and Blass: Bank of Israel. Yosha: Tel Aviv University and CEPR. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2002/02; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 29. **PR** no charge. **JE** D21, E52, F41. **KW** Investment. Credit Markets. Exchange Rates. Corporate Finance. Liquidity.

AB Using firm-level data, we provide evidence that, although monetary policy affects real investment, the effect operate differentially: the greater its export intensity the less a firm is affected by tight money. We examine several interpretations and conclude that the impact is transmitted primarily through the supply side due to differential access to credit markets. This finding lends support to the commonplace view that monetary policy is less effective the more open the economy.

Bergemann, Dirk

PD April 2001. **TI** The Financing of Innovation: Learning and Stopping. **AU** Bergemann, Dirk; Hege, Ulrich. **AA** Bergemann: Yale University. Hege: Hautes Etudes Commerciales, Jouy- en-Josas. **SR** CEPR Discussion Paper: 2763; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D83, D92, G24, G31. **KW** Arm's Length Financing. Innovation. Learning. Markov Perfect Equilibrium. Relationship Financing.

AB This paper considers the financing of a research project under uncertainty about the time of completion and the probability of eventual success. The uncertainty about future success diminishes gradually with the arrival of additional funding. The entrepreneur controls the funds and can divert them. This paper distinguishes between relationship financing, meaning that the entrepreneur's allocation of the funds is observable, and arm's length financing, where it is unobservable. It is found that equilibrium funding stops altogether too early relative to the efficient stopping time in both financing modes. The paper characterizes the optimal contracts and equilibrium funding decisions. The financial constraints will typically become tighter over time under relationship financing, and looser under arm's length financing. The trade-off is that while relationship financing may require smaller information rents, arm's length financing amounts to an implicit commitment to a finite funding horizon. The lack of such a commitment under relationship financing implies that the sustainable release of funds eventually slows down. The paper obtains the surprising result that arm's length contracts are preferable in a Pareto sense.

Berger, Allen N.

PD October 2001. **TI** The Effect of Market Size Structure on Competition: The Case of Small Business Lending. **AU** Berger, Allen N.; Rosen, Richard J.; Udell, Gregory F. **AA** Berger: Board of Governors of the Federal Reserve System and Wharton Financial Institutions Center. Rosen: Indiana University and Federal Reserve Bank of Chicago. Udell: Indiana University. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/63; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 23. **PR** no charge. **JE** G21, G28, G34, L11. **KW** Banks. Small Business. Mergers. Relationship Lending. Size Structure. Loan Prices.

AB Banking industry consolidation has raised concern about the supply of small business credit since large banks generally invest lower proportions of their assets in small business loans. However, we find that the likelihood that a small business borrows from a bank of a given size is roughly proportional to the local market presence of banks of that size, although there are exceptions. Moreover, small business loan interest rates depend more on the size structure of the market than on the size of the bank providing the credit, with markets dominated by large banks generally charging lower prices.

Bergoeing, Raphael

PD March 2001. **TI** Trade Theory and Trade Facts. **AU** Bergoeing, Raphael; Kehoe, Timothy J. **AA** Bergoeing: Georgetown University, Universidad Alberto Hurtado. Kehoe: University of Minnesota and Federal Reserve Bank of Minneapolis. **SR** Federal Reserve Bank of Minneapolis Staff Report: 284; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 33. **PR** no charge. **JE** F12, F13, F17. **KW** Product Differentiation. Imperfect Competition. Scale Economics. Trade Growth. Intraindustry Trade.

AB This paper quantitatively tests the "new trade theory" based on product differentiation, increasing returns, and imperfect competition. We employ a standard model, which allows both changes in the distribution of income among industrialized countries, emphasized by Helpman and Krugman (1985), and nonhomothetic preferences, emphasized by Markusen (1986), to effect trade directions and volumes. In addition, we generalize the model to allow changes in relative prices to have large effects. We test the model by calibrating it to 1990 data and then "backcasting" to 1961 to see what changes in crucial variables between 1961 and 1990 are predicted by the theory. The results show that, although the model is capable of explaining much of the increased concentration of trade among industrialized countries, it is not capable of explaining the enormous increase in the ratio of trade to income. Our analysis suggests that it is policy changes, rather than the elements emphasized in the new trade theory, that have been the most significant determinants of the increase in trade volume.

PD September 2001. **TI** A Decade Lost and Found: Mexico and Chile in the 1980s. **AU** Bergoeing, Raphael; Kehoe, Patrick J.; Kehoe, Timothy J.; Soto, Raimundo. **AA** Bergoeing: Universidad de Chile. Kehoe, P.: Federal Reserve Bank of Minneapolis, University of Minnesota, and NBER. Kehoe, T.: University of Minnesota and Federal Reserve Bank of Minneapolis. Soto: Pontificia Universidad Catolica de Chile and Banco Central de Chile. **SR** Federal Reserve Bank of Minneapolis Staff Report: 292; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 27. **PR** no charge. **JE** E32, N16, O57. **KW** Chile. Mexico. Growth Accounting. Total Factor Productivity. Depression.

AB Chile and Mexico experienced severe economic crises in the early 1980s. This paper analyzes four possible explanations for why Chile recovered much faster than did Mexico. Comparing data from the two countries allows us to rule out a monetarist explanation, and explanation based on falls in real wages and real exchange rates, and a debt overhang explanation. Using growth accounting, a calibrated growth model, and economic theory, we conclude that the crucial difference between the two countries was the earlier policy reforms in Chile that generated faster productivity growth. The most crucial of these reforms were in banking and bankruptcy procedures.

Bernanke, Ben S.

PD July 2001. **TI** Is Growth Exogenous? Taking Mankiw, Romer, and Weil Seriously. **AU** Bernanke, Ben S.; Gurkaynak, Refet S. **AA** Princeton University. **SR** National Bureau of Economic Research Working Paper: 8365; 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** O40. **KW** Total Factor Productivity. Growth.

AB Is long-run economic growth exogenous? To address this question, this paper shows that the empirical framework of Mankiw, Romer, and Weil (1992) can be extended to test any growth model that admits a balanced growth path. That framework is used both to revisit variants of the Solow growth model and to evaluate simple alternative models of endogenous growth. To allow for the possibility that economies in the sample are not on their balanced growth paths, the cross-sectional behavior of total factor productivity (TFP) growth is also studied, which is estimated using alternative measures of labor's share. The conclusion, based on both model estimation and growth accounting, is that long-nm growth is significantly correlated with behavioral variables such as the savings rate, and that this correlation is not easily explained by models in which growth is treated as the exogenous variable. Hence, future empirical studies should focus on models that exhibit endogenous growth.

Bernard, Andrew B.

PD July 2001. **TI** Why Some Firms Export. **AU** Bernard, Andrew B.; Jensen, J. Bradford. **AA** Bernard: Dartmouth College and National Bureau of Economic Research. Jensen: Bureau of the Census and University of Maryland. **SR** National Bureau of Economic Research Working Paper: 8349; 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** D21, F20, L60. **KW** International Trade. Export.

AB This paper presents a dynamic model of the export decision by a profit-maximizing firm. It uses a panel of U.S. manufacturing plants to test for the role of plant characteristics, spillovers from neighboring exporters, entry costs and government export promotion expenditures. Entry and exit in the export market by U.S. plants is substantial, past exporters are apt to reenter, and plants are likely to export in consecutive years. However, entry costs are significant and spillovers from the export activity of other plants negligible. State export promotion expenditures have no significant effect on the probability of exporting. Plant characteristics, especially those indicative of past success, strongly increase the probability of exporting, as do favorable exchange rate shocks.

Bernheim, B. Douglas

PD November 1999. **TI** The Adequacy of Life Insurance: Evidence from the Health and Retirement Survey. **AU** Bernheim, B. Douglas; Forni, Lorenzo; Gokhale, Jagadeesh; Kotlikoff, Laurence J. **AA** Bernheim: Stanford University and NBER. Forni: Boston University and the Bank of Italy. Gokhale: Federal Reserve Bank of Cleveland. Kotlikoff: Boston University and the NBER. **SR** Federal Reserve Bank of Cleveland Working Paper: 9914; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clev.frb.org. **PG** 51. **PR** no charge. **JE** D12, D18, G11, G22. **KW** Life Insurance. Retirement. Under-Insurance.

AB This study examines life insurance adequacy among married American couples approaching retirement based on the 1992 Health and Retirement Survey with matched Social Security earnings histories. It evaluates each household's life insurance needs based on new financial planning software that embodies a life-cycle-planning model and covers a broad array of demographic, economic, and financial characteristics. A sizable minority of households are significantly underinsured. Almost one third of wives and over 10 percent of husbands would have suffered living-standard reductions greater than 20 percent had their spouses died in 1992. Under-insurance seems more common among low-income households, couples with asymmetric earnings, younger households, couples with dependent children, and non-whites. In general, households with greater vulnerabilities do not compensate adequately through greater life insurance holdings. Among some groups, the frequency of under-insurance exceeds two-thirds, and the frequency of severe under- insurance (a reduction in living standard of 40 percent or greater) exceeds one-quarter.

Bertocchi, Graziella

PD September 2001. **TI** The Evolution of Modern Educational Systems. **AU** Bertocchi, Graziella; Spagat, Michael. **AA** Bertocchi: Universita' di Modena e Reggio Emilia and Centre for Economic Policy Research. Spagat: Royal Holloway, University of London and Centre for Economic Policy Research. **SR** Royal Holloway, University of London Discussion Paper in Economics: 2001/04; Department of Economics, Royal Holloway, University of London, Egham, Surrey TW20 0EX, United Kingdom. Website: www.rhul.ac.uk/economics/Research/WorkingPapers/. **PG** 31. **PR** no charge. **JE** D31, I20, J24, O40. **KW** Vocational Education. General Education. Income Distribution. Politics. Growth.

AB This paper studies the evolution of an educational system founded on a hierarchical differentiation between vocational and general education, with vocational playing an inferior role in the society. The dynamics are best summarized by the ratio of the fraction of the population in vocational to that in general education, which is interpreted as a measure of the degree of stratification of the society. It is shown that this ratio first rises and then declines with the level of development, displaying an inverted U-shape that reflects the complex interaction between economic and political forces, including aggregate income growth, wealth inequality and political participation.

Besley, Timothy

PD February 2002. **TI** Can Labor Regulation Hinder Economic Performance? Evidence from India. **AU** Besley, Timothy; Burgess, Robin. **AA** LSE. **SR** STICERD, LSE Development Economics Discussion Paper: DEDPS/33; STICERD, Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. **PG** 49. **PR** no charge. **JE** I31, I38, J53, K23, L51, O21. **KW** India. Industrial Relations. Industrial Disputes Act. Manufacturing Growth. Pro-Worker Regulations. Urban Poverty. Capital and Labor.

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

Bester, Helmut

PD December 1998. **TI** Delegated Bargaining and Renegotiation. **AU** Bester, Helmut; Sakovics, Jozsef. **AA** Bester: Free University of Berlin. Sakovics: Institut d'Analisi Economica. **SR** Universitat Autonoma de Barcelona DEHA/IAE Working Paper: 440/99; Departament d'Economia i d'Historia Economica, Universitat Autonoma de Barcelona, Campus UAB, 08193 Bellaterra, Barcelona, Spain. Website: www.iae-csic.uab.es. **PG** 23. **PR** papers only available on web page; no hard copies. **JE** C72, C78. **KW** Bargaining. Commitment. Delegation. Renegotiation. Search.

AB This paper examines the commitment effect of delegated bargaining when renegotiation of the delegation contract cannot be ruled out. It considers a seller who can either bargain face-to-face with a prospective buyer or hire an intermediary to bargain on her behalf. The intermediary is able to interrupt his negotiation with the buyer to renegotiate the delegation contract. In this model, the time cost of renegotiation prevents a full elimination of the commitment effect of delegation. In particular, there are always gains from delegation when the players are sufficiently patient. An extension of the basic model to a search market shows that the gains from delegation are negatively related to the efficiency of search.

Bethencourt Marrero, Carlos

PD May 2001. **TI** On the Political Complementarity Between Health Care and Social Security. **AU** Bethencourt Marrero, Carlos; Galasso, Vincenzo. **AA** Bethencourt Marrero: Universidad de La Laguna. Galasso: Universidad Carlos III de Madrid. **SR** CEPR Discussion Paper: 2788; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D72, H51, H53, H55. **KW** Endogenous Longevity. Subgame Perfect Structure Induced Equilibrium. Health Care. Social Security.

AB The dramatic rise in the US social security and public health expenditure is only partially explained by the demographic trend. We suggest that the political complementarity between these two programs induced a multiplicative response to the ageing process. Public health care increases the political constituency in favor of social security, and vice versa. Specifically, public health decreases the longevity differential between low and high-income individuals, therefore rising the retirement period and the total pension benefits of the former relatively to the latter. This effect, whose empirical relevance is confirmed by independent studies, increases the political support for social security among the low-income young. We show that in a political equilibrium of a two-dimensional majoritarian election, a voting majority of low-income young and all retirees supports a large welfare state. Its composition between public health and social security is determined by intermediate (median) income types, who favor a combination of the two programs, since public health increases their longevity enough to make social security more attractive.

Bettinger, Eric

TI Vouchers for a Private Schooling in Colombia: Evidence from a Randomized Natural Experiment. **AU** Angrist, Joshua; Bettinger, Eric; Bloom, Erik; King, Elizabeth; Kremer, Michael.

Bhatia, Kul B.

PD November 2001. **TI** Intra-Sector Mobility and Specific Inputs in Tax-Incidence Theory. **AA** University of Western Ontario. **SR** University of Western Ontario, Department of Economics Research Report: 2001/05; Research Report Coordinator, Economics Reference Center, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/econref/html/RRPaper.html. **PG** 17. **PR** International $10.00 (Canadian) plus $3.00 (Canadian) per order handling fee; pre-paid orders only; make checks payable to the University of Western Ontario. **JE** H22. **KW** General Equilibrium. Intra-Sector Mobility. Tax-Incidence.

AB In a simple three-factor-two-final-good formulation (two factors immobile and sector-specific), a well-known result under competitive and full-employment assumptions is that a partial tax on the mobile factor in either industry hurts that factor everywhere. It can be reversed, however, when the taxed activity uses a sector-specific input produced in the other sector. The model becomes asymmetrical: the same tax often yields different results, depending on where it is levied and the nature and cross-sector linkages of various inputs. Their respective roles in determining tax-incidence are discussed in a series of plausible settings, each 3 x 2, involving primary and produced inputs and intra- sector mobility of some sector-specific factors. Cross-sector linkages of produced inputs, more than any other element, drive the new results which are often similar to those in models with all mobile factors.

Bhattacharya, Jay

PD April 2001. **TI** Are the Young Becoming More Disabled? **AU** Bhattacharya, Jay; Goldman, Dana; Lakdawalla, Darius. **AA** Bhattacharya and Goldman: RAND. Lakdawalla: RAND and NBER. **SR** National Bureau of Economic Research Working Paper: 8247; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 17. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** I11, I12. **KW** Health. Disability.

AB A fair amount of research suggests that health has been improving among the elderly over the past 10 to 15 years. Comparatively little research effort, however, has been focused on analyzing disability among the young. This paper argues that health among the young has been deteriorating, at the same time that the elderly have been becoming healthier. Moreover, this growth in disability may end up translating into higher disability rates for tomorrow's elderly. Using data from the National Health Interview Survey, this paper finds that, from 1984 to 1996, the rate of disability among those in their 40s rose by one full percentage point, or almost forty percent. Over the same period, the rate of disability declined for the elderly. The recent growth in disability has coincided with substantial growth in asthma and diabetes among the young. Indeed, the growth in asthma alone seems more than enough to explain the change in disability. Therefore, this paper argues that the growth in disability stems from real changes in underlying health status.

Biais, Bruno

PD July 2001. **TI** Price Discovery Across the Rhine. **AU** Biais, Bruno; Martinez, Isabelle. **AA** Biais: Universite des Sciences Sociales de Toulouse and Centre for Economic Policy Research. Martinez: IDEI-Universite des Sciences Sociales de Toulouse. **SR** CEPR Discussion Paper: 2878; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F12, F21, F30. **KW** Information Asymmetries. International Financial Markets. Integration. Market Microstructure.

AB This paper studies the formation of opening prices for German and French stocks, simultaneously traded in Frankfurt and Paris. It analyzes theoretically the case of investors and traders based in the same country as the firm having better information on its value than do foreign traders. This model implies that prices set on the domestic market should be informationally more efficient than prices set on the foreign market. For German stocks, the empirical results are consistent with theory. The informational efficiency of French stock prices is comparable in the two markets when the Frankfurt specialist can observe Paris pre-opening prices before opening the market.

Billot, Antoine

PD June 2001. **TI** Bargaining Over an Uncertain Outcome: The Role of Beliefs. **AU** Billot, Antoine; Chateauneuf, Alain; Gilboa, Itzhak; Tallon, Jean-Marc. **AA** Billot: Universite Paris II and Institut Universitaire de France. Chateauneuf: Universite Paris I Pantheon-Sorbonne. Gilboa: Tel Aviv University. Tallon: EUREQua, CNRS, Universite Paris I Pantheon- Sorbonne. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/21; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 11. **PR** no charge. **JE** C72, D82. **KW** Nash Bargaining Solution. Beliefs. Uncertainty.

AB We study the Nash bargaining solution of a problem in which two agents bargain over an uncertain outcome. Under the assumptions of risk neutrality and of constant absolute risk aversion, we study the way that solution varies, ex ante, when we vary the beliefs of one agent. Changing an agent's beliefs in a way that makes them "more distant" from the other agent's beliefs makes the second agent better off.

Bjornerstedt, Jonas

PD June 2001. **TI** Bilateral Oligopoly. **AU** Bjornerstedt, Jonas; Stennek, Johan. **AA** Research Institute of Industrial Economics, Stockholm. **SR** CEPR Discussion Paper: 2864; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** C70, D20, D40, L10, L40. **KW** Bargaining. Bilateral Oligopoly. Decentralized Trade. Intermediate Goods. Walrasian Outcome.

AB In many intermediate goods markets, buyers and sellers both have market power. Contracts are usually long-term and negotiated bilaterally, codifying many elements in addition to price. This paper models such bilateral oligopolies as a set of simultaneous Rubinstein- Stahl bargainings between pairs of buyers and sellers, over contracts specifying price and quantity. Equilibrium quantities are efficient regardless of concentration. The law of one price does not hold. Prices depend on concentration of capital and concentration of sales. If the quantity sold represents a small share of both the firms' sales and purchases, then the price is close to the Walrasian price.

Blackorby, Charles

PD December 2001. **TI** In Defense of Welfarism. **AU** Blackorby, Charles; Bossert, Walter; Donaldson, David. **AA** Blackorby: University of British Columbia and GREQAM. Bossert: Universite de Montreal. Donaldson: University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/27; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 19. **PR** international. **JE** D63. **KW** Welfarism. Multiple-Profile Social Choice.

AB This paper characterizes welfarist social evaluation in a multi- profile setting where, in addition to multiple utility profiles, it is assumed that there are several profiles of non-welfare information. New versions of the welfarism theorems in this alternative framework are proven, and it is illustrated that a very plausible and weak anonymity property is sufficient to generate anonymous social-evaluation orderings.

PD October 2002. **TI** Critical-Level Population Principles and the Repugnant Conclusion. **AU** Blackorby, Charles; Bossert, Walter; Donaldson, David. **AA** Blackorby: University of Warwick and GREQAM. Bossert: Universite de Montreal. Donaldson: University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/16; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 14. **PR** international. **JE** D63. **KW** Population Ethics. Critical-Level Generalized Utilitarianism. Repugnant Conclusion.

AB Critical-level generalized-utilitarian population principles with positive critical levels provide an ethically attractive way of avoiding the repugnant conclusion. The axiomatic foundations of critical-level generalized utilitarianism is discussed and its relationship to the sadistic and strong sadistic conclusions is investigated: A positive critical level avoids the repugnant conclusion. It is demonstrated that, although no critical-level generalized-utilitarian principle can avoid both the repugnant and strong sadistic conclusions, principles that avoid both have significant defects.

Blanchard, Olivier

PD February 2001. **TI** Macroeconomic Effects of Regulation and Deregulation in Goods and Labor Markets. **AU** Blanchard, Olivier; Giavazzi, Francesco. **AA** Blanchard: MIT and NBER. Giavazzi: Universita Bocconi and NBER. **SR** National Bureau of Economic Research Working Paper: 8120; 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** E24, L16. **KW** Political Economy. Labor Market. Deregulation. Unemployment.

AB Product and labor market deregulation are fundamentally about reducing and redistributing rents, leading economic players to adjust in turn to this new distribution. Thus, even if deregulation eventually proves beneficial, it comes with strong distribution and dynamic effects. The transition may imply the decline of incumbent firms. Unemployment may increase for a while. Real wages may decrease before recovering, and so on. To study these issues, we build a model based on two central assumptions: Monopolistic competition in the goods market, which determines the size of rents; and bargaining in the labor market, which determines the distribution of rents between workers and firms. We then think of product market regulation as determining both the entry costs faced by firms, and the degree of competition between firms. We think of labor market regulation as determining the bargaining power of workers. Having characterized the effects of labor and product market deregulation, we then use our results to study two specific issues. First, we shed light on macroeconomic evolutions in Europe over the last twenty years, in particular on the behavior of the labor share. Second, we look at political economy interactions between product and labor market deregulation.

Blass, Asher

TI Monetary Policy in an Open Economy: The Differential Impact on Exporting and Non-Exporting Firms. **AU** Ber, Hedva; Blass, Asher; Yosha, Oved.

Bloom, Erik

TI Vouchers for a Private Schooling in Colombia: Evidence from a Randomized Natural Experiment. **AU** Angrist, Joshua; Bettinger, Eric; Bloom, Erik; King, Elizabeth; Kremer, Michael.

Blumkin, Tomer

PD August 2001. **TI** Estate Taxation. **AU** Blumkin, Tomer; Sadka, Efraim. **AA** Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/26; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 21. **PR** no charge. **JE** D64, H21, H23, H24. **KW** Estate Taxation. Optimal Taxation. Redistribution. Altruism. Accidental Bequest. Annuities. Bequest.

AB In this paper we examine the properties of the optimal linear estate tax in the presence of a complete set of tax instruments available to the social planner. We allow for both types of bequest motives, namely altruistic and accidental. We examine the case for estate taxation which seems to be the strongest (but not impeccable) with accidental bequests. In general, the estate tax is highly sensitive to the relative importance of the two bequest motives.

Boldrin, Michele

PD September 2000. **TI** Growth Cycles and Market Crashes. **AU** Boldrin, Michele; Levine, David K. **AA** Boldrin: Federal Reserve Bank of Minneapolis and University of Minnesota. Levine: University of California, Los Angeles. **SR** Federal Reserve Bank of Minneapolis Staff Report: 279; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 29. **PR** no charge. **JE** G12, O31, O33, O61. **KW** Technological Revolutions. Stock Market Value. Growth Cycles.

AB Market booms are often followed by dramatic falls. To explain this requires an asymmetry in the underlying shocks. A straightforward model of technological progress generates asymmetries that are also the source of growth cycles. Assuming a representative consumer, we show that the stock market generally rises, punctuated by occasional dramatic falls. With high risk aversion, bad news causes dramatic increases in prices. Bad news does not correspond to a contraction of existing production possibilities, but to a slowdown in their rate of expansion. This economy provides a model of endogenous growth cycles in which recoveries and recessions are dictated by the adoption of innovations.

PD November 2000. **TI** Habit Persistence, Asset Returns and the Business Cycle. **AU** Boldrin, Michele; Christiano, Lawrence J.; Fisher, Jonas D. M. **AA** Boldrin: Federal Reserve Bank of Minneapolis, University of Minnesota, and CEPR. Christiano: Northwestern University, Federal Reserve Bank of Chicago, and NBER. Fisher: Federal Reserve Bank of Chicago. **SR** Federal Reserve Bank of Minneapolis Staff Report: 280; Research Development, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 58. **PR** no charge. **JE** E32, E44, G12. **KW** Business Cycles. Equity Premium. Multisector Models.

AB We introduce two modifications into the standard real business cycle model: habit persistence preferences and limitations on intersectoral factor mobility. The resulting model is consistent with the observed mean equity premium, mean risk free rate and Sharpe ration on equity. The model does roughly as well as the standard real business cycle model with respect to standard measures. On four other dimensions its business cycle implications represent a substantial improvement. It accounts for (i) persistence in output, (ii) the observation that employment across different sectors moves together over the business cycle, (iii) the evidence of "excess sensitivity" of consumption growth to output growth, and (iv) the "inverted leading indicator property of interest rates," that high interest rates are negatively correlated with future output.

Bollerslev, Tim

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

TI Parametric and Nonparametric Volatility Measurement. **AU** Andersen, Torben G.; Bollerslev, Tim; Diebold, Francis X.

Bomfim, Antulio N.

PD July 2001. **TI** Understanding Credit Derivatives and their Potential to Synthesize Riskless Assets. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/50; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 21. **PR** no charge. **JE** G13, G12, G13. **KW** Credit Default Swaps. Risk. Asset Swaps. Financial Engineering. Synthetic CDOs.

AB The credit derivatives market is emerging as a potentially important new development that may help shape the overall financial markets in the years to come. In this paper, I provide a brief overview of the credit derivatives market and assess its future potential in the creation of private-sector instruments that are virtually free of default risk, and, thus, may be appealing to investors who currently favor the safety of U.S. Treasury securities.

PD July 2001. **TI** Measuring Equilibrium Real Interest Rates: What Can We Learn: From Yields on Indexed Bonds? **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/53; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 19. **PR** no charge. **JE** E43, E52, G12. **KW** Inflation-Indexed. Securities. Forward Rates. Risk Premium. Monetary Policy.

AB What does the level of the real interest rates tell us about where the economy, or one's portfolio, is headed? The answer to this question depends on one's estimate of the "equilibrium" value of real interest rates, a measure that is unfortunately not directly observed in the market place. In this paper, I provide a brief overview of some of the existing approaches to defining and measuring equilibrium real rates and introduce a novel method based on yields on the U.S. Treasury's Inflation-Indexed securities (TIIS). I discuss a simple framework for analyzing TIIS yields and illustrate how to use them to gauge the stance of monetary policy and overall economic prospects.

Booth, Alison L.

PD July 2001. **TI** The Union Membership Wage Premium Puzzle: Is There A Free-Rider Problem? **AU** Booth, Alison L.; Bryan, Mark L. **AA** Booth: Australian National University, University of Essex, and Centre for Economic Policy Research. Bryan: Institute for Social and Economic Research, University of Essex. **SR** CEPR Discussion Paper: 2879; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** J51. **KW** Employer-Employee Data. Covered Wage Premium.

AB Economists have, at least since Olson (1965), suggested that there is a free rider problem associated with labor union membership. The reason is that union-set wages are available to all workers covered by unions irrespective of whether or not they are union members, and -- given that there are costs to membership -- workers will only join if they are coerced or offered incentive excludable goods. Yet empirical research for both the US and for Great Britain has shown that there is a substantial union membership wage premium amongst private sector union-covered workers. An implication is that the free rider hypothesis is therefore irrelevant, since these studies reveal significant economic gains in the form of higher wages for union members. By using rich data from a new linked employer-employee survey for Britain, it is shown that this is not the case. While estimates assuming exogenous membership do indeed suggest there is a union membership wage premium of a similar order of magnitude to that found in other studies, This paper demonstrates that -- with appropriate instruments based on theory and with additional controls -- this wage premium vanishes.

Bos, Dieter

PD May 2000. **TI** Self-Correcting Mechanisms in Public Procurement: Why Award and Contract Should be Separated. **AU** Bos, Dieter; Kolmar, Martin. **AA** Bos: University of Bonn. Kolmar: University of Konstanz. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/05; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 31. **PR** no charge. **JE** D23, H57, L51. **KW** Procurement. Incomplete Contracts. Lobbying. Corruption.

AB In public procurement a temporal separation of award and actual contracting can frequently be observed. In this paper we give an explanation for this institutional setting. For incomplete procurement contracts we show that such a separation may increase efficiency. We show that efficiency can be increased by post-award, pre-contract negotiations between the award-winning seller and one of the "losing" sellers. Surprisingly, the efficiency gains can be higher if the award is given to a seller with a lower reputation for quality instead of to a seller with higher reputation. Under certain conditions post-award, pre-contract rent-seeking activities also increase efficiency. This is always the case if the procurement agency is corrupt, but may also occur in the case of lobbying.

PD September 2000. **TI** Anarchy, Efficiency, and Redistribution. **AU** Bos, Dieter; Kolmar, Martin. **AA** Bos: University of Bonn. Kolmar: University of Konstanz. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/10; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 30. **PR** no charge. **JE** D23, D31, D74. **KW** Anarchy. Constitution. Redistribution.

AB The purpose of this paper is twofold. We first develop a contractarian theory of redistribution. The existence of rules of redistribution is explained without any recourse to the risk-aversion of individuals. Hence, we depart from the standard legitimization of redistribution as fundamentals insurance and interpret it as stemming from a principle of reciprocity in trade. The second purpose of the paper is to develop a theory of institutions that implement optimal allocations. We depart from the assumption of an exogenous enforcement of constitutional rules. Hence, the self-enforcement of constitutional rules is crucial for the ability to implement allocations. This approach implies that there is no difference in allocations between constitutional and ordinary rules. What makes constitutions different from ordinary rules is their potential ability to create a focal point that conditions the expectations of individuals on a certain equilibrium strategy. Hence, constitutions help to solve coordination problems, not coordination problems.

Bossert, Walter

TI In Defense of Welfarism. **AU** Blackorby, Charles; Bossert, Walter; Donaldson, David.

TI Critical-Level Population Principles and the Repugnant Conclusion. **AU** Blackorby, Charles; Bossert, Walter; Donaldson, David.

Bourdieu, Jerome

PD June 2002. **TI** Factory Discipline and Externalities in the Reduction of Working Time in the 19th Century in France. **AU** Bourdieu, Jerome; Reynaud, Benedicte. **AA** Bourdieu: INRA-LEA. Reynaud: CNRS and CEPREMAP. **SR** CEPREMAP Discussion Paper: 2002/08; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 18. **PR** between 4 and 5 euros. **JE** H23, J22, J71, N33. **KW** Labor Market. Working Time. Health. Economic History. Externality. France.

AB This paper emphasizes an underestimated hypothesis -- health considerations -- explaining the reduction of working time in the 19th century in France. The first part is devoted to the rising wages and the declining health. In the second part, we show that the deterioration of living conditions was a negative externality suffered by workers and arising out of inter-firm competition. In the last section, we highlight one of the necessary conditions for any reduction in this externality: the growing realization among both employers and workers of the long-term health effects of the prevailing working conditions. In this change, doctors played a decisive role.

Bover, Olympia

TI The Distribution of Earnings in Spain During the 1980s: The Effects of Skill, Unemployment and Union Power. **AU** Arellano, Manuel; Bentolila, Samuel; Bover, Olympia.

Boyer, Robert

PD November 2000. **TI** The Embedded Innovation Systems of Germany and Japan: Distinctive Features and Futures. **AA** CEPREMAP, CNRS, and EHESS. **SR** CEPREMAP Discussion Paper: 2000/09; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 64. **PR** between 4 and 5 euros. **JE** 047, 057, P51. **KW** Technical Change. Growth. System of Innovation. Germany. Japan. Comparative Analysis. Systems.

AB Why is it that Germany and Japan, economic miracles of the 1960s, are nowadays perceived as ailing capitalisms and should they adopt a typical American market led capitalism? Can the German and Japanese Social Systems of Innovation (SSI) survive into the next century? Does the opposition between embedded and market-led capitalism provide a satisfactory interpretation? The answers to the three previous questions are respectively, no, yes, and no. The paper first provides an institutional and statistical analysis of the Social System of Innovation of major OECD countries, and then builds a Kaldorian endogenous growth model which captures three sources for technical change. Finally, it uses this framework in order to elaborate some scenarios for the transfonnation of the Japanese and German economies.

PD July 2001. **TI** L'economiste Face aux Innovations qui font Epoque: Les Relations Entre Histoire et Theorie (The Economist Challenged by Epochal Innovations: Between History and Theory). **AA** CEPREMAP-ENS, CNRS, and EHESS. **SR** CEPREMAP Discussion Paper: 2001/12; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 43. **PR** between 4 and 5 euros. **JE** A11, B14, N01. **KW** Economic Methodology. European Federalism. History of Economic Theories. New Economy. Structural Change.

AB Citizens and policy makers look for the economists expertise specially when paradoxical evolutions take place and the best informed expectation turn out to be erroneous. The problem is then that economic theory has prospered by adopting from a pure methodological standpoint, the postulate that the economic regularities and mechanisms are stationary. This article deals with the search for relevant tools in order to analyze partially or totally unprecedented economic problems. Could previous methods and concepts be retooled or should new ones be looked for? How to use the findings of economic history? Three contemporary challenges are used in order to test the relevance of alternative strategies: the restructuring of Russia after 1990, the launching of the euro and the New Economy. This paper is written in French.

PD August 2001. **TI** La "Nouvelle Economie" Au Futur Anterieur: Histoire, Theories, Geographie (The New Economy: The Past of a Future. History, Theories, and Geography). **AA** CEPREMAP-ENS, CNRS, and EHSS. **SR** CEPREMAP Discussion Paper: 2001/13; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 75. **PR** between 4 and 5 euros. **JE** G14, O33, O47, O51. **KW** Technical Change. Growth Regime. Productivity Analysis.

AB The diffusion of information and communication technology (ICT) was assumed to deliver an unprecedented economic regime that would exhibit a strong, steady and non inflationary growth. This was a new era for of business models and for social stratification within society. Four different but complementary methods do challenge this diagnosis. The microeconomic analysis of the increasing return to scale associated to information goods explains the observed instability of the business model of the new economy. An historical retrospect of American business cycles shows that the regulation mode has drastically changed since the 60s, in response to a series of structural change that cannot be summarized by the impact of ICT. The United States are not the unique territory for renewed growth since some social democratic small open economies, and to some extend some catching up countries, have found a better compromise between dynamic efficiency and social justice. Thus the distinction between the old and the new economy is bound to vanish quite soon, since the fate of ICT is to help to the reorganization of the service activities such as healthcare, education, leisure. This paper is written in French.

PD September 2001. **TI** Du Rapport Salarial Fordiste A La Diversite des Relations Salariales: Une Mise en Perspective de Quelques Recherches Regulationnistes (From the Fordist Wage Labour Nexus to the Diversity of Employment Relations: A Survey of Some Research Inspired By Regulation Theory). **AA** CEPREMAP, CNRS, and EHESS. **SR** CEPREMAP Discussion Paper: 2001/14; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 17. **PR** between 4 and 5 euros. **JE** J24, J33, J41. **KW** Labor Contracts. Payment Methods. Wage Labor Nexus. Labor Law. Union Strategy.

AB Many followers of the Fordist wage labor nexus have been proposed by the literature: the toyotist wage nexus, more competitive labor market mechanisms, the shift from a wage to a share economy, the domination of the symbolic analyst, and more recently of a finance-led employment relation. A survey of the transformations that actually took place in France since the 70s suggests that none of these pure configurations has replaced the previous Fordist wage labor nexus. Actually, in response to the new information and communication technology (ICT) productive paradigm, the internationalization of production, the shift in the bargaining power to the benefit of the firm and finally the leading role of finance, at least three contrasted and somehow complementary employment relations have emerged: polyvalence and stability, market flexibility, professional relationship. This diversity challenges the labor laws and destabilizes the unions' strategies. Furthermore, the fate of industrial relations is also governed by the evolution of the welfare state, the tax system, and even the financial system. Finally, the actual implementation of the Euro and the diffusion of ICT to the whole economic system will shape the evolution and relative weight of each employment relation. This paper is written in French.

PD April 2002. **TI** Entre Innovations Historiques et Contraintes Structurelles: Elements d'Une Theorie des Modeles Productifs (Between Epochal Innovations and Structrual Contraints: Towards a Theory of Productive Models). **AU** Boyer, Robert; Freyssenet, Michel. **AA** Boyer: CEPREMAP, CNRS, and EHESS. Freyssenet: CNRS (CSU-IRESCO). **SR** CEPREMAP Discussion Paper: 2002/05; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 71. **PR** between 4 and 5 euros. **JE** L16, L23, L62. **KW** Organization of Production. Industrial Organization and Macroeconomics. Car Industry.

AB This paper relates the main findings of an international comparison of the secular evolution of productive models in the car industry with the theories provided by various social sciences. It proposes an integrated definition that could overcome the weakness of current definitions. Both the relevance with respect to the macroeconomic trends and the coherence of managerial tools has to be fulfilled via an adequate government compromise between the stakeholders. Both the management of information flows and the distribution of power within the firm have to be made compatible but not opposed. This analytical framework may explain some major stylized facts. First productive models may be more complementary than in acute competition, even if their ability to cope with a changing macroeconomic environment and various uncertainties may differ. Second, sloanist mass production, far from being overcome by lean production, prospers in contemporary Europe, whereas declining in North America. Third, the complementarity of managerial tools explains why it is so difficult to adopt a new productive model. This paper is written in French.

Bradford, David F.

TI Generalized Cash Flow Taxation. **AU** Auerbach, Alan J.; Bradford, David F.

Brandt, Michael W.

TI Variable Selection for Portfolio Choice. **AU** Ait-Sahalia, Yacine; Brandt, Michael W.

Brown, J. David

PD April 2001. **TI** Privatization, Competition and Reform Strategies: Theory and Evidence from Russian Enterprise Panel Data. **AU** Brown, J. David; Earle, John S. **AA** Brown: Heriot-Watt University and CEPR. Earle: not available. **SR** CEPR Discussion Paper: 2758; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** L10, L32, L33, P23. **KW** Competition. Market Structure. Privatization. Russia.

AB A critical, but largely unexamined assumption in the debate over reform policy design, concerns the complementarity or substitutability of market competition and private ownership in increasing firm efficiency. We analyze a simple Cournot model that distinguishes two aspects of privatization interacting with market opening: privatization of a firm and privatization of its competitors. Under plausible conditions, the model implies that privatizing a firm is a substitute for exposing it to competitive markets, but privatizing its competitors is complementary. We find that nonstate ownership of a firm reduces the marginal efficiency impact from product market dispersion, but the share of its competitors that are nonstate increases this marginal impact. Disaggregating nonstate ownership, we find that the shares of competitors in all three nonstate types are complementary with dispersed market structure, where the strongest complementarity involves foreign ownership. The evidence suggests that an important indirect impact of private ownership may be the intensification of market competition, and thus that competition only among state-owned enterprises may be ineffectual in stimulating them to increase efficiency.

Bruegel, Martin

PD May 2001. **TI** Measuring Masters and Masterpieces: French Rankings of French Painters and Paintings from Realism to Surrealism. **AU** Bruegel, Martin; Galenson, David W. **AA** Bruegel: Institut National de la Recherche Agronomique. Galenson: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8266; 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** L82, Z11. **KW** Human Creativity. Quantifying Artistic Success. Art.

AB For 35 leading painters who worked in France during the first century of modern art, this paper uses illustrations in French textbooks as the basis for measuring the importance of both painters and individual paintings. The rankings closely resemble those obtained earlier from a similar analysis of American textbooks. They also pose a puzzle: why do some of the greatest artists not produce famous paintings, while some relatively minor artists produce famous individual works? The answer appears to lie in a difference in approach between experimental artists, who innovate incrementally, and conceptual innovators, who produce individual breakthrough works. This paper further demonstrates the value of quantifying artistic success, for doing so can improve our understanding of the sources of human creativity.

Brulhart, Marius

TI A Tale of Two Cycles: Co-Fluctuations Between UK Regions and the Euro Zone. **AU** Barrios, Salvador; Brulhart, Marius; Elliott, Robert J. R.; Sensier, Marianne.

PD November 2001. **TI** A Test of Trade Theories when Expenditure is Home Biased. **AU** Brulhart, Marius; Trionfetti, Federico. **AA** Brulhart: University of Lausanne. Trionfetti: King's College London. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 01/11; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 25. **PR** no charge. **JE** F10, R30. **KW** International Specialization. New Trade Theory. Home-Market Effects. Border Effects.

AB We develop and apply a criterion to distinguish two paradigms of international trade theory: constant-returns perfectly competitive models, and increasing-returns monopolistically competitive models. Our analysis makes use of the pervasive presence of home-biased expenditure. It predicts that countries' relative output and their relative home biases are positively correlated in increasing-returns sectors, while no such relationship exists in constant-returns sectors. We estimate country-level sectoral home biases through a gravity equation for international and intranational trade, and we use those estimates to implement our test on input-output data for six European Union economies.

Brunetti, Celso

PD June 2002. **TI** Time Series Modeling of Daily Log-Price Ranges for SF/USD and USD/GBP. **AU** Brunetti, Celso; Lildholdt, Peter M. **AA** Brunetti: University of Pennsylvania. Lildholdt: University of Aarhus and Centre for Analytical Finance. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/017; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 34. **PR** free from website. **JE** C22, F31, G15. **KW** Daily Price Ranges. Exchange Rate Volatility. Persistency. CARR.

AB The aim of this paper is to model the dynamic evolution of daily log-price ranges for two foreign exchange rates, SF/USD and USD/GBP. Following Chou (2001), the paper adopts the CARR model, which is identical to the ACD model of Engle & Russell (1998). Log-price ranges are highly efficient measures of daily volatilities and hence the paper's empirical results provide insights into the volatility dynamics for SF/USD and USD/GBP. The paper finds that both series are highly persistent, and in particular, USD/GBP calls for a long memory specification in the form of a fractionally integrated CARR model. Semi-parametric and parametric models are estimated, and the parametric (fractionally integrated) CARR with a Gamma distribution is the preferred model. However, the estimation results of the simple semi- parametric procedure (QMLE) are virtually identical to the results of the preferred parametric models.

Bryan, Mark L.

TI The Union Membership Wage Premium Puzzle: Is There A Free-Rider Problem? **AU** Booth, Alison L.; Bryan, Mark L.

Buchmueller, Thomas C.

PD April 2001. **TI** Union Effects on Health Insurance Provisions and Coverage in the United States. **AU** Buchmueller, Thomas C.; DiNardo, John; Valletta, Robert G. **AA** Buchmueller: University of California, Irvine.

https://doi.org/10.1017/S0951007900005751 Published online by Cambridge University Press

DiNardo: UC Berkeley. Valletta: Federal Reserve Bank of San Francisco. **SR** National Bureau of Economic Research Working Paper: 8238; 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** I10, J30, J51, J53. **KW** Unions. Health Benefits. Insurance.

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

Buchta, Joachim

TI How to Play 3x3 Games: A Strategy Method Experiment. **AU** Selten, Reinhard; Abbink, Klaus; Buchta, Joachim; Sadrieh, Abdolkarim.

Burdett, Kenneth

PD May 2001. **TI** Crime, Inequality, and Unemployment. **AU** Burdett, Kenneth; Lagos, Ricardo; Wright, Randall. **AA** Burdett: University of Essex. Lagos: New York University. Wright: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/038; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 37. **PR** free from website. **JE** D63, J31, J64, K42. **KW** Unemployment. Crime. Wage Inequality.

AB There has been much discussion of the relationships between crime, inequality and unemployment. We construct a model where all three are endogenous. Introducing crime into otherwise standard models affects the labor market in several interesting ways. For example, we show how the crime rate affects the unemployment rate and vice-versa; how the possibility of criminal activity can lead to wage inequality among homogeneous workers; and how the possibility of crime can generate multiple equilibria in natural but previously unexplored ways. In particular, two fundamentally identical neighborhoods may easily end up with different levels of unemployment, inequality, and crime. The model can be used to study the equilibrium effects of anti-crime policies, such as changes in apprehension rates or jail sentences, as well as more traditional labor market policies such as unemployment insurance.

PD May 2002. **TI** Unstable Relationships. **AU** Burdett, Kenneth; Imai, Ryoichi; Wright, Randall. **AA** Burdett and Wright: University of Pennsylvania. Imai: Nagoya University of Commerce and Business Administration. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/037: Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 49. **PR** free from website. **JE** C78, D83, J64. **KW** Search. Matching. Marriage. Unemployment. Inequality.

AB We analyze models where agents search for partners to form relationships (employment, marriage, etc.), and may continue searching for different partners while matched. Matched agents are less inclined to search if their match yields more utility and if it is more stable. If one partner searches, the relationship is less stable, so the other is more inclined to search, potentially making instability a self- fulfilling prophecy. We show this can generate a multiplicity -- indeed, a continuum -- of steady state equilibria. In any equilibrium there tends to be too much turnover, unemployment, and inequality, compared to the efficient outcome. A calibrated version of the model explains 1/2 to 2/3 of reported job-to-job transitions.

Burgess, Robin

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

Burguet, Roberto

PD January 1999. **TI** North-South Environmental Debate: Strategic Price Distortions and Capital Flows. **AU** Burguet, Roberto; Sempere, Jaime. **AA** Burguet: Institute for Economic Analysis. Sempere: Colegio de Mexico. **SR** Universitat Autonoma de Barcelona DEHA/IAE Working Paper: 442/99; Departament d'Economia i d'Historia Economica, Universitat Autonoma de Barcelona, Campus UAB, 08193 Bellaterra, Barcelona, Spain. Website: www.iae-csic.uab.es. **PG** 22. **PR** papers only available on web page; no hard copies. **JE** F20, Q28. **KW** North-South. Price Distortion. Environment.

AB When governments set their environmental policies, they take into account the impact of these policies on international flows and prices. This paper considers a world of two regions; the North, which is capital abundant, and the South, which is not. Under perfect competition and free mobility of capital, the North has incentives to increase pollution levels beyond what is efficient, which has to do with strategic distortions in the price of capital exports. Softer environmental conditions at home induce scarcity in the international market, which results in a higher return for the Northern capital exports. Under quite general conditions, the South also responds with dirtier policies.

Burnside, Craig

PD May 2001. **TI** On the Fiscal Implications of Twin Crises. **AU** Burnside, Craig; Eichenbaum, Martin; Rebelo, Sergio. **AA** Burnside: The World Bank. Eichenbaum: Northwestern University, NBER, and Federal Reserve of Chicago. Rebelo: Northwestern University, NBER, and CEPR. **SR** National Bureau of Economic Research Working Paper: 8277; 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** E62, F31. **KW** Twin Crises. Speculative Attacks. Fiscal Reforms. Seignorage.

AB This paper explores the implications of different strategies for financing the fiscal costs of twin crises for inflation and depreciation rates. The paper uses a first-generation type model of speculative attacks which has four key features: (i) the crisis is triggered by prospective deficits; (ii) there exists outstanding non- indexed government debt issued prior to the crises; (iii) a portion of the government's liabilities are not indexed to inflation; and (iv) there are nontradable goods and costs of distributing tradable goods, so that purchasing power parity does not hold. The paper shows that the model can account for the high rates of devaluation and moderate rates of inflation often observed in the wake of currency crises. The paper uses the model and the data to interpret the recent currency crises in Mexico and Korea. The analysis suggests that the Mexican government is likely to pay for the bulk of the fiscal costs of its crisis through seignorage revenues. In contrast, the Korean government is likely to rely more on a combination of implicit and explicit fiscal reforms.

Butler, Monika

PD April 2001. **TI** The Political Feasibility of Increasing Retirement Age: Lessons from a Ballot on Female Retirement Age. **AA** Universite de Lausanne and CEPR. **SR** CEPR Discussion Paper: 2780; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D72, D91, H55, J18. **KW** (Female) Retirement Age. Life-Cycle Decision Making. Social Security Reforms.

AB In 1998, the Swiss voters approved of an increase in female retirement age from 62 to 64. The referendum, being on a single issue only, offers a unique opportunity to explore the political feasibility of pension reforms and to apply theoretical models of life-cycle decision making. Estimates carried out with municipality data suggest that the outcome of the vote conforms relatively well with predictions drawn from a theoretical simulation study. There are, however, surprising gender differences even in married couples. Young agents, married middle-aged and all elderly men favor an increase in female retirement age, while middle-aged and elderly women strongly oppose it. Richer communities and those with a high proportion of self-employed or a low fraction of blue-collar workers are more likely to opt for a higher retirement age. Ideological preferences and regional differences also play a considerable role.

Byzalov, Dmitri

PD June 2002. **TI** A Dynamic Model of OPEC: Collusive Behavior and Demand-Reducing Investment. **AA** Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2002/11; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 28. **PR** no charge. **JE** C72, C73, L13, Q31. **KW** OPEC. Oil Shocks. Collusion. Price Wars. Dynamic Oligopoly. Conservation.

AB We consider a market in which dynamic oligopoly with collusion and price wars on the supply side interact with demand-reducing investment by forward-looking consumers on the demand side. We are primarily interested in the effect of endogenous demand adjustment on the sustainability of collusion and cartel's gains from colluding. Numerical analysis reveals that the possibility of collusion in the spot market can make the cartel worse off, by inducing substantial endogenous reduction of demand in reaction to higher collusive prices. Also, we find that demand-reducing investment by the consumers substantially reduces the sustainability of collusion.

Caillaud, Bernard

PD May 2001. **TI** Essential Facility Financing and Market Structure. **AU** Caillaud, Bernard; Tirole, Jean. **AA** Caillaud: CERAS and CEPR. Tirole: Universite des Sciences Sociales de Toulouse. **SR** CEPR Discussion Paper: 2802; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D40, L51. **KW** Access. Competition. Essential Facility Financing.

AB This paper analyzes the funding of an infrastructure project (high speed train line, platform, tunnel, harbor, regional airport, fiber-to- the-home network, etc.) in a situation in which an incumbent operator has private information about market profitability (demand, cost) and the infrastructure owner is subject to a budget constraint, either on a per project basis or over the entire infrastructure. An open access policy raises welfare, but may make the project non-viable since funding must be provided by capital contributions and access charges. The infrastructure owner can ask the incumbent for a higher capital contribution if the latter insists on an exclusive use. Yet, such screening is at odds with social goals: The incumbent is willing to pay more for exclusivity, the higher the demand (the lower the cost), that is precisely when competition yields the highest benefits. At the optimum, the incumbent's information impacts the decision of whether to build the infrastructure, but is not used to determine market structure. The paper further shows that an absence of long-term licensing favors monopoly franchising, while a threat of regulatory capture creates an open-access presumption.

Calem, Paul S.

PD November 2001. **TI** Risk-Based Capital Requirements for Mortgage Loans. **AU** Calem, Paul S.; LaCour-Little, Michael. **AA** Calem: Board of Governors of the Federal Reserve System. LaCour- Little: Wells Fargo Home Mortgage, Inc. and Washington University in St. Louis. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/60; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 25. **PR** no charge. **JE** G21, G38. **KW** Capital. Mortgage. Risk. Regulation.

AB We develop estimates of risk-based capital requirements for single- family mortgage loans held in portfolio by financial intermediaries. Our method relies on simulation of default and loss probability distributions via simulation of changes in economic variables with conditional default probabilities calibrated to recent actual mortgage loan performance data from the 1990s. Based on simulations with varying input parameters, we find that appropriate capital charges for credit risk vary substantially with loan or borrower characteristics and are generally below the current regulatory standard. These factors may help explain the high degree of securitization, or regulatory capital arbitrage, observed in this asset category.

Calvo Armengol, Antoni

PD May 2001. **TI** Job Matching, Social Network and Word-of-Mouth Communication. **AU** Calvo Armengol, Antoni; Zenou, Yves. **AA** Calvo Armengol: Universidad Carlos III de Madrid. Zenou: Southampton University. **SR** CEPR Discussion Paper: 2797; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell

Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D83, J64. **KW** Job Search. Microfoundation of the Matching Function. Personal Communication. Social Network.

AB In our model, workers are embedded within a network of social relationships and can communicate through word-of-mouth. They can find a job either through formal agencies or through informal networks of contacts (word-of-mouth communication). From this micro scenario, we derive an aggregate matching function that has the standard properties but fails to be homogenous of degree one. The latter is due to negative externalities generated by indirect acquaintances (contacts of contacts) that slow down word-of-mouth information transmission, especially in dense networks. We then show that there exists a unique labor market equilibrium and that, because of these negative externalities, the equilibrium unemployment rate increases with the network size in dense networks.

Campbell, Sean D.

PD December 2002. **TI** Weather Forecasting for Weather Derivatives. **AU** Campbell, Sean D.; Diebold, Francis X. **AA** Campbell: Brown University. Diebold: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/046; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 45. **PR** free from website. **JE** C10, C53, G00. **KW** Risk Management. Seasonality. Average Temperature. Financial Derivatives. Density Forecasting.

AB We take a nonstructural time-series approach to modeling and forecasting daily average temperature in ten U.S. cities, and we inquire systematically as to whether it may prove useful from the vantage point of participants in the weather derivatives market. The answer is, perhaps surprisingly, yes. Time series modeling reveals both strong conditional mean dynamics and conditional variance dynamics in daily average temperature, and it reveals sharp differences between the distribution of temperature and the distribution of temperature surprises. Most importantly, it adapts readily to produce the long- horizon forecasts of relevance in weather derivatives contexts. We produce and evaluate both point and distributional forecasts of average temperature, with some success. We conclude that additional inquiry into nonstructural weather forecasting methods, as relevant for weather derivatives, will likely prove useful.

Canner, Glenn B.

PD April 2002. **TI** Does the Community Reinvestment Act (CRA) Cause Banks to Provide a Subsidy to Some Mortgage Borrowers? **AU** Canner, Glenn B.; Laderman, Elizabeth; Lehnert, Andreas; Passmore, Wayne. **AA** Canner, Lehnert, and Passmore: Board of Governors of the Federal Reserve System. Laderman: Federal Reserve Bank of San Francisco. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/19; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 47. **PR** no charge. **JE** G21, G28, H23, R21. **KW** Community Reinvestment Act. Mortgages. Bank Regulation.

AB The Community Reinvestment Act (CRA) encourages lenders to make mortgage loans to certain classes of borrowers. However, the law does not apply to all lenders, and lenders do not necessarily receive credit for all loans made to borrowers of a particular class. Specifically, only commercial banks and savings institutions are subject to the CRA, while mortgage bankers are not. Further, CRA credit is given for loans made to higher-income borrowers who purchase homes in lower-income neighborhoods, but not to other higher-income borrowers. We use this variation to test whether or not CRA-affected lenders cut interest rates to CRA-eligible borrowers; in other words, we test for the presence of a regulation-driven subsidy. Our theory suggests that loans made by commercial banks and savings associations ("relationship lenders") and mortgage companies ("transaction lenders") will differ from one another depending on borrower risk and homeownership benefits. Empirically, we find that CRA-eligible loans at CRA-affected institutions do carry lower mortgage spreads compared with other loans at the same institution. However, once we control for risk and benefit effects suggested by our theory, these differences in mortgage spreads become economically and statistically insignificant.

Cantillon, Estelle

PD April 2001. **TI** Electoral Rules and the Emergence of New Issue Dimensions. **AA** Harvard Business School and CEPR. **SR** CEPR Discussion Paper: 2769; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D72, D78. **KW** Comparison of Electoral Rules. Electoral Competition. Entry. New Issue. Party System Change.

AB Different electoral rules provide different incentives for parties competing for votes to adopt emerging issues. As a result, new societal issues will be integrated at different speeds into the political arena, and ultimately, into policy. In order to study this question formally, this paper proposes an extension of the standard spatial model of political competition that allows for issue adoption and more generally, issue prioritizing at the platform level. The paper then compares the outcome of party competition under proportional and plurality rule. Entry is allowed and incumbent parties act as Stackelberg leaders vis-a- vis potential entrants. The analysis highlights the interaction between entry barriers and the type of emerging issue in determining when and how a new issue will be introduced. The theory explains both internal (that is, without entry by a new party) realignments of party systems along new dimensions and entry as part of the process of political realignment.

Cappelli, Peter

PD February 2001. **TI** External Job Churning and Internal Job Flexibility. **AU** Cappelli, Peter; Neumark, David. **AA** Cappelli: University of Pennsylvania and NBER. Neumark: Michigan State University and NBER. **SR** National Bureau of Economic Research Working Paper: 8111; 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** J59, J63. **KW** Job Instability. Job Insecurity. Job Churning. Contingent Work.

AB Concern about job instability and insecurity has a long history and has generated a considerable body of research across the social sciences, most recently focused on whether

https://doi.org/10.1017/S0951007900005751 Published online by Cambridge University Press

job stability and security have declined. Internally flexible systems for organizing work, sometimes called "functionally flexible" systems, have been proposed as arrangements that can reduce job instability and insecurity by reducing the need for firms to rely on job cuts or contingent work to be able to respond to changes in their environments. We examine these arguments using three measures of instability and insecurity-voluntary and involuntary turnover and the use of contingent work-drawn from a national probability sample of establishments. We find evidence that internally flexible work systems are associated with reduced voluntary and involuntary turnover in manufacturing. But in the rest of the economy and indeed overall, they tend to be positively associated with all three measures. Further, the use of contingent work is, in fact, positively related to involuntary turnover. The evidence therefore suggests that on net employers seeking flexibility in labor tend to use flexible work practices, contingent work, and turnover as complements, while only in manufacturing is there some evidence of substitutability between internal job flexibility and external job churning.

Carlson, Mark

PD November 2001. **TI** Are Branch Banks Better Survivors? Evidence from the Depression Era. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/51; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 24. **PR** no charge. **JE** G21, N22. **KW** Branch Banking. Great Depression.

AB It is widely argued in the literature on the Great Depression that the prevalence of unit banks aggravated the problem of financial instability that afflicted the country. This paper tests the theory that more widespread branch banking would have reduced financial turbulence in the United States by examining the survival of individual branch and unit banks. Results indicate that instead of being more likely to survive, branch banks were more likely to fail. Further investigation suggests that this higher failure rate occurred because branch banks systematically held riskier portfolios than unit banks.

PD February 2002. **TI** Causes of Bank Suspensions in the Panic of 1893. **AA** Board of Governors of the Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/11; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 26. **PR** no charge. **JE** E32, G21, N21. **KW** Bank Panics. Bank Suspensions. Bank Runs.

AB There are two competing theories explaining bank panics. One argues that panics are driven by real shocks, asymmetric information, and concerns about insolvency. The other theory argues that bank runs are self-fulfilling, driven by illiquidity and the beliefs of depositors. This paper tests predictions of these two theories using information uniquely available for the Panic of 1893. The results suggest that real economic shocks were important determinants of the location of panics at the national level, however at the local level, both insolvency and illiquidity were important as triggers of bank panics.

Carlton, Dennis W.

PD February 2001. **TI** A General Analysis of Exclusionary Conduct and Refusal to Deal -- Why Aspen and Kodak are Misguided. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8105; 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** K21, L41. **KW** Antitrust Policy. Exclusionary Conduct. Refusal to Deal.

AB This paper analyzes the question: When should a single firm have a duty to deal with another? The paper uses a series of economic models to answer the question, assuming the goal is to prevent harm to competition, and applies the economic analysis to the leading cases to show when antitrust enforcement is appropriate and when it is not. The analysis shows that, to prevent harm to competition, the role for antitrust should be quite limited and that two leading cases, Aspen and Kodak, represent a dangerous direction for antitrust policy.

Caroli, Eve

TI New Organizational Practices and Working Conditions: Evidence from France in the 1990s. **AU** Askenazy, Philippe; Caroli, Eve; Marcus, Vincent.

Carrillo, Juan D.

PD January 2001. **TI** Promises, Promises... **AU** Carrillo, Juan D.; Dewatripont, Mathias. **AA** Carrillo: Columbia University and CEPR. Dewatripont: Universite Libre de Bruxelles. **SR** CEPR Discussion Paper: 2680; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** A12, D84. **KW** Hyperbolic Discounting. Limits to Contracts. Promises. Time- Inconsistency. Incomplete Information.

AB This paper considers a time-inconsistent individual who has the ability to make promises that lead to a financial or reputation loss if broken. We first identify conditions under which promises made are kept, and conditions under which they are (partially) broken. Second, we endogenize the financial loss from breaking promises by considering interpersonal monitoring and explicit contracting. We describe optimal contracting under the assumptions that monitoring requires meeting and that meeting also opens the door to renegotiation of earlier promises. Third, we show how the loss from breaking promises can be reinterpreted in terms of reputation loss in the presence of incomplete information. Finally, we argue that the above results remain valid when we replace time-inconsistent preferences with limits to contracting as the source of the commitment problem of the individual. This significantly enhances the generality of these results.

Carroll, Christopher D.

TI Individual Learning about Consumption. **AU** Allen, Todd W.; Carroll, Christopher D.

Case, Anne

PD June 2001. **TI** Economic Status and Health in Childhood: The Origins of the Gradient. **AU** Case, Anne; Lubotsky, Darren; Paxson, Christina. **AA** Princeton University. **SR** National Bureau of Economic Research Working Paper: 8344; 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** I10. **KW** Children. Health. Household Income.
AB This paper shows that the well-known positive association between health and income in adulthood has antecedents in childhood. Using the National Health Interview Surveys, the Panel Study of Income Dynamics, and the National Health and Nutrition Examination Survey, we find that children's health is positively related to household income. The relationship between household income and children's health status becomes more pronounced as children grow older. A large component of the relationship between income and children's health can be explained by the arrival and impact of chronic health conditions in childhood. Children from lower-income households with chronic health conditions have worse health than do children from higher-income households. Further, we find that children's health is closely associated with long-run average household income, and that the adverse health effects of lower permanent income accumulate over children's lives. Part of the intergenerational transmission of socioeconomic status may work through the impact of parents' long run average income on children's health.

Case, Karl E.
PD October 2001. **TI** Comparing Wealth Effects: The Stock Market versus the Housing Market. **AU** Case, Karl E.; Quigley, John M.; Shiller, Robert J. **AA** Case: Wellesley College. Quigley: University of California, Berkeley. Shiller: Yale University and NBER. **SR** University of California, Berkeley, Department of Economics Working Papers: E01/308; UC Berkeley: IBER , F502 Haas #1922, Berkeley, CA 94720-1922. Website: iber.berkeley.edu/wps/econwp.html. **PG** 22. **PR** $3.50 U.S.; $7.50 International. **JE** D10, E21, G10. **KW** Consumption. Wealth. Housing Market. Stock Market.
AB We examine the link between increases in housing wealth, financial wealth, and consumer spending. We rely upon a panel of 14 countries observed annually for various periods during the past 25 years and a panel of U.S. states observed quarterly during the 1980s and 1990s. We impute the aggregate value of owner-occupied housing, the value of financial assets, and measures of aggregate consumption for each of the geographic units over time. We estimate regressions relating consumption to income and wealth measures, finding a statistically significant and rather large effect of housing wealth upon household consumption.

Castillo, Jasen
PD 2001. **TI** Military Expenditures and Economic Growth. **AU** Castillo, Jasen; Lowell, Julia; Tellis, Ashley J.; Munoz, Jorge; Zycher, Benjamin. **AA** RAND Corporation. **SR** RAND Corporation Report: MR/1112/A; Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. **PG** 116. **PR** $15.00. **JE** H56, H61, O40. **KW** Armed Forces. Economic Development. Gross Domestic Product.
AB This study explores the relationship between economic growth and military expenditures in five "great power" countries. Using statistical and case-study methodologies, the authors examine how each country's military expenditures responded to increases in economic output levels and in economic growth during the period 1870-1939, and they offer explanations for the relationship in each country. If historical experience holds true, economic growth in some of the present-day candidates for great-power status will spur them to increase the growth rate of their military capabilities. But each country is unique, and strong economic growth need not imply a commensurate expansion of military spending. History suggests that perceived threats from abroad may be the most important factor leading potential great powers to increase military expenditures. This distinction is important, because policies designed to deter foreign military expansions motivated by ambition may have perverse effects if the expansions are in fact motivated by fear. This analysis suggests that today's fast-growing economies are most likely to devote a growing share of their national resources to military expenditures when the external environment appears highly unstable.

Cecchetti, Stephen G.
PD July 2001. **TI** Financial Structure, Macroeconomic Stability and Monetary Policy. **AU** Cecchetti, Stephen G.; Krause, Stefan. **AA** Cecchetti: Ohio State University and National Bureau of Economic Research. Krause: Ohio State University. **SR** National Bureau of Economic Research Working Paper: 8354; 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** E50, G10, N10. **KW** Macroeconomics. Stabilization. Monetary Policy.
AB Over the past twenty years, macroeconomic performance has improved markedly in industrialized and developing countries alike. Both inflation and real growth are more stable now than they were in the 1980s. This stability has been accompanied by dramatic changes in financial structure. The connection between these concurrent events is examined using data from 23 developed and emerging markets countries. Among the explanations for the widespread improvement in economic outcomes over the past two decades is the possibility that the world has become a more stable place. Alternatively, monetary policymakers may have become more skilled in carrying out their stabilization objectives. There is evidence that policy has in fact improved, suggesting a rise in the competence of central bankers. Nevertheless, the ability of policymakers to carry out their job depends crucially on their having the tools necessary to reduce inflation and output volatility. The transmission of these interest rate movements to domestic output and prices depends on the structure of the country's banking system and financial markets. A reduction in direct state ownership of banking system assets and the introduction of explicit deposit insurance can help explain the simultaneous improvement in the efficiency of monetary policy and stabilization of the macroeconomy.

Cerny, Ales
PD May 2001. **TI** Risk Return and Portfolio Allocation Under Alternative Pension Systems with Imperfect Financial Markets. **AU** Cerny, Ales; Miles, David K. **AA** Imperial College, London. **SR** CEPR Discussion Paper: 2779; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D91, G22, H55, J14. **KW** Annuities. Demographics. Pensions. Portfolio Allocation. Risk- Sharing.
AB This paper uses stochastic simulations on calibrated models to assess the steady state impact of different pension

arrangements in an environment where financial markets are less than perfect. Surprisingly little is known about the optimal split between funded and unfunded systems when there are sources of uninsurable risk that are allocated in different ways by different types of pension systems and where there are imperfections in financial markets (e.g., transaction costs or adverse selection). This paper calculates the expected welfare of agents in different economies where in the steady state the importance of unfunded state pensions differs. The paper estimates how the optimal level of unfunded state pensions depends on rate of return and income risks and also upon the actuarial fairness of annuity contracts. The paper focuses on the case of Japan where ageing is rapid and unfunded pensions are currently generous.

Chan, Louis K. C.

PD May 2001. **TI** The Level and Persistence of Growth Rates. **AU** Chan, Louis K. C.; Karceski, Jason; Lakonishok, Josef. **AA** Chan: University of Illinois at Urbana-Champaign. Karceski: University of Florida. Lakonishok: University of Illinois and NBER. **SR** National Bureau of Economic Research Working Paper: 8282; 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** G12, G14, G31. **KW** Earnings Growth. Valuation Models. Growth Rates. Forecasting.

AB Expected long-term earnings growth rates are crucial inputs to valuation models and for cost of capital estimates. We analyze historical long-term growth rates across a broad cross-section of stocks using several operating performance indicators. We test whether growth persists, and whether it is forecastable. Cases of very high growth have occurred, but are relatively rare. There is scant persistence in growth beyond chance, and limited ability to identify firms with high future long-term growth. IBES forecasts are too optimistic, and have low predictive power for long-term growth. Regressions using a variety of predictors confirm the low predictability in growth. Valuations that assume persistently high growth over prolonged periods rest on shaky foundations.

Chang, Yongsung

PD July 2002. **TI** From Individual to Aggregate Labor Supply: A Quantitative Analysis Based on Heterogeneous-Agent Macroeconomy. **AU** Chang, Yongsung; Kim, Sun-Bin. **AA** Chang: University of Pennsylvania. Kim: Concordia University. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/015; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 36. **PR** free from website. **JE** E24, E32, J21, J22. **KW** Labor-Supply Elasticity. Heterogeneity. Indivisible Labor.

AB We investigate the mapping from individual to aggregate labor supply using a general equilibrium heterogeneous-agent model with incomplete market. Heterogeneity of the workforce is designed such that the evolution of wages, worker flows between employment and non-employment, and cross-sectional earnings distribution are consistent with micro data. We find that the aggregate labor-supply elasticity of such an economy is around 1, bigger than micro estimates but smaller than those often assumed in aggregate models.

Chari, Anusha

PD May 2001. **TI** Stock Market Liberalizations and the Repricing of Systematic Risk. **AU** Chari, Anusha; Henry, Peter Blair. **AA** Chari: University of Chicago. Henry: Stanford University. **SR** National Bureau of Economic Research Working Paper: 8265; 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** F30, F40, G12, G15. **KW** Liberalization. Systematic Risk. CAPM.

AB When countries open their stock markets to foreign investors, firms that become eligible for purchase by foreigners (investible) are repriced according to the difference in the covariance of their returns with the local and world market. An investible firm whose return covariance with the local market exceeds that with the world market by 0.01 will experience a firm-specific revaluation of 3.4 percent. In contrast, the repricing of firms that remain off limits to foreign investors (non-investible) bears no significant relationship to differences in local and world covariances. These findings suggest that the CAPM has predictive power for the cross-sectional repricing of systematic risk when barriers to capital movements are removed.

Chari, V. V.

PD March 2001. **TI** Hot Money. **AU** Chari, V. V.; Kehoe, Patrick J. **AA** Chari: Federal Reserve Bank of Minneapolis and University of Minnesota. Kehoe: Federal Reserve Bank of Minneapolis, University of Minnesota, and NBER. **SR** Federal Reserve Bank of Minneapolis Staff Report: 228R; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 31. **PR** no charge. **JE** F21, F36, G15, O16. **KW** Financial Crises. Fundamentals. Bailouts.

AB In the early literature, financial crises are driven solely by fundamentals. Recent empirical work documents that while fundamentals play an important role, crises are hard to predict even conditioning on fundamentals. We develop a model in which crises are driven partly by weak fundamentals and partly by herd behavior. The model demonstrates two insights about crises. (1) They act as tests of fire for borrowing countries. Passing such tests (by repaying debt during crises) enhances a country's reputation and capital flows; failing them hurts both. Crises are crucial for identifying financially resilient countries since no such test can occur without a crisis. (2) Bailing out countries in crises involves a new cost: signal-jamming. Bailouts jam signals to investors about the countries' financial resilience and thus deprive resilient countries of the opportunity to enhance their reputations. If unanticipated, bailouts don't involve moral hazard, but they do involve signal-jamming.

PD December 2001. **TI** Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates? **AU** Chari, V. V.; Kehoe, Patrick J.; McGrattan, Ellen R. **AA** University of Minnesota and Federal Reserve Bank of Minneapolis. **SR** Federal Reserve Bank of Minneapolis Staff Report: 277R; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 38. **PR** no charge. **JE** E32, E51, F31, F41. **KW** Exchange Rates. Volatility. Persistence. Monetary Shocks. Sticky Prices.

AB The central puzzle in international business cycles is that fluctuations in real exchange rates are volatile and persistent. We quantify the popular story for real exchange rate fluctuations: they are generated by monetary shocks interacting with sticky goods prices. If prices are held fixed for at least one year, risk aversion is high, and preferences are separable in leisure, then real exchange rates generated by the model are as volatile as in the data and quite persistent, but less so than in the data. The main discrepancy between the model and the data, the consumption-real exchange rate anomaly, is that the model generates a high correlation between real exchange rates and the ratio of consumption across countries, while the data show no clear pattern between these variables.

Chateau, Jean

TI Macroeconomic Consequences of Pension Reforms in Europe: An Investigation with the INGENUE World Model. AU Aglietta, Michel; Chateau, Jean; Fayolle, Jacky; Juillard, Michel; Le Cacheux, Jacques; Le Garrec, Gilles; Touze, Vincent.

Chateauneuf, Alain

TI Bargaining Over an Uncertain Outcome: The Role of Beliefs. AU Billot, Antoine; Chateauneuf, Alain; Gilboa, Itzhak; Tallon, Jean-Marc.

Chau, Nancy H.

PD February 2001. TI The Race to the Bottom, From the Bottom. AU Chau, Nancy H.; Kanbur, Ravi. AA Cornell University. SR CEPR Discussion Paper: 2687; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE F16, J38. KW Labor Standards. Strategic Complementarity. Strategic Substitutability. Trade Restrictions.

AB The dominant perspective in discussions of labor and environmental standards and globalization is that of North-South competition and its impact on Northern standards. This Paper presents an alternative perspective, that of South-South competition to export to the North, and its impact on Southern standards. It develops a simple model of Southern competition on standards, which can begin to provide insights into some key questions. A Southern race to the bottom is possible but not inevitable. It depends intricately on the Northern demand curve, the size of big exporters relative to each other, and the relative size of the competitive fringe of small exporters -- a precise and complete characterization is developed in the Paper. The Paper also analyses the effect of Northern tariffs on Southern strategic competition in standards. It is shown that Northern trade protectionism undermines Southern standards.

Chen, Shuxun

PD 2001. TI China, the United States, and the Global Economy. AU Chen, Shuxun; Wolf, Charles, Jr.. AA RAND Corporation. SR RAND Corporation Report: MR/1300/RC: Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. PG 296. PR $24.00. JE F10, F15, O50. KW Economic Conditions. Foreign Economic Relations. WTO.

AB This book contains papers presented at the second of four annual conferences organized by RAND in Santa Monica, and the China Reform Forum (CRF) in Beijing. The second conference was held at RAND on November 9-10, 1999, with about 30 participants. The topics discussed include China's World Trade Organization membership, the outlook for the U.S. and Chinese economies, and Sino-U.S. security relations. The second CRF-RAND conference and the editing and other requisites for readying the original papers for publication could not have been accomplished without the generous support of several organizations and individuals. These include -- besides the China Reform Forum and RAND -- the Committee of 100 and Henry Tang, the Hoover Institution and John Raisian, the Capital Group Companies and Gina Despres, Lombard Investments and Joseph Chulick, the UCLA Center for International Studies and Richard Rosecrance, the Zhejiang Gateway International Investment Company and James Bitonti, the Overland Group and Fred Liao, and Roy Doumani. None of these organizations or individuals bears any responsibility for the content of the wide-ranging views and policy suggestions presented in the book.

Cheron, Arnaud

TI Real Business Cycles and the Animal Spirits Hypothesis in a CIA Economy. AU Barinci, Jean-Paul; Cheron, Arnaud.

PD 2001. TI Participation Limitee, Rigidites de Prix et Propagation des Impulsions Monetaires: Une Evaluation Quantitative (Limited Participation, Price Rigidities and the Monetary Shocks Transmission: A Quantitative Evaluation). AA Universite du Maine and CEPREMAP. SR CEPREMAP Discussion Paper: 2001/11; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. PG 9. PR between 4 and 5 euros. JE E24, E31, E32. KW Money. Liquidity Effect. Mark-Ups.

AB Monetary shocks fail to supply persistent movement in output when viewed through an impulse response function for a stochastic intertemporal general equilibrium model. This note shows that the combination of price rigidities and limited participation assumptions does not allow overcoming this failure. Indeed, the incidence of variables mark-ups is found to annihilate the impact of the liquidity effect on the interest rate. Hence, the model's predictions still lack of persistence. This paper is written in French.

Chia, Ngee-Choon

PD May 2001. TI Ownership and Use Taxes as Congestion Correcting Instruments. AU Chia, Ngee-Choon; Tsui, Albert K. C.; Whalley, John. AA Chia and Tsui: National University of Singapore. Whalley: University of Western Ontario, University of Warwick, and NBER. SR National Bureau of Economic Research Working Paper: 8278; 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 D62, R41, R48. KW Use Taxes. Ownership Taxes. Congestion Policies. Externalities.

AB In countries that have implemented vehicle congestion policies, recent years have seen a shift towards motor vehicle taxes based on car use. Ownership taxes reduce the number of cars on the road, leaving the price per trip largely unaffected. Use taxes such as fuel taxes and road use charges decrease the price of trips without necessarily penalizing vehicle ownership per se. We present a simple general equilibrium model involving trips from residential areas to a central business district, along with modal choice between cars and public transit. Car trips involve fixed costs but have lower variable costs per trip then bus trips. Using a calibrated numerical model, we investigate the relative merits of ownership and use taxes. We compare full internalization of congestion externalities to optimal tax outcomes for the different tax types. In our framework, use taxes restore Pareto optimality. Ownership taxes only partially internalize congestion externalities. However, in terms of revenue-raising ability, the marginal excess burdens of ownership taxes in the neighborhood of optimal taxes are typically lower than use taxes.

Chiappori, Pierre Andre

PD December 2001. **TI** Marriage Contracts and Divorce: An Equilibrium Analysis. **AU** Chiappori, Pierre Andre; Weiss, Yoram. **AA** Chiappori: University of Chicago. Weiss: Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2002/05; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 30. **PR** no charge. **JE** D11, D62, D83. **KW** Divorce. General Equilibrium. Search. Social Interactions. Matching.

AB The paper provides a general equilibrium analysis in which individual decisions determine the aggregate divorce rate and are influenced by it. Reinforcement is caused by search frictions and a meeting technology whereby remarriage is more likely if the divorce rate is higher, implying multiple equilibria. Because of the positive search externality, couples with common evaluations of the quality of the match are better off at equilibria with higher divorce, but this need not hold if the evaluations differ. We show that in search markets, a legal policy that enforces voluntary contracts need not be socially optimal, because the presence of rents allows the partners to neglect the interest of prospective spouses whom they may meet in the future.

Christiano, Lawrence J.

TI Habit Persistence, Asset Returns and the Business Cycle. **AU** Boldrin, Michele; Christiano, Lawrence J.; Fisher, Jonas D. M.

PD July 1999. **TI** The Band Pass Filter. **AU** Christiano, Lawrence J.; Fitzgerald, Terry J. **AA** Christiano: Northwestern University. Fitzgerald: Federal Reserve Bank of Cleveland. **SR** Federal Reserve Bank of Cleveland Working Paper: 9906; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clev.frb.org. **PG** 74. **PR** no charge. **JE** C13, C22, E32. **KW** Projection. Time Series. Phillips Curve. Band Pass Filter.

AB The "ideal" band pass filter can be used to isolate the component of a time series that lies within a particular band of frequencies. However, applying this filter requires a dataset of infinite length. In practice, some sort of approximation is needed. Using projections, we derive approximations that are optimal when the time series representations underlying the raw data have a unit root, or are stationary about a trend. We identify one approximation which, though it is only optimal for one particular time series representation, nevertheless works well for standard macroeconomic time series. To illustrate the use of this approximation, we use it to characterize the change in the nature of the Phillips curve and the money-inflation relation before and after the 1960s. We find that there is surprisingly little change in the Phillips curve and substantial change in money growth-inflation relations.

Clark, Todd E.

PD September 1998. **TI** The Sources of Fluctuations Within and Across Countries. **AU** Clark, Todd E.; Shin, Kwanho. **AA** Clark: Federal Reserve Bank of Kansas City. Shin: University of Kansas and Korea University. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP98/04; 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** 56. **PR** no charge. **JE** E32, F41, R12. **KW** Business Cycles. Economic Geography. International Fluctuations.

AB This paper reviews the evidence on the sources of business cycles within and across countries and the implications for the importance of borders in business cycles. A simple econometric model is presented and applied to within-U.S. and cross-country data in order to provide a framework for interpreting the literature. Using these estimates as a benchmark, data issues, alternative models, and still other approaches to quantifying sources of comovement are surveyed. The paper concludes by arguing that lowering economic borders among nations through pacts like European Union should make the sources of international fluctuations look somewhat more like the sources of with-country fluctuations, although the effects are uncertain.

PD October 1999. **TI** Tests of Equal Forecast Accuracy and Encompassing for Nested Models. **AU** Clark, Todd E.; McCracken, Michael W. **AA** Clark: Federal Reserve Bank of Kansas City. McCracken: Louisiana State University. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP99/11; 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** C12, C52, C53. **KW** Causality. Forecast Accuracy. Forecast Encompassing. Parametric Models.

AB We examine the asymptotic and finite-sample properties of tests for equal forecast accuracy and encompassing applied to 1-step ahead forecasts from nested parametric models. We first derive the asymptotic distributions of two standard tests and one new test of encompassing. Tables of asymptotically valid critical values are provided. Monte Carlo methods are then used to evaluate the size and power of the tests of equal forecast accuracy and encompassing. The simulations indicate that post-sample tests can be reasonably well sized. Of the post-sample tests considered, the encompassing test proposed in this paper is the most powerful. We conclude with an empirical application regarding the predictive content of unemployment for inflation.

Clay, Karen

PD May 2001. **TI** Prices and Price Dispersion on the Web: Evidence from the Online Book Industry. **AU** Clay, Karen; Krishnan, Ramayya; Wolff, Eric. **AA** Carnegie Mellon University. **SR** National Bureau of Economic Research Working Paper: 8271; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 26. **PR** $10.00 per copy (plus $10.00

https://doi.org/10.1017/S0951007900005751 Published online by Cambridge University Press

per order for shipping outside U.S.). **JE** L11, L86. **KW** Price Dispersion. Search Costs. Internet. Advertising. Differentiation.

AB We examine pricing by thirty-two online bookstores. One common prediction is that the reduction in search costs on the Internet relative to the physical channel would cause both price and price dispersion to fall. Over the sample period, we find no change in either price or price dispersion. Another prediction is that the prices and price dispersion of advertised items or items that are purchased repeatedly will be lower than for unadvertised or infrequently purchased items. Prices across categories of books appear to conform to this prediction, with New York Times bestsellers having the lowest prices as a fraction of the publisher's suggested price and random books having the highest prices. Interestingly, price dispersion does not conform with this prediction, apparently for reasons related to stores' decisions to carry particular books. One reason why we may not observe convergence in prices is because stores have succeeded in differentiating themselves even though they are selling a commodity product. We observe differentiation (or attempted differentiation) by a significant number of firms.

Cleveland, William P.

PD February 2002. **TI** Estimated Variance of Seasonally Adjusted Series. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/15; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 7. **PR** no charge. **JE** C22, C82. **KW** Seasonal Adjustment. Signal Extraction.

AB For model-based seasonal adjustment, there are explicit formulas for obtaining the variance of the seasonal factors or the seasonally adjusted series. For series adjusted with X-11 or X-12, variance estimates are generally based on a linear approximation of the seasonal adjustment procedure. The work of Pfeffermann (1992) extends earlier work by Wolter and Monseur. This study uses simulated series and comparisons of alternative seasonal adjustment results for a few economic series to assess the accuracy of variance estimates. Pfeffermann's method gives good results when the true seasonal is centered and follows a fairly smooth evolution from year to year. Comparisons with formula-based computations and estimates from the TRAMOSEATS programs by Maravall and Gomez show the latter can give good variance results for series adjusted with X-11 even if the seasonal factors themselves differ from X-11 factors.

Coenen, Gunter

PD November 2001. **TI** Data Uncertainty and the Role of Money as an Information Variable for Monetary Policy. **AU** Coenen, Gunter; Levin, Andrew; Wieland, Volker. **AA** Coenen: European Central Bank. Levin: Board of Governors of the Federal Reserve System. Wieland: Johann-Wolfgang-Goethe Universitat Frankfurt and European Central Bank. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/54; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 41. **PR** no charge. **JE** E31, E52, E58, E61. **KW** Euro Area. Kalman Filter. Macroeconomic Modeling. Measurement Error. Monetary Policy Rules. Rational Expectations.

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

Cohen, Darrel

PD December 2001. **TI** Linear Data Transformations Used in Economics. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/59; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 19. **PR** no charge. **JE** C13, C43. **KW** Data Transformations. Filters. Spectral Analysis.

AB This paper examines the properties of standard data transformations such as growth rates and moving averages used by applied economists. Because many resources are devoted to understanding the economic significance of incoming data by government and financial-market economists, for example, this paper considers data filters that do not drop recent observations, in contrast to the approximately "ideal" measures recently developed in the literature. Using frequency-domain techniques, it is established that moving averages of multi-period growth rates can attenuate the bias and phase shifts introduced by common data filters.

Cohen, Randolph B.

PD April 2001. **TI** The Value Spread. **AU** Cohen, Randolph B.; Polk, Christopher; Vuolteenaho, Tuomo. **AA** Cohen: Harvard Business School. Polk: Northwestern University. Vuolteenaho: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8242; 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** C21, G12, G14. **KW** Value Spread. Book-to-market. Stock Returns. Expected return.

AB The paper decomposes the cross-sectional variance of firms' book-to- market ratios using both a long U.S. panel and a shorter international panel. In contrast to typical aggregate time-series results, transitory cross-sectional variation in expected 15-year stock returns causes only a relatively small fraction (20%) of the total cross-sectional variance. The remaining dispersion can be explained by expected 15-year profitability and persistence of valuation levels. Furthermore, this fraction appears stable across time and across types of stocks. The paper also shows that the expected return on value-minus-growth strategies is atypically high at times when the value spread (the difference between the book-to-market ratio of a typical value stock and a typical growth stock) is wide.

Cohen, Sarit

PD May 2002. **TI** Labor Mobility of Immigrants: Training, Experience, Language and Opportunities. **AU** Cohen, Sarit; Eckstein, Zvi. **AA** Cohen: Bar Ilan University. Eckstein: Tel Aviv University, University of Minnesota, and CEPR. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2002/09; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 43. **PR** no charge. **JE** J31, J68. **KW** Immigration. Occupation. Training. Unemployment. Transitions. Welfare.

AB This paper analyzes the labor mobility and human capital accumulation of male immigrants who moved from the former Soviet Union to Israel. We formulate an estimable dynamic choice model for employment and training in blue and white-collar occupations, where the labor market randomly offered opportunities are affected by past choices. The estimated models fit the observed patterns of the fast decrease in unemployment as immigrants first find blue-collar jobs and attend training, followed by a gradual movement to white-collar occupations. The estimated rates of return to local training, local experience and local language are very high, but imported skills have zero (conditional) return. Furthermore, the welfare gain from the impact of training on job offer probabilities is larger than its effect on wages. Due to low job offer rates, the realized rate of return from white-collar training is relatively low and takes time. As a result, the annual aggregate wage growth, due to the availability of training programs, increases with time in Israel to 1.4 percent in the fifth year.

Cole, Harold L.

PD March 2001. **TI** Finite Memory and Imperfect Monitoring. **AU** Cole, Harold L.; Kocherlakota, Narayana R. **AA** Cole: University of California, Los Angeles and Federal Reserve Bank of Minneapolis. Kocherlakota: University of Minnesota and Federal Reserve Bank of Minneapolis. **SR** Federal Reserve Bank of Minneapolis Staff Report: 287; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 19. **PR** no charge. **JE** C72, C73. **KW** Imperfect Public Monitoring. Repeated Games.

AB In this paper, we consider a class of infinitely repeated games with imperfect public monitoring. We look at symmetric perfect public equilibria with memory K: equilibria in which strategies are restricted to depend only on the last K observations of public signals. Define gamma subscript K to be the set of payoffs of equilibria with memory K. We show that for some parameter settings, gamma subscript K equals gamma subscript infinity for sufficiently large K. However, for other parameter settings, we show that not only is the limit as K approaches infinity of gamma subscript K is not equal to gamma subscript infinity, but that gamma subscript K is completely degenerate. Moreover, this last result is essentially independent of the discount factor.

Collard, Fabrice

PD April 2001. **TI** Exchange Rate Systems and Macroeconomic Stability. **AU** Collard, Fabrice; Dellas, Harris. **AA** Collard: CEPREMAP. Dellas: Universitat Bern. **SR** CEPR Discussion Paper: 2768; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E32, F31. **KW** Flexible Exchange Rate. International Business Cycle Transmission. Monetary Union. Taylor Rules. Unilateral Exchange Rate Pegging.

AB We examine macroeconomic stability and the properties of the international transmission of business cycles under three exchange rate systems: a flexible, a unilateral peg and a single currency. The subjects of study are Germany and France. EMU increases output and decreases inflation variability in Germany but it has the opposite effect in France. It induces a strong negative international transmission of country specific supply shocks and amplifies the role of German supply shocks. These two facts may complicate ECB policy-making.

Collie, David R.

PD April 2001. **TI** Trade, FDI and Unions. **AU** Collie, David R.; Vandenbussche, Hylke. **AA** Collie: University of Wales. Vandenbussche: Katholieke Universiteit Leuven. **SR** CEPR Discussion Paper: 2772; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F10, F23, L13. **KW** Cournot Competition. FDI. Unions. Trade Policy.

AB This paper studies the location behavior of a foreign and a domestic footloose firm competing in output in the domestic product market. Both firms produce a homogenous good using a labor intensive technology. While the domestic country is unionized, the foreign country is not. Location equilibria are studied as a function of the foreign wage level, both under free trade and under an optimal domestic trade policy. It is found that when foreign wage levels are relatively low, both firms agglomerate in the foreign market (North-South FDI) and the optimal government intervention by the North is a zero tariff on imports from the South. For intermediate wage levels abroad, both firms prefer to locate in their own market and the optimal domestic government intervention is a positive tariff on foreign imports. For relatively high foreign wage levels, the optimal tariff policy is such that both firms agglomerate in the domestic country (North-North FDI).

Cooper, Russell

PD March 2001. **TI** Financial Collapse and Active Monetary Policy: A Lesson from the Great Depression. **AU** Cooper, Russell; Corbae, Dean. **AA** Cooper: Federal Reserve Bank of Minneapolis and Boston University. Corbae: University of Pittsburgh. **SR** Federal Reserve Bank of Minneapolis Staff Report: 289; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 34. **PR** no charge. **JE** E31, E32, E44, E58. **KW** Financial Collapse. Great Depression. Strategic Complementarity. Multiple Equilibria.

AB We analyze financial collapses from the perspective of a monetary model with multiple equilibria. The multiplicity arises from the presence of a strategic complementarity due to increasing returns to scale in the intermediation process. Intermediaries provide the link between savers and firms who

https://doi.org/10.1017/S0951007900005751 Published online by Cambridge University Press

require working capital for production. Fluctuations in the intermediation process are driven by variations in the confidence agents place in the financial system. From a positive perspective, our model matches closely the qualitative changes in important financial and real variables (the currency/deposit ration, ex-post real interest rates, the level of intermediated activity, deflation, employment and production) over the Great Depression period, an experience often attributed to financial collapse. Further, we show how adding liquidity to the banking system through increases in the money supply is sufficient to overcome strategic uncertainty and thus avoid financial collapse.

PD August 2001. **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: RWP01/06; 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** 23. **PR** no charge. **JE** E24, J23, J64. **KW** Aggregate Employment. Employment. Adjustment Costs. Gap Methodology.
AB We study the inferences about labor adjustment costs obtained by the "gap methodology" of Caballero and Engel [1993] and Caballero, Engel and Haltiwanger [1997]. In that approach, the policy function of a manufacturing plant is assumed to depend on the gap between a target and the current level of employment. Using time series observations, these studies reject the quadratic cost of adjustment model and find that aggregate employment dynamics depend on the cross sectional distribution of employment gaps. We argue that these conclusions may not be justified. Instead these findings may reflect difficulties measuring the gap. Thus it appears that the gap methodology as currently employed may be unable to: (i) identify the costs of labor adjustment and (ii) assess the aggregate implications of labor adjustment costs.

Corbae, Dean

TI Financial Collapse and Active Monetary Policy: A Lesson from the Great Depression. **AU** Cooper, Russell; Corbae, Dean.

Coricelli, Fabrizio

PD July 2001. **TI** Real Exchange Rate Dynamics in Transition Economies. **AU** Coricelli, Fabrizio; Jazbec, Bostjan. **AA** Coricelli: Universita di Siena and Centre for Economic Policy Research. Jazbec: University of Ljubljana. **SR** CEPR Discussion Paper: 2869; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F31, F41, P22, P27. **KW** Fixed-Effects Model. Real Exchange Rate. Transition Economies.
AB Real exchange appreciation has been a common feature in transition economies since the launching of stabilization and reform programs at the beginning of the 1990s. Previous literature has described this phenomenon as an equilibrium adjustment that followed a sharp undervaluation at the start of the reforms. This paper argues that real appreciation had different sources over time and across countries. Building on a simple analytical framework, the paper disentangles these differences and stresses the role of structural reforms and factor reallocation in determining the behavior of the real exchange rate. The empirical results show that the nature of the real appreciation was significantly different in the countries of the Former Soviet Union, except for the Baltic countries, and in Central and Eastern Europe. The role of structural change and transitional reallocation of resources across sectors diminishes through time, and stabilizes around the fifth or sixth year into the transition. The dynamics of the real exchange rate in several Central-Eastern European countries in the process of accession to the European Union, can be now assimilated to that of previously acceding countries such as Spain, Portugal, and Greece, with the Harrod-Balassa-Samuelson effect playing a dominant role at later stages of transition.

Cornelli, Francesca

PD June 2001. **TI** Bookbuilding: How Informative is the Order Book? **AU** Cornelli, Francesca; Goldreich, David. **AA** Cornelli: London Business School, Wharton School of Management, and Centre for Economic Policy Research. Goldreich: London Business School. **SR** CEPR Discussion Paper: 2863; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** G24, G30, G32. **KW** Bookbuilding. Equity Issues. Initial Public Offerings.
AB When using a formal bookbuilding procedure, underwriters observe the demand curves of investors as stated in the "book" prior to pricing shares in an equity issue. The purpose of this paper is to examine whether the investment bank uses the information in the book when setting the issue price, and whether this information can help predict subsequent secondary aftermarket prices. The details of the institutional bids for shares for a sample of 63 international equity issues are examined. It is found that the issue price is closely related to the limit prices submitted by bidders. The level of oversubscription has a smaller but significant effect. The price primarily reflects the information in the price contingent bids of certain bidder types, such as large bidders and frequent bidders. Aftermarket returns in Initial Public Offerings (IPOs) are positively correlated with oversubscription and elasticity of the demand.

PD July 2001. **TI** How to Sell a (Bankrupt) Company? **AU** Cornelli, Francesca; Felli, Leonardo. **AA** Cornelli: London Business School, Wharton School of Management, and Centre for Economic Policy Research. Felli: London School of Economics. **SR** CEPR Discussion Paper: 2881; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D44, D82, G32, G33. **KW** Auctions. Bankruptcy. Private Benefits. Transfer of Control.
AB The restructuring of a bankrupt company often entails its sale. This paper suggests a way to sell such a company in a way that maximizes the creditors' proceeds. The key to this proposal is the option left to the creditors to retain a fraction of the shares of the company. Indeed, by retaining the minority stake, creditors can transfer control of the company while reducing to a minimum the rents that the sale of the company leaves in the hands of the buyer.

Corneo, Giacomo

PD February 2001. **TI** Individual Preferences for Political Redistribution. **AU** Corneo, Giacomo; Gruner, Hans Peter. **AA** Corneo: University of Osnabruck and CEPR. Gruner:

Universitat Mannheim. **SR** CEPR Discussion Paper: 2694; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D31, D72, H23. **KW** Governmental Redistribution. Political Attitudes. Income Inequality.

AB What drives people's support of governmental reduction of income inequality? We employ data from a large international survey in order to evaluate the explanatory power of three competing forces, referred to as the "homoeconomicus effect," the "public values effect," and the "social rivalry effect." The empirical analysis reveals that at the aggregate level all three effects play a significant role in shaping individual preferences for political redistribution. Attitudes of citizens in formerly socialist countries turn out to differ from those of western citizens in a systematic way.

PD October 2002. **TI** Working in Public and Private Firms. **AU** Corneo, Giacomo; Rob, Rafael. **AA** Corneo: University of Osnabruck. Rob: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/033; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 22. **PR** free from website. **JE** L32, L33. **KW** Public Enterprises. Privatization. Incentive Schemes. Labor Productivity.

AB We develop a theoretical framework for comparing incentives, labor productivity and the allocation of effort in public versus private enterprises. We incorporate "socializing", an activity that yields utility for workers and affects a firm's output, into a multitask model of work organization. We establish the two following results. First, the optimal workers' compensation policy displays a larger incentive intensity in the private firm than in the public firm. Second, labor productivity in the private firm may be higher or lower than in the public firm. Both results fit well with the findings of empirical work.

Corradi, Valentina

TI The Dynamics of Public Opinion under Majority Rules. **AU** Ianni, Antonella; Corradi, Valentina.

Costa Storti, Claudia

PD February 2001. **TI** Monetary Policy in a Cashless Society. **AU** Costa Storti, Claudia; De Grauwe, Paul. **AA** Costa Storti: Banco de Portugal. De Grauwe: Katholieke Universiteit Leuven. **SR** CEPR Discussion Paper: 2696; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E42, E52. **KW** Cashless. Electronic Money. Monetary Policy.

AB In this Paper we analyze how monetary policies will be affected in a cashless society. Our main conclusions are that the central bank will lose its traditional instruments of monetary policy. Open market operations and advances to banks will become ineffective as instruments to control the interest rate and the money stock. We argue that this leads to two possible avenues for the future role of the central bank. In the first one the central bank becomes dependent on the treasury, both as a means to obtain revenues and as a way to maintain some effectiveness for its traditional instruments on monetary policies. Another avenue consists of strengthening the supervisory role of the monetary authority. This strengthening would include the quality control of the loan portfolios of the money issuing institutions, as a way to ensure market stability and to avoid bank runs. Simultaneously, supervision would allow the central bank to impose reserve requirements and to influence the money supply.

Craig, Riddell W.

PD November 2001. **TI** Education and Skills: An Assessment of Recent Canadian Experience. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/26; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 35. **PR** international. **JE** I20. **KW** Education.

AB Education and skill formation have become prominent concerns of both economic and social policy in Canada. This paper examines recent Canadian experience and compares this experience to that in other G-7 and OECD countries. Several dimensions of educational inputs and outcomes are discussed: expenditures on education, educational attainment, student achievement, and the literacy and numeracy skills of the adult population. The paper also examines the incidence of education in the population and the economic returns to education.

Craine, Roger

PD March 2001. **TI** Dollarization: An Irreversible Decision. **AA** University of California, Berkeley. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/298; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720- 1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 21. **PR** $3.50 U.S.; $7.50 International. **JE** C63, F31. **KW** Dollarization. Real Options. Exchange Rate Regimes.

AB After maintaining a fixed exchange rate and fully convertible currency for almost a decade Argentina still pays higher interest rates on peso denominated debt than on US dollar denominated debt. The interest rate spread is the price of keeping the option to devalue alive. Argentina has sufficient foreign reserves to defend the currency against any attack, but they could choose to devalue if the pain of maintaining the currency peg got too great. Investors fear devaluation and they charge Argentina for the option to devalue. Dollarization extinguishes the option to devalue. If dollarization is a credible commitment to maintain a fixed exchange rate, then it is an irreversible decision. This is the first paper to explicitly model the irreversibility of a dollarization policy, and to recognize that if a dollarization is a potential exchange rate regime choice, then the equilibrium is a mixed strategy equilibrium. This paper computes Nash equilibria and the transition probabilities that a country will move from a currency board regime to dollarizing, or floating. Shocks to the exchange rate are modeled as a jump-diffusion process.

Cripps, Martin W.

PD July 2002. **TI** Imperfect Monitoring and Impermanent Reputations. **AU** Cripps, Martin W.; Mailath, George J.; Samuelson, Larry. **AA** Cripps: Washington University in St. Louis. Mailath: University of Pennsylvania. Samuelson: University of Wisconsin. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/021; Penn Institute for Economic Research, 3718 Locust Walk, University of

Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 49. **PR** free from website. **JE** C70, C78. **KW** Reputation. Imperfect Monitoring. Repeated Games. Commitment.

AB We study the long-run sustainability of reputations in games with imperfect public monitoring. It is impossible to maintain a permanent reputation for playing a strategy that does not eventually play an equilibrium of the game without uncertainty about types. Thus, a player cannot indefinitely sustain a reputation for non-credible behavior in the presence of imperfect monitoring.

Cumby, Robert

PD June 2001. **TI** Emerging Market Debt: Measuring Credit Quality and Examining Relative Pricing. **AU** Cumby, Robert; Pastine, Tuvana. **AA** Cumby: Georgetown University. Pastine: Bilkent University and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2866; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F32, F34, G14, G15. **KW** Brady Bonds. Default Risk. Market Efficiency. Mispricing. Sovereign Debt.

AB This paper investigates the pricing of "Brady" bonds that are issued by the governments of five developing countries as part of debt and debt service reduction agreements. It first presents a measure of credit quality that takes account of the individual features of each bond and is comparable across bonds, across issuers, and over time. Then the evolution of the credit quality of each debt instrument from 1990 until the beginning of 2000 is examined. Next, evidence of a profitable trading strategy that exploits the information contained in this measure of credit quality is presented.

Cummins, Jason G.

PD January 2002. **TI** Investment-Specific Technical Change in the US (1947-2000): Measurement and Macroeconomic Consequences. **AU** Cummins, Jason G.; Violante, Giovanni L. **AA** Cummins: Board of Governors of the Federal Reserve System. Violante: University College London and CEPR. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/10; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 36. **PR** no charge. **JE** D24, O47. **KW** Quality-Adjusted Prices. Growth Accounting. Skill Premium.

AB By extrapolating Gordon's (1990) measures of the quality-bias in the official prices indexes, we construct quality-adjusted price indexes for 24 types of equipment and software (E&S) from 1947 to 2000 and use them to measure technical change at the aggregate and at the industry level. Technological improvement in E&S plays a key role in the productivity resurgence of the 1990s. The acceleration in the 1990s occurred in every industry, consistent with the idea that information technology represents a general purpose technology. Furthermore, we measure for the aggregate economy and different sectors the "technological gap": how much more productive new machines are compared to the average machine. We show that the technological gap explains the dynamics of investment in new technologies and the returns to human capital, consistent with Nelson and Phelps' (1966) conjecture. Since the technological gap continues to increase -- it more than doubled in the past 20 years -- our evidence supports the view that at least some of the recent increase in productivity growth is sustainable.

Curtis, Elisabeth

PD August 2001. **TI** Price Setting, Price Dispersion, and the Value of Money -- or, the Law of Two Prices. **AU** Curtis, Elisabeth; Wright, Randall. **AA** Curtis: Drexel University. Wright: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/039; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 42. **PR** free from website. **JE** C78, D83, E31. **KW** Search. Money. Price Posting. Price Dispersion.

AB We study models that combine search, monetary exchange, price posting by sellers, and buyers with preferences that differ across random meetings -- say, because sellers in different meetings produce different varieties of the same good. We show how these features interact to influence the price level (i.e., the value of money) and price dispersion. First, price-posting equilibria exist with valued fiat currency, which is not true in the standard model. Second, although both are possible, price dispersion is more common than a single price. Third, perhaps surprisingly, we prove generically there cannot be more than two prices in equilibrium.

Danthine, Jean-Pierre

TI Portfolio Diversification: Alive and Well in Euroland!
AU Adjaoute, Kpate; Danthine, Jean-Pierre.

PD February 2002. **TI** A Note on NNS Models: Introducing Physical Capital; Avoiding Rationing. **AU** Danthine, Jean-Pierre; Donaldson, John B. **AA** Danthine: University of Lausanne and CEPR. Donaldson: Columbia University. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/04; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 8. **PR** no charge. **JE** E30, E32. **KW** New Neo-Classical Synthesis. Sticky Prices. Cost-of-Adjusting Capital. Rationing.

AB This paper makes two comments on recent NNS models. First, it disputes the way physical capital has been introduced into these models arguing that this leads to the dubious postulate that the cost of adjusting physical capital stock is an order of magnitude lower than the cost of changing prices. Second, it warns against a possible logical inconsistency whereby calibrated NNS models are implicitly assuming that some (price-constrained) firms are willing and able to sell their output below cost.

PD February 2002. **TI** Decentralizing the Stochastic Growth Model. **AU** Danthine, Jean-Pierre; Donaldson, John B. **AA** Danthine: University of Lausanne and CEPR. Donaldson: Columbia University. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/05; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 20. **PR** no charge. **JE** E22, E32, E44. **KW** Stochastic

Growth Model. Business Cycles. Delegated Management. Investment. Incentive Contracts.
AB The objective of this paper is to propose a number of alternative decentralized interpretations of representative agent style stochastic growth economies and to explore their implications for the generality of this model construct. Under our first interpretation, firms exist forever and undertake all multiperiod investment decisions while consumer-worker-investors only own financial claims to the firm's output. This contrasts with the more standard decentralization approach where firms exist on a period-by-period basis and consumer-worker- investors have direct title to the economy's capital stock. Under our second interpretation, shareholders hire a manager who undertakes the firm's investment decisions in conformity with his incentive contract. The time series properties of the shareholder-manager economy are seen to replicate those of the analogous representative agent economy if and only if the manager's contract assumes a specific form. This suggests the time series properties of an economy where incentive contracts such as stock option plans are pervasive will differ from those of more standard real business cycle models.

PD May 2002. **TI** Fair Wages in a New Keynesian Model of the Business Cycle. **AU** Danthine, Jean-Pierre; Kurmann, Andre. **AA** Danthine: University of Lausanne, FAME, and CEPR. Kurmann: University of Virginia. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/10; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 27. **PR** no charge. **JE** E24, E32, E52. **KW** Efficiency Wages. Business Cycles. Sticky Prices. Persistence. Wage Rigidities.
AB We build a New Keynesian model of the business cycle with sticky prices and real wage rigidities motivated by efficiency wages of the gift exchange variety. Compared to a standard sticky price model, our fair wage model provides an explanation for structural employment and generates more plausible labor market dynamics -- notably accounting for the low correlation between wages and employment. The fair wage induced real wage rigidity also significantly reduces the elasticity of marginal cost with respect to output. The smoother dynamics of real marginal cost increase both amplification and persistence of output responses to monetary shocks, thus remedying the well-known lack of internal propagation of standard sticky price models. We take these improvements as a strong endorsement of the addition of real wage rigidities to nominal price rigidities and conclude that the fair wage extension of this paper constitutes a promising platform for an enriched New Keynesian synthesis.

Davila, Julio

PD October 2002. **TI** Is Bargaining over Prices Efficient? **AU** Davila, Julio; Eeckhout, Jan. **AA** University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/045; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 35. **PR** free from website. **JE** C78. **KW** Alternating-Offer Bargaining. Bargaining Over Prices. Discounting Frictions.
AB We consider the problem of two agents bargaining over the relative price of two goods they are endowed with. They alternatingly exchange price offers and the utilities are discounted. The recipient of an offer can either accept it and choose the quantities to be traded, or reject and counteroffer a different relative price. We study the set of equilibria as discounting frictions vanish and find that: (1) any generic economy has bargaining equilibria that are inefficient even as discounting frictions vanish; and (2) a bargaining equilibrium converging to a Walrasian outcome exists for some robust types of convergence of the discount factors, but it does not exist for other equally robust convergences. Moreover, in case there exists a bargaining equilibrium converging to a Walrasian outcome, then there is necessarily a multiplicity of them. As a consequence, unlike in Rubinstein's (1982) alternating-offer bargaining, the equilibrium outcome of this set-up is not generically unique and efficient.

De Grauwe, Paul

TI Monetary Policy in a Cashless Society. **AU** Costa Storti, Claudia; De Grauwe, Paul.

Del Negro, Marco

PD July 2002. **TI** Priors from General Equilibrium Models for VARs. **AU** Del Negro, Marco; Schorfheide, Frank. **AA** Del Negro: Federal Reserve Bank of Atlanta. Schorfheide: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/024; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 44. **PR** free from website. **JE** C11, C32, C53. **KW** Bayesian Analysis. DSGE Models. Forecasting. Vector Auto Regressions.
AB This paper uses a simple New-Keynesian monetary DSGE model as a prior for a VAR, shows that the resulting model is competitive with standard benchmarks in terms of forecasting, and can be used for policy analysis.

Dellas, Harris

PD April 2001. **TI** Financial Development and the Sensitivity of Stock Markets to External Influences. **AU** Dellas, Harris; Hess, Martin. **AA** Dellas: Universitat Bern and CEPR. **SR** CEPR Discussion Paper: 2766; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F40, G10, O10. **KW** External Influences. Financial Development. Stock Markets.
AB We investigate how the relative contribution of external factors to stock price movements varies with the degree of financial development. We find that financial development makes stock markets more susceptible to external influences (both financial and macroeconomic). Interestingly, this effect is present even after having accounted for capital controls and international trade effects.

TI Exchange Rate Systems and Macroeconomic Stability. **AU** Collard, Fabrice; Dellas, Harris.

Dellis, Arnaud

PD May 2001. **TI** Micro-Modeling of Retirement in Belgium. **AU** Dellis, Arnaud; Jousten, Alain; Perelman, Sergio. **AA** Dellis: Cornell University. Jousten: University de Liege. Perelman: not available. **SR** CEPR Discussion

Paper: 2795: Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** H55, J26. **KW** Ageing. Belgium. Retirement. Social Security.

AB We study the retirement incentives for elderly people in Belgium. We model the incentive structure built into the various public early retirement and retirement systems. First, we compute indicators of benefit entitlement such as the social security wealth. Then, we use three different incentive measures based on the notion of social security wealth. In a third step, we perform an empirical estimation of micro-econometric probit and option value models. From our exceptionally rich and broad database, we are able to compute a rather accurate measure of all individuals' pension wealth, as well as of the implicit tax rates the elderly workers face in case of delayed retirement. We find strong evidence of social security-based financial incentives inducing most workers to retire at the earliest possible stage. Finally, we use the derived parameter estimates from the probit models to simulate the responses to various policy changes.

Demiralp, Selva

PD December 2001. **TI** Monetary Policy in a Changing World: Rising Role of Expectations and the Anticipation Effect. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/55; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 35. **PR** no charge. **JE** E42, E44, E47, E58. **KW** Transparency. Liquidity Effect. Announcement Effect. Anticipation Effect.

AB The Federal Reserve (Fed) has maintained a general trend toward increased transparency and gradualism. This paper investigates the implications of these historical developments for the anticipation of monetary policy actions and adjustment of interest rates. In a theoretical framework, we establish the Fed's ability to manipulate overnight rates via an "anticipation" effect. The anticipation effect is defined as interest rate adjustments that take place prior to a policy announcement (or prior to when the complementary open market operations associated with that policy action take place) due to market's improved ability to predict future policy actions. Our empirical results document that most market rates adjust to anticipated policy actions prior to the actual announcement. Because the market responds to policy announcements instantly, the Trading Desk does not need to act immediately after the target change and can wait until the market incorporates the new information that comes with the policy announcement.

Den Haan, Wouter

PD May 2001. **TI** The Comovements Between Real Activity and Prices in the G7. **AU** Den Haan, Wouter; Sumner, Steven. **AA** Den Haan: University of California, San Diego and CEPR. Sumner: University of California, San Diego. **SR** CEPR Discussion Paper: 2801; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E31, E37. **KW** Covariance. Filters. Vector Autoregressive Models.

AB In this paper, we study the short-run and long-run comovement between prices and real activity in the G7 countries during the postwar period using VAR forecast errors and frequency domain filters. We find that there are several patterns of the correlation coefficients that are the same in all countries. In particular, the correlation at the "long-run" horizon is virtually always negative and the correlation at the "short-run" horizon is typically substantially higher. Although there is evidence of positive "short-run" correlations for some countries it is not very robust to the choice of the price and output variables. In addition, we propose a more efficient method to calculate the covariances of VAR forecast errors and -- in contrast to claims made in the literature -- we show that band-pass filters isolate the desired set of frequencies not only when the series are stationary but also when they are first or second-order integrated processes.

Den-Ner, Avner

PD September 1999. **TI** Reciprocity in a Two Part Dictator Game. **AU** Den-Ner, Avner; Putterman, Louis. **AA** Ben-Ner: University of Minnesota. Putterman: Brown University. **SR** Brown University, Department of Economics Working Paper: 99/28; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 65. **PR** no charge. **JE** A13, C91, D82. **KW** Reciprocity. Norms. Dictator Game. Experimental Economics.

AB Reciprocity is a widely observed phenomenon for which evolutionary foundations are posited. We conduct a dictator game in which recipients in an initial game become dictators in a second game. The amount sent by those sending back to the person from whom they received some or no dollars is strongly correlated with the amount received by them, although the interaction is one time and zero sum in nature. No such correlation between amounts sent and received is exhibited when second round dictators are instead paired with new partners. Intelligence and personality test results, gender, and other characteristics also help to predict sending behavior.

Deneckere, Raymond

PD June 2001. **TI** Bargaining with Interdependent Values. **AU** Deneckere, Raymond; Liang, Meng-Yu. **AA** Deneckere: University of Wisconsin-Madison. Liang: University of Western Ontario. **SR** University of Western Ontario, Department of Economics Research Report: 2001/07; Research Report Coordinator, Economics Reference Center, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/econref/html/RRPaper.html. **PG** 40. **PR** International $10.00 (Canadian) plus $3.00 (Canadian) per order handling fee; pre-paid orders only; make checks payable to the University of Western Ontario. **JE** C78, D82. **KW** Bargaining Theory. Game Theory. Infinite Horizon Bargaining Game.

AB A seller and a buyer bargain over the terms of trade for an object. The seller receives a perfect signal determining the value of the object to both players, while the buyer remains uninformed. We analyze the infinite horizon bargaining game in which the buyer makes all the offers. When the static incentive constraints permit first-best efficiency, then under some regularity conditions the outcome of the sequential bargaining game becomes arbitrarily efficient as bargaining frictions vanish. When the static incentive constraints preclude first- best efficiency, the limiting bargaining outcome is not second-best efficient, and may even perform worse than the outcome from the one- period bargaining game. With frequent buyer offers, the outcome is then characterized by recurring bursts of high probability of agreement, followed by long periods of delay in which the probability of agreement is negligible.

Desai, Mihir A.

PD February 2001. **TI** Exchange Rates and Tax-Based Export Promotion. **AU** Desai, Mihir A.; Hines, James R., Jr.. **AA** Desai: Harvard Business School and NBER. Hines: University of Michigan Business School and NBER. **SR** National Bureau of Economic Research Working Paper: 8121; 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** F13, F31, H25, H87. **KW** Trade. Export Promotion. Exchange Rates. Taxation.

AB This paper examines the impact of tax-based export promotion on exchange rates and patterns of trade. The threatened removal of Foreign Sales Corporation (FSCs) due to the 1997 European Union complaint before the World Trade Organization (WTO) is used to identify the adjustment of exchange rates to reduced after-tax margins for American exporters. The evidence indicates that days associated with significant developments in the European complaint are characterized by predicted changes in the value of the U.S. dollar. Additionally, foreign trading relationships with the United States appear to influence currency responses to the possibility of FSC repeal. Exchange rate movements on the date of the initial European complaint indicate that 10 percent greater net trade deficits with the United States are associated with currency appreciations of 0.2 percent against the U.S. dollar. This evidence is consistent with a combination of trade-based exchange rate determination and important effects of U.S. export promotion policies.

Devereux, Michael B.

PD July 2001. **TI** Exchange Rates and Monetary Policy in Emerging Market Economies. **AU** Devereux, Michael B.; Lane, Philip. **AA** Devereux: University of British Columbia and Centre for Economic Policy Research. Lane: Trinity College, Dublin and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2874; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E50, F30. **KW** Emerging Markets. Financial Frictions. Monetary Policy. Pass- Through.

AB This paper investigates the effects of exchange rate regimes and alternative monetary policy rules for an emerging market economy that is subject to a volatile external environment in the form of shocks to world interest rates and the terms of trade. In particular, it highlights the impact of financial frictions and the degree of exchange rate pass through in determining the relative performance of alternative regimes in stabilizing the economy in the face of external shocks. The results are quite sharp. When exchange rate pass-through is high, a policy of non-traded goods inflation targeting does best in stabilizing the economy, and is better in welfare terms. When exchange rate pass-through is low, however, a policy of strict consumer price index inflation targeting is better. In all cases, a fixed exchange rate is undesirable. In addition, financial frictions have no implications for the ranking of alternative policy rules.

Dewatripont, Mathias

TI Promises, Promises... **AU** Carrillo, Juan D.; Dewatripont, Mathias.

PD July 2002. **TI** Moral Hazard and Capital Structure Dynamics. **AU** Dewatripont, Mathias; Legros, Patrick; Matthews, Steven. **AA** Dewatripont and Legros: ECARES, Universite Libre de Bruxelles and CEPR. Matthews: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/016; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 35. **PR** free from website. **JE** D82, L14. **KW** Moral Hazard. Renegotiation. Convertible Debt. Capital Structure.

AB We base a contracting theory for a start-up firm on an agency model with observable but nonverifiable effort, and renegotiable contracts. Two essential restrictions on simple contracts are imposed: the entrepreneur must be given limited liability, and the investor's earnings must not decrease in the realized profit of the firm. All message game contracts with pure strategy equilibria (and no third parties) are considered. Within this class of contracts/equilibria, and regardless of who has the renegotiating bargaining power, debt and convertible debt maximize the entrepreneur's incentives to exert effort. These contracts are optimal if the entrepreneur has the bargaining power in renegotiation. If the investor has the bargaining power, the same is true unless debt induces excessive effort. In the latter case, a non-debt simple contract achieves efficiency -- the non- contractibility of effort does not lower welfare.

Dewit, Gerda

PD April 2001. **TI** Rivalry in Uncertain Export Markets: Commitment versus Flexibility. **AU** Dewit, Gerda; Leahy, Dermot. **AA** Dewit: National University of Ireland. Leahy: University College Dublin. **SR** CEPR Discussion Paper: 2771; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D80, F12, F13. **KW** Demand Uncertainty. Flexibility. Strategic Commitment. Trade Policy. Oligopoly.

AB This paper examines optimal trade policy in a two-period oligopoly model, with a home and a foreign firm choosing capital and output. Demand uncertainty, resolved in period two, gives rise to a trade-off between strategic commitment and flexibility in the firms' investment decisions. When the government can commit to an export subsidy, it may choose to over- or under-subsidize to deter private-sector capital commitment. When the government chooses its trade policy flexibly, the relative value of commitment to the unsubsidized foreign firm is greater than to the subsidized home firm. Finally, a flexible subsidy regime is compared to free trade.

Dhumale, Rahul

TI Enhancing Corporate Governance for Financial Institutions: The Role of International Standards. **AU** Alexander, Kern; Dhumale, Rahul.

Di Tella, Rafael

TI Inequality and Happiness: Are Europeans and Americans Different? **AU** Alesina, Alberto F.; Di Tella, Rafael; MacCulloch, Robert.

Dickens, Richard

PD April 2001. **TI** Whither Poverty in Great Britain and the United States? The Determinants of Changing Poverty and Whether Work Will Work. **AU** Dickens, Richard; Ellwood, David T. **AA** Dickens: London School of Economics. Ellwood: Harvard University. **SR** National Bureau of Economic Research Working Paper: 8253; 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** I32, I38, J10. **KW** Poverty. Economic Policy. Wage Inequality.

AB Scholars emphasize that poverty in Britain has risen sharply since the late 1970s. Meanwhile in the United States, both official figures and traditional poverty scholars report sharp declines in poverty. We seek to provide a comparison of poverty levels in Britain and the US based on a set of common definitions We then proceed to ask what factors-demographic, economic, or policy-account for the observed changes in poverty in the two nations and what role could policy play in reducing poverty? We develop a procedure that allows one to trace out the relative impacts of altered demographics, rising wage inequality, work changes, and policy innovations in explaining changing poverty patterns. We find that the forces influencing poverty differ between nations and across absolute and relative poverty measures. Demographic and wage change is a dominant force in both nations. We conclude that any purely work-based strategy, which doesn't tackle demographics and wage dispersion, may not have a dramatic effect on relative poverty.

Diebold, Francis X.

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

TI Parametric and Nonparametric Volatility Measurement. **AU** Andersen, Torben G.; Bollerslev, Tim; Diebold, Francis X.

PD August 2002. **TI** Forecasting the Term Structure of Government Bond Yields. **AU** Diebold, Francis X.; Li, Canlin. **AA** Diebold: University of Pennsylvania. Li: University of California, Riverside. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/026; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 47. **PR** free from website. **JE** C50, C53, E40, G10. **KW** Term Structure. Yield Curve. Factor Model. Forecasting.

AB Despite powerful advances in yield curve modeling in the last twenty years, comparatively little attention has been paid to the key practical problem of forecasting the yield curve. In this paper we do so. We use neither the no-arbitrage approach, which focuses on accurately fitting the cross section of interest rates at any given time but neglects time-series dynamics, nor the equilibrium approach, which focuses on time-series dynamics (primarily those of the instantaneous rate) but pays comparatively little attention to fitting the entire cross section at any given time and has been shown to forecast poorly. Instead, we use variations on the Nelson-Siegel exponential components framework to model the entire yield curve, period-by-period, as a three-dimensional parameter evolving dynamically. We show that the three time-varying parameters may be interpreted as factors corresponding to level, slope and curvature, and that they may be estimated with high efficiency.

TI Weather Forecasting for Weather Derivatives. **AU** Campbell, Sean D.; Diebold, Francis X.

Diermeier, Daniel

PD December 2001. **TI** A Structural Model of Government Formation. **AU** Diermeier, Daniel; Eraslan, Hulya; Merlo, Antonio. **AA** Diermeier: Northwestern University. Eraslan and Merlo: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/001; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 53. **PR** free from website. **JE** C73, D72, H19. **KW** Political Stability. Government Formation. Government Dissolution. Comparative Constitutional Design.

AB In this paper, we estimate a bargaining model of government formation in parliamentary democracies. We use the estimated structural model to conduct constitutional experiments aimed at evaluating the impact of institutional features of the political environment on the duration of the government formation process, the type of coalitions that form, and their relative stability.

PD May 2002. **TI** Bicameralism and Government Formation. **AU** Diermeier, Daniel; Eraslan, Hulya; Merlo, Antonio. **AA** Diermeier: Northwestern University. Eraslan and Merlo: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/010; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 44. **PR** free from website. **JE** C73, D72, H19. **KW** Political Stability. Government Formation. Government Dissolution. Bicameralism. Comparative Constitutional Design.

AB We estimate a bargaining model of government formation in a bicameral parliamentary democracy where the government is responsible to both chambers ("dual responsibility"). We use the estimated structural model to quantify the effects of dual responsibility on the type of government coalitions that form, and their relative stability. Our main findings are that eliminating dual responsibility does not effect government durability, but does have a significant effect on the composition of governments leading to smaller coalitions. These results are due to an equilibrium replacement effect: Removing dual responsibility affects the relative durability of coalitions of different sizes which in turn induces changes in the coalitions that are chosen in equilibrium.

PD July 2002. **TI** A Political Economy Model of Congressional Careers. **AU** Diermeier, Daniel; Keane, Michael; Merlo, Antonio. **AA** Diermeier: Northwestern University. Keane: Yale University. Merlo: University of Pennsylvania and CEPR. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/029; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website:

www.econ.upenn.edu/Centers/pier. **PG** 63. **PR** free from website. **JE** D72, J44, J45. **KW** Political Careers. Politicians. Elections. Term Limits.

AB Theories in political economy depend critically on assumptions about motivations of politicians. Our analysis starts from the premise that politicians, like other economic agents, are rational individuals who make career decisions by comparing the expected returns of alternative choices. The main goal of the paper is to quantify the returns to a career in the United States Congress. To achieve this goal we specify a dynamic model of career decisions of a member of Congress and we estimate this model using a newly collected data set. Given estimates of the structural model, we assess reelection probabilities for members of Congress, estimate the effect of congressional experience on private and public sector wages, and quantify the value of a congressional seat. Moreover, we use the estimated model to assess how the imposition of term limits would affect the career decisions of politicians and the returns to a career in Congress.

Diewert, W. Erwin

PD April 2002. **TI** The Measurement of Aggregate Total Factor Productivity Growth. **AU** Diewert, W. Erwin; Nakamura, Alice O. **AA** Diewert: University of British Columbia. Nakamura: University of Alberta. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/05; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 77. **PR** international. **JE** O40. **KW** Economic Growth. Aggregate Productivity. Measurement of Economic Growth.

AB This paper surveys the theory and methods of the measurement of aggregate productivity as characterized by total factor productivity (TFP) and total factor productivity growth (TFPG). Alternative productivity concepts are easiest to understand for the case in which the index number problem is absent: a simple production process with one input and one output. It shows that four common concepts of TFPG all lead to the same measure in this 1-1 case. For a general N input, M output production scenario, the various inputs and outputs must be aggregated. The remainder of the paper deals with various approaches to these aggregation problems. In particular, the axiomatic and economic approaches to the measurement of TFP growth are discussed. Other topics discussed include an alternative family of theoretical productivity growth indexes proposed by Diewert and Morrison, the Divisia method, and growth accounting.

PD July 2002. **TI** Similarity and Dissimilarity Indexes: An Axiomatic Approach. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/10; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 28. **PR** international. **JE** C10, C43, C81. **KW** International Comparisons. Index Numbers. Similarity Measures. Axiomatic Approach.

AB In making international or interregional comparisons of prices and quantities, it is sometimes useful to compare countries that have the most similar price or quantity structures. The comparisons could be relative ones or absolute ones. In the case of absolute comparisons, two quantity vectors of the same dimension are similar if they are identical and dissimilar otherwise. In the case of relative comparisons, two price vectors are similar if they are proportional and dissimilar if they are nonproportional. The paper takes an axiomatic approach to defining various indexes of absolute and relative dissimilarity. Weighted indexes of dissimilarity are also developed.

PD September 2002. **TI** Hedonic Producer Price Indexes and Quality Adjustment. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/14; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 11. **PR** international. **JE** C32, C43, D20, D57, E31. **KW** Quality Adjustment. Output Price Index. Index Number Theory. User Valuations. Resource Cost Valuations.

AB The paper considers the problem of quality adjustment in the context of a producer's output price index. The paper provides a formal justification for the "user valuation" point of view in making quality adjustments. The paper sets up a revenue maximization problem for a producer who has a choice in each period of what type of model to produce, but once the model is chosen, produces only that single model. However, the chosen model can change as the period changes and hence the problem of measuring the real output of the firm across periods in consistent units arises. The family of revenue functions is used in order to define a family of producer output price indexes between two periods. Two special cases of this family of price indexes are defined and "observable" bounds for them are provided. The paper concludes with a discussion of the user value versus resource cost controversy to the theory of quality adjustment in the context of the national accounts.

PD September 2002. **TI** Weighted Country Product Dummy Regressions and Index Number Formulae. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/15; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 11. **PR** international. **JE** C32, C43, E31. **KW** International Comparisons of Prices. Country Product Dummy Method. Hedonic Regressions. Bilateral Index Number Theory.

AB The paper considers a very simple type of hedonic regression model where the only characteristic of a commodity is the commodity itself. This regression model is known as the country product dummy method for calculating country price parities in the context of making international comparisons. The paper considers only the two country or two period case and introduces value or quantity weights into the regression. The resulting measures of overall price change between the two countries or time periods are compared to traditional bilateral index number formulae. It is shown how the Geary-Khamis, Walsh, and Tornqvist price indexes can be obtained as special cases of this framework.

Dimelis, Sophia

PD June 2001. **TI** Foreign Direct Investment and Efficiency Benefits: A Conditional Quantile Analysis. **AU** Dimelis, Sophia; Louri, Helen. **AA** Athens University of Economics and Business. **SR** CEPR Discussion Paper:

2868; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F23, O30. **KW** Foreign Direct Investment. Multinationals. Productivity. Spillovers.

AB This paper analyzes the production efficiency gains in terms of technology transfer and labor productivity changes caused by diverse degrees of foreign ownership. The analysis is based on a sample of 4,056 domestic and foreign manufacturing firms operating in Greece in 1997. Departures from normality of labor productivity and its logarithm led to the adoption of the robust technique of quantile regression as providing a better view of the examined relationships by obtaining estimates at different quantiles. Interesting results include a positive and significant effect of foreign ownership on labor productivity which stems exclusively from full and majority owned affiliates and becomes significant only in the middle quantiles. Productivity spillovers benefiting local firms are also differentiated by degree of foreign ownership, with minority holdings exercising a stronger effect in most quantiles. Such distinct foreign direct investment (FDI) effects stress the importance of policy modifications according to the level of development in the host economy, and the selected objectives.

DiNardo, John

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

Dolado, Juan Jose

PD July 2001. **TI** Drawing Lessons from the Boom of Temporary Jobs in Spain. **AU** Dolado, Juan Jose; Garcia-Serrano, Carlos; Jimeno-Serrano, Juan Francisco. **AA** Dolado: Universidad Carlos III de Madrid and Centre for Economic Policy Research. Garcia-Serrano: Universidad de Alcala de Henares. Jimeno-Serrano: Fundacion de Estudios de Economia Aplicada, Spain. **SR** CEPR Discussion Paper: 2884; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** J65, J68. **KW** Employment Protection Legislation. Temporary Employment.

AB During the last two decades, many EU countries have reformed the set of legal rules that regulate dismissals. In contrast with other institutional reforms of the labor market, there seems to be a common strategy of maintaining strict employment protection legislation for workers under the typical "full-time"/permanent employment contract, but liberalizing "atypical"/temporary/part-time employment contracts for new entrants in the labor market. As a result, the incidence of temporary employment has noticeably increased across the EU, Spain being the paramount case in this regard. This paper aims at two goals. First, it takes stock of the available Spanish evidence regarding the consequences of a dual labor market -- in which one-third of employees are under very flexible employment contracts with low severance payments and two-thirds are under permanent employment contracts with very high employment protection -- and the lessons which can be drawn for other countries. Secondly, it addresses the puzzle of why temporary employment in Spain remains so high, despite recent labor market reforms that have reduced firing costs under the permanent contract and restricted the use of temporary contracts.

Dominguez, Kathryn M. E.

PD February 2001. **TI** A Re-Examination of Exchange Rate Exposure. **AU** Dominguez, Kathryn M. E.; Tesar, Linda L. **AA** University of Michigan and NBER. **SR** National Bureau of Economic Research Working Paper: 8128; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 8. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F23, F31, G15. **KW** Exchange Rates. Asset Pricing. Capital Markets. Integration.

AB Finance theory suggests that changes in exchange rates should have little influence on asset prices in a world that has become increasingly with integrated capital markets. Indeed, the existing literature examining the relationship between international stock prices and exchange rates finds little evidence of systematic exchange rate exposure. We argue in this paper that the absence of evidence may be due to restrictions imposed on the sample of data and the empirical specifications used in previous studies. We study a broad sample of firms in eight countries over an eighteen-year period. We find that firm-level and industry-level share values are significantly influenced by exchange rates. Further, we do not find evidence that exchange rate exposure is falling (or becoming less statistically significant) over time. Our results suggest that significant firm, industry and country- specific differences remain even as financial markets become more and more "integrated".

PD February 2001. **TI** Trade and Exposure. **AU** Dominguez, Kathryn M. E.; Tesar, Linda L. **AA** University of Michigan and NBER. **SR** National Bureau of Economic Research Working Paper: 8129; 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** F14, F23, G15. **KW** Exchange Rate Risk. Trade. Asset Pricing.

AB Are firms that engage in trade more vulnerable to exchange rate risk? Or, put another way, that exchange rate movements will influence firm asset value through the trade channel. In this paper we examine the relationship between exchange rate movements, firm value and trade. Our empirical work tests whether exchange rate exposure can be explained by variables that proxy for the level of international activity, firm size, industry affiliation and country affiliation. The results suggest that while a significant fraction of firms in these countries is exposed to exchange rate movements, there is little evidence of a systematic link between exposure and trade. Indeed, what little evidence there is of a link suggests that firms that engage in greater trade exhibit lower degrees of exposure. This may reflect the fact that those firms most engaged in trade are also the most aware of exchange rate risk, and therefore are the most likely to hedge their exposure.

Donaldson, David

TI In Defense of Welfarism. **AU** Blackorby, Charles; Bossert, Walter; Donaldson, David.

TI Critical-Level Population Principles and the Repugnant Conclusion. **AU** Blackorby, Charles; Bossert, Walter; Donaldson, David.

Donaldson, John B.

TI A Note on NNS Models: Introducing Physical Capital; Avoiding Rationing. **AU** Danthine, Jean-Pierre; Donaldson, John B.

TI Decentralizing the Stochastic Growth Model. **AU** Danthine, Jean-Pierre; Donaldson, John B.

Donnenfeld, Shabtai

PD November 2001. **TI** Currency Invoicing of U.S. Imports. **AU** Donnenfeld, Shabtai; Haug, Alfred A. **AA** Donnenfeld: Tel Aviv University and York University. Haug: York University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/31; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 11. **PR** no charge. **JE** F14, F31. **KW** Exchange Rate. Pass-Through. Invoicing. Risk.

AB This paper examines what affects the currency choice of invoice of exports to the U.S. We find that the relationship between the riskiness of the exchange rate and the fraction of imports invoiced in the importers' currency is positive whereas the fraction of imports invoiced in the exporter's currency and in a third currency is smaller the higher is the volatility of the exchange rate.

Dor, Avi

PD February 2001. **TI** Administered Prices and Suboptimal Prevention: Evidence from the Medicare Dialysis Program. **AA** Case Western Reserve University and NBER. **SR** National Bureau of Economic Research Working Paper: 8123; 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** H51, I12, I18, L15. **KW** Medicare. Dialysis. Preventative Services. Health.

AB Pricing methodologies in Medicare vary from one component of the system to another, often leading to conflicting incentives. The dialysis program represents a particularly interesting case, whereby outpatient payments are much more rigid than payments for related hospital care. Failure to recognize the preventive nature of outpatient services may result in inefficient allocation of medical care and higher overall costs. To motivate the analysis, a simple extension of basic prevention and insurance theory to fit a welfare-maximizing regulator is offered. This paper shows that while optimal inpatient payments are standard Ramsey prices, optimal outpatient payments must incorporate net loss due to unnecessary hospitalizations, as well as supply elasticities. A myopic regulator will tend to ignore this, leading to underprovision of preventive services. With constant prices, empirical analysis examines the effect of dialysis intensity on various measures of hospital use, for a local sample of patients, using count data models. Results indicate that greater dialysis intensity indeed reduces hospital use. The research confirms that the current pricing structure within aspects of the Medicare program is inefficient.

Duarte, Margarida

PD July 2001. **TI** Rational Speculation and Exchange Rates. **AU** Duarte, Margarida; Stockman, Alan C. **AA** Duarte: Federal Reserve Bank of Richmond. Stockman: University of Rochester and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8362; 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** F30, F40. **KW** Exchange Rates. Forecasting.

AB In this paper a general equilibrium model of exchange rates is developed where expectations of future variables directly affect the current exchange rate through an "asset-market" term. This term, which results from the assumptions of incomplete asset markets and segmented product markets, does not appear in most models of exchange rates and it allows for changes in expectations about variables at t+1 to affect the date-t exchange rates without requiring changes in other contemporaneous variables. Therefore, the model has the potential to deliver changes in exchange rates, resulting from rational speculation, without much change in consumption allocations or goods' prices, making it consistent with the common view that exchange rates behave like asset prices. To implement the idea that exchange rates respond to expectations about future economic conditions, a regime variable governing the covariance structure of shocks to productivity and money growth in each country is introduced. Changes in the information variable are intended to generate changes in home and foreign agents' perceptions of the relative risks of holding the nominal asset. The model is roughly consistent with the common view that exchange rates behave like asset prices.

Duggan, Mark G.

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

Dupor, William D.

PD April 2002. **TI** Increasing Returns and Optimal Oscillating Labor Supply. **AU** Dupor, William D.; Lehnert, Andreas. **AA** Dupor: University of Pennsylvania. Lehnert: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/22; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 51. **PR** no charge. **JE** C61, C62, D62, E32, E33. **KW** Increasing Returns. Externalities. Fluctuations. Lotteries.

AB Models featuring increasing returns to scale in at least one factor of production have been used to study two separate phenomena: (1) multiplicity of self-fulfilling rational expectations equilibria (i.e. sunspots), and (2) production schedules that optimally feature bunching. We show in a continuous-time model with increasing returns to labor (IRL) that if the economy features multiple competitive equilibria, the optimal path of investment, employment and consumption cannot be constant, or even smoothly-varying. Any macroeconomic policies that shielded the economy from sunspot fluctuations would necessarily not be optimal. We then characterize the optimal allocation (the solution to the planner's problem) in a discrete time version of the model. We find that the optimal investment, employment and consumption policies under increasing returns can feature (1) discontinuous jumps, (2) endogenous cycles (with time-varying cycle limits) and (3) stochastic controls (lotteries). Our discrete-time model is very close to that studied by Christian and Harrison (1999); they, however, find that fluctuations are not optimal. We show that this difference is driven by their assumption that production is linear in capital.

Duran, Jorge

PD 2001. **TI** Idiosyncratic Risk, Investment in Human Capital, and Growth. **AU** Duran, Jorge; Rillaers, Alexandra. **AA** Duran: CEPREMAP and IRES-UCL. Rillaers: IRES-UCL. **SR** CEPREMAP Discussion Paper: 2001/04; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 23. **PR** between 4 and 5 euros. **JE** E13, I29, O41. **KW** Overlapping Generations. Investment in Education. Uninsured Shocks. Human Capital. Growth.

AB We investigate the aggregate implications of individual specific uncertainty about returns to investment in education in the absence of insurance markets. We do so in a general equilibrium overlapping generations (OLG) model in which physical resources must be devoted to education in order to accumulate human capital. We conclude that uncertainty with incomplete financial markets may strongly affect individual behavior but not the aggregate of the economy. Different degrees of uncertainty will induce different intensities of human to physical capital but will not have a significant impact on the long run growth rate of the economy.

PD January 2001. **TI** Discounting Long Run Average Growth in Stochastic Dynamic Programs. **AA** CEPREMAP and UCL. **SR** CEPREMAP Discussion Paper: 2001/01; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 19. **PR** between 4 and 5 euros. **JE** C61. **KW** Dynamic Programming. Weighted Norms. Contraction Mappings. Dominated Convergence.

AB Finding solutions to the Bellman equation relies on restrictive boundedness assumptions. The literature on endogenous growth or business cycle models with unbounded random shocks provide with numerous examples of recursive programs in which returns are not bounded along feasible paths. In this paper we develop a method of proof that allows us to account for models of this type. In applications our assumptions only imply that long run average (expected) growth is sufficiently discounted, in sharp contrast with classical assumptions either absolutely bounding growth or bounding each period (instead of long run) maximum (instead of average) growth. We discuss our work in relation to the literature and provide several examples.

Duranton, Gilles

PD July 1999. **TI** Diversity and Specialisation in Cities: Why, Where and When Does it Matter? **AU** Duranton, Gilles; Puga, Diego. **AA** Duranton: London School of Economics. Puga: University of Toronto. **SR** Universitat Autonoma de Barcelona DEHA/IAE Working Paper: 443/99; Departament d'Economia i d'Historia Economica, Universitat Autonoma de Barcelona, Campus UAB, 08193 Bellaterra, Barcelona, Spain. Website: www.iae-csic.uab.es. **PG** 28. **PR** papers only available on web page; no hard copies. **JE** D83, O31, R30. **KW** Cities. Diversity. Specialization.

AB Why are some cities specialized and others diversified? What are the advantages and disadvantages of urban specialization and diversity? To what extent does the structure of cities, and the activities of firms and people in them, change over time? How does the sectoral composition of cities influence their evolution? To answer these and related questions, this paper first distills some key stylized facts from the empirical literature on cities and the composition of their activities. It then reviews a number of different theories regarding these issues, and studies the extent to which these theories contribute to the understanding of the empirical regularities.

Dustmann, Christian

PD May 2001. **TI** Intra-Household Transfers and the Part-Time Work of Children. **AU** Dustmann, Christian; Micklewright, John. **AA** Dustmann: University College London and CEPR. Micklewright: UNICEF. **SR** CEPR Discussion Paper: 2796; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** C35, C70, J22. **KW** Child Labor Supply. Intra-Household Transfers.

AB We analyze the labor supply of 16-year-old British children together with the cash transfers made to them by their parents. We develop a theoretical model with an altruistic parent and a selfish child, which serves as a basis for the empirical specification in which labor supply and transfers are jointly determined. We show how parental transfers and the child's labor supply are dependent on each other. Consideration of this is important when assessing the influence of other factors.

Dutoit, Laure

PD October 2001. **TI** Y a-t-il vraiment discrimination salariale contre les femmes? (Is There Really Salary Discrimination Against Women in Switzerland?). **AU** Dutoit, Laure; Lambelet, Jean-Christian. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 01/09; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 15. **PR** no charge. **JE** C29, D63, J31, J71. **KW** Gender-Based Salary Discrimination. Direct and Inverse Regressions. The Oaxaca-Blinder Approach. Heckman's Correction. Switzerland.

AB (This paper is written in French). Trying to ascertain scientifically the existence and importance of gender-based salary discrimination runs into conceptual and technical difficulties, the implications of which are not always fully appreciated: depending on the approach used, our analysis of a large sample for Switzerland in 1997 concludes that there is significant discrimination against women; or that no discrimination can be detected; or that there is significant discrimination against...men. The approaches used are: direct general regression (for given attributes, do salaries differ according to gender?); inverse general regression (for a given salary level, do employers require different attributes depending on gender?); the Oaxaca-Blinder method (the effect of a given attribute on salaries may differ depending on gender); Heckman's correction (focusing on working persons only may give rise to a selection bias). The general conclusion is agnostic: given the present state of techniques and knowledge, it is not (yet?) possible to ascertain scientifically the existence of gender-based salary discrimination in Switzerland. This conclusion differs from that reached by pre-existing studies, which tended to underpin the existence of salary discrimination against women.

Dynan, Karen E.

PD November 2001. **TI** Do Provisional Estimates of Output Miss Economic Turning Points? **AU** Dynan, Karen E.; Elmendorf, Douglas, W. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/52; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 24. **PR** no charge. **JE** C82, E32, E37. **KW** Business Cycles. Macroeconomic Data.

AB Initial estimates of aggregate output and its components are based on very incomplete source data, so they may not fully capture shifts in economic conditions. In particular, if those estimates are based partly on trends in preceding quarters, one would expect to see provisional estimates overstating activity when actual output is decelerating and understating it when actual output is accelerating. We examine this issue using the Real Time Data Set for Macroeconomists, which contains contemporaneous estimates of GNP or GDP and its components beginning in the late 1960s, as well as financial-market information and other data. Our results indicate that provisional estimates do not fully capture accelerations and decelerations, suggesting some tendency for provisional estimates to miss economic turning points. We also consider the related question of whether better use of contemporaneous data could improve the quality of provisional estimates. We find that provisional estimates do not represent optimal forecasts of the current estimates, but that the improvement in forecast quality from including additional contemporaneous data appears to be quite small.

Earle, John S.

TI Privatization, Competition and Reform Strategies: Theory and Evidence from Russian Enterprise Panel Data. **AU** Brown, J. David; Earle, John S.

Echenique, Federico

PD April 2001. **TI** A Characterization of Strategic Complementarities. **AA** University of California, Berkeley, Universidad de la Republica, Uruguay, and Universidad Torcuato Di Tella, Argentina. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/299; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720-1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 17. **PR** $3.50 U.S.; $7.50 International. **JE** C62, C71. **KW** Strategic Complementarities. Supermodular Games. Non-standard Analysis. Cournot Best-Response Dynamics.

AB This paper characterizes games for which there is an order on strategies such that the game has strategic complementarities. It is proven that, with some qualifications, games with a unique equilibrium have complementarities if and only if Cournot best-response dynamics has no cycles; and that all games with multiple equilibria have complementarities. This is a negative result because it implies that the predictive power of complementarities alone is very weak. As an application of the results it is shown that generic 2 X 2 games either have no pure-strategy equilibria, or are GSC.

Eckstein, Zvi

TI Labor Mobility of Immigrants: Training, Experience, Language and Opportunities. **AU** Cohen, Sarit; Eckstein, Zvi.

Edwards, Sebastian

PD May 2001. **TI** Dollarization and Economic Performance: An Empirical Investigation. **AA** UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 8274; 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** F31, F32, F33. **KW** Dollarization. Inflation. Growth. Investment.

AB This paper investigates the historical record of countries that have lived under a "dollarized" monetary system. As it turns out, this is a very small group of countries, most of which have operated under very special circumstances, and for which there are very limited data. The results reported in this paper suggests that, when compared to other countries, the dollarized nations have: (a) had significantly lower inflation; (b) grown at a significantly lower rate; (c) had a similar fiscal record; (d) not been spared from major current account reversals. Additionally, the analysis of Panama's case suggests that external shocks result in greater costs -- in terms of lower investment and growth -- in dollarized than in non-dollarized countries.

PD May 2001. **TI** Does the Current Account Matter? **AA** UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 8275; 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** F30, F31, F32. **KW** Current Account. Financial Crises. Emerging Economies. Deficits.

AB The purpose of this paper is to investigate in detail the behavior of the current account in emerging economies, and in particular its role -- if any -- in financial crises. Models of current account behavior are reviewed, and a dynamic model of current account sustainability is developed. The empirical analysis is based on a massive data set that covers over 120 countries during more than 25 years. Important controversies related to the current account including the extent to which current account deficits help predict currency crises - are also analyzed. The paper tries to analyze whether there is evidence supporting the idea that there are costs involved in running "very large" deficits. Moreover, the paper investigates the nature of these potential costs, including whether they are particularly high in the presence of other type of imbalances.

Eeckhout, Jan

TI Is Bargaining over Prices Efficient? **AU** Davila, Julio; Eeckhout, Jan.

Eichenbaum, Martin

TI On the Fiscal Implications of Twin Crises. **AU** Burnside, Craig; Eichenbaum, Martin; Rebelo, Sergio.

Eichengreen, Barry

PD May 2001. **TI** Greek Banking at the Dawn of the New Millennium. **AU** Eichengreen, Barry; Gibson, Heather D. **AA** Eichengreen: University of California, Berkeley and CEPR. Gibson: not available. **SR** CEPR Discussion Paper:

2791; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F30, F36, G20. **KW** Banking. European Integration. Greece.

AB We analyze the current state, past performance, and future prospects of the Greek banking system. Greek banking is in a period of rapid transformation, reflecting the impact of national, European and international forces. Deregulation and European integration are already intensifying competition. The most revolutionary transformation will follow from the privatization of Greece's public banks. We focus on two challenges for policy makers: the need to strengthen prudential supervision, and the need to manage the process of restructuring so as to deliver a more efficient, competitive banking system.

Eijffinger, Sylvester C. W.

PD February 2001. **TI** The Feasible Gains from International Risk Sharing. **AU** Eijffinger, Sylvester C. W.; Wagner, Wolf. **AA** Eijffinger: Tilburg University and CEPR. Wagner: not available. **SR** CEPR Discussion Paper: 2691; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D81, F41, G15. **KW** International Risk Sharing. Welfare Gains. Consumption Risk.

AB We argue that since there are several impediments to international risk sharing, the welfare gains from full international risk sharing, which have been the object of analysis in the previous literature, are not suggestive. Instead, we study the gains from feasible risk sharing and find that they are considerable (0.5 percent increase in permanent consumption). Marginal benefits from further risk sharing are low, which indicates that feasible risk sharing can achieve most of the benefits from international risk sharing. Surprisingly, we find that sharing short-term consumption risk lowers welfare. On the basis of the results we make suggestions on how to improve existing international risk sharing systems.

Ekholm, Karolina

PD January 2001. **TI** Relative Wages and Trade-Induced Changes in Technology. **AU** Ekholm, Karolina; Midelfart, Karen-Helene. **AA** Ekholm: Stockholm School of Economics and CEPR. Midelfart Knarvik: Norwegian School of Economics. **SR** CEPR Discussion Paper: 2677; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F02, F12, J31. **KW** Imperfect Competition. Technology. Trade. Trade Liberalization. Wages.

AB We develop a model where trade liberalization leads to skill-biased technological change, which in turn raises the relative return to skilled labor. As firms get access to a larger market, they have incentives to choose a more skill-intensive technology because a lowering of variable costs requires additional use of skilled labor. This way, we establish a link between trade, technology and relative returns to skilled and unskilled labor. Moreover, we show that as market integration continues and trade costs fall below a certain threshold, the relative return to skilled labor may fall.

Elfenbein, Dan

PD April 2001. **TI** Links and Hyperlinks: An Empirical Analysis of Internet Portal Alliances, 1995-1999. **AU** Elfenbein, Dan; Lerner, Josh. **AA** Elfenbein: Harvard Business School. Lerner: Harvard Business School and NBER. **SR** National Bureau of Economic Research Working Paper: 8251; 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** L14. **KW** Alliances. Contracts. Licenses. Internet.

AB This paper examines the structure of over 100 alliances by Internet portals from 1995 to 1999. These alliances were an attractive empirical testing ground because of the large number and heterogeneous nature of the contracts, the high standards for disclosure in the industry, and the careful delineation of ownership, control, exclusivity, and other provisions in the contracts. The division of ownership and allocation of control rights displayed patterns consistent with the predictions in the incomplete contracting literature. Similarly, the exclusivity of the agreements appeared to vary, at least weakly, with the value of the product or service being made available to the portal, consistent with the licensing literature. In other cases, particularly in regard to the differing allocation of ownership and control and the varying completeness of the contracts, the empirical patterns indicated a more complex world than the one that theory led us to anticipate.

Elliott, Robert J. R.

TI A Tale of Two Cycles: Co-Fluctuations Between UK Regions and the Euro Zone. **AU** Barrios, Salvador; Brulhart, Marius; Elliott, Robert J. R.; Sensier, Marianne.

TI A Tale of Two Cycles: Co-Fluctuations Between UK Regions and the Euro Zone. **AU** Barrios, Salvador; Brulhart, Marius; Elliott, Robert J. R.; Sensier, Marianne.

Ellwood, David T.

TI Whither Poverty in Great Britain and the United States? The Determinants of Changing Poverty and Whether Work Will Work. **AU** Dickens, Richard; Ellwood, David T.

Elmendorf, Douglas, W.

TI Do Provisional Estimates of Output Miss Economic Turning Points? **AU** Dynan, Karen E.; Elmendorf, Douglas, W.

Emmerson, Carl

TI Differential Mortality in the UK. **AU** Attanasio, Orazio P.; Emmerson, Carl.

English, William B.

PD April 2002. **TI** Interpreting the Significance of the Lagged Interest Rate in Estimated Monetary Policy Rules. **AU** English, William B.; Nelson, William R.; Sack, Brian P. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/24; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 20. **PR** no charge. **JE** E47, E52, E58. **KW** Monetary Policy. Interest Rates. Lagged Interest Rates.

AB Many researchers have found that the lagged interest rate enters estimated monetary policy rules with overwhelming significance. However, a recent paper by Rudebusch (2002) argues that the lagged interest rate is not a fundamental component of the U.S. policy rule, and that its significance arises from the omission of serially correlated variables from the policy rule. This paper demonstrates that, contrary to Rudebusch's claims, these two hypotheses can be directly distinguished in the estimation of the policy rule. Our findings indicate that while serially correlated omitted variables may be present, the lagged interest rate enters the policy rule in its own right and plays an important role in describing the behavior of the federal funds rate.

Epstein, Roy J.

PD November 2001. **TI** Merger Simulation: A Simplified Approach with New Applications. **AU** Epstein, Roy J.; Rubinfeld, Daniel. **AA** Epstein: LECG, Inc. Rubinfeld: University of California, Berkeley. **SR** University of California, Berkeley, Department of Economics Working Papers: E01/309; UC Berkeley; IBER, F502 Haas #1922, Berkeley, CA 94720-1922. Website: iber.berkeley.edu/wps/econwp.html. **PG** 36. **PR** $3.50 U.S.; $7.50 International. **JE** L40. **KW** Antitrust. Merger Simulation. Unilateral Effects. Empirical Methods.

AB Merger simulation is growing in importance as a tool to evaluate the unilateral competitive effects of mergers. This paper offers a relatively non-technical description of the principles of merger simulation. In addition, it introduces PCAIDS, a new and highly flexible "calibrated-demand" merger simulation methodology that is based on a simplified version of AIDS. PCAIDS can be implemented using market shares and two price elasticities; scanner or transaction-level data are not required. The paper offers some applications of merger simulation with PCAIDS that include comparisons with other simulation models. It also shows how PCAIDS can be applied to the analysis of efficiencies, divestiture, and product repositioning/entry. Finally, the paper offers an analysis of the Merger Guidelines safeharbors. A detailed mathematical appendix is included.

Eraslan, Hulya

TI A Structural Model of Government Formation. **AU** Diermeier, Daniel; Eraslan, Hulya; Merlo, Antonio.

TI Bicameralism and Government Formation. **AU** Diermeier, Daniel; Eraslan, Hulya; Merlo, Antonio.

Ernst, Ekkehard

TI Labour Market Regulation, Industrial Relations, and Technological Regimes: A Tale of Comparative Advantage. **AU** Bassanini, Andrea; Ernst, Ekkehard.

Ethier, Wilfred J.

PD March 2002. **TI** Escape and Entry Mechanisms in the Multilateral Trade System. **AA** University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/009; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 16. **PR** free from website. **JE** F10, F13. **KW** Escape Mechanisms. Equivalent Withdrawal of Concessions. Insurance Triangle. Entry Mechanisms. The New Regionalism.

AB Escape mechanisms from trade agreements are necessary because such agreements are incomplete, self-enforcing, contracts negotiated when the future is unknown. The essence of multilateral escape mechanisms is the principle of equivalent withdrawal of concessions, which allows trade agreements to result in efficient outcomes but implies that realized liberalization would be at the pace preferred by the most reluctant liberalizers. This in turn implies a possibly beneficial role for unilateral escape mechanisms featuring discrimination and partial compensation for restricted exporters. The fact that a large part of the globe, hitherto aloof from the multilateral trading system, is now actively trying to join it generates a critical need for entry mechanisms. Regional trade agreements provide entry mechanisms that maximize the extent of successful reform.

PD August 2002. **TI** Globalization: Trade, Technology, and Wages. **AA** University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/031; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 37. **PR** free from website. **JE** F02, F15, F16, O30. **KW** Fragmentation. Equipment Utilization. Out-Sourcing. Input Substitution. Input Complementarity.

AB This paper addresses a complex of globalization issues: the effect of globalization on the skill premium, the effect of globalization on unemployment, the relative importance of globalization and exogenous technical change, the effect of globalization on the ability of national governments to conduct independent social policies. Thinking about these topics has been dominated by a large empirical literature concluding that trade has played a relatively minor role in the rise of the skill premium, while exogenous skill-biased technical change has played a major role. This paper replaces the focus on intersectoral substitution at the heart of the Stolper-Samuelson theorem with attention to intra-sectoral relations between inputs. Specifically, it assumes that out-sourcing and unskilled labor are highly substitutable and that equipment and skilled labor are complementary, that production methods are flexible, and that the country undertaking out-sourcing has a significantly different structure from that providing it.

PD September 2002. **TI** Political Externalities, Nondiscrimination, and a Multilateral World. **AA** University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/030; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 26. **PR** free from website. **JE** F02, F13. **KW** Multilateralism. Reciprocity. Liberalization. Political Externalities.

AB During the past half century tariffs have reached historically low levels through gradual, nondiscriminatory, and multilateral liberalization featuring reciprocal concessions. Yet economists have not obtained convincing explanations of why liberalization possesses these characteristics or of what their implications are. There is an extensive theoretical literature on multilateral trade agreements, based on the idea of terms-of-trade externalities between national governments, but this literature is inconsistent with actual agreements. This paper presents an alternative, rudimentary, multi- country model with high initial tariff barriers -- a caricature of the world of half a century ago -- based instead on political externalities between governments. With remarkably little necessary formal structure- in particular, no formal bargaining model -- the framework gives an immediate and transparent role to gradual liberalization, reciprocity, nondiscrimination, and multilateral negotiation that is consistent with and closely parallels actual experience.

Euwals, Rob

PD July 2001. **TI** Why Do Firms Train? Empirical Evidence on the First Labor Market Outcomes of Graduate Apprentices. **AU** Euwals, Rob; Winklemann, Rainer. **AA** Euwals: Netherlands Bureau for Economic Policy Analysis and Centre for Economic Policy Research. Winklemann: University of Zurich. **SR** CEPR Discussion Paper: 2880: Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** J23, J31. **KW** Job Duration. Training. Wages.

AB The apprenticeship system is the most important source of formal post-secondary training in Germany. This paper contributes to the ongoing debate as to why firms are willing to invest in such training even though many apprentices will leave the training firm soon after completion of the apprenticeship. A particular advantage over previous empirical studies is the use of German register data, the IAB Employment Sample, which gives a large sample size, and detailed information on occupations. It is found that apprentices staying with their training firm after graduation have (1) higher wages and (2) longer first-job durations than apprentices leaving the training firm. These results support theories according to which firms use the apprenticeship system to select and retain the more able apprentices, thereby recouping the costs of investing in skills that are portable in principle.

Evans, David S.

PD May 2001. **TI** Some Economic Aspects of Antitrust Analysis in Dynamically Competitive Industries. **AU** Evans, David S.; Schmalensee, Richard. **AA** Evans: National Economic Research Associates. Schmalensee: MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8268; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 48. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G31, L40, O31. **KW** Antitrust. Intellectual Property. Innovation. Market Power.

AB Competition in many important industries centers on investment in intellectual property. Firms engage in dynamic, Schumpeterian competition for the market, through sequential winner-take-all races to produce drastic innovations, rather than through static price/output competition in the market. Sound antitrust economic analysis of such industries requires explicit consideration of dynamic competition. Most leading firms in these dynamically competitive industries have considerable short-run market power, for instance, but ignoring their vulnerability to drastic innovation may yield misleading conclusions. Similarly, conventional tests for predation cannot discriminate between practices that increase or decrease consumer welfare in winner-take-all industries. Finally, innovation in dynamically competitive industries often involves enhancing feature sets; there is no sound economic basis for treating such enhancements as per se illegal ties.

Evans, Martin D. D.

PD February 2001. **TI** FX Trading and Exchange Rate Dynamics. **AA** Georgetown University. **SR** National Bureau of Economic Research Working Paper: 8116; 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, G12, G15. **KW** Foreign Exchange. Incomplete Information. Asset Pricing.

AB This paper provides new perspective on the poor performance of exchange rate models by focusing on the information structure of foreign exchange (FX) trading. The paper introduces a new theoretical model of FX trading that emphasizes the role of incomplete and heterogeneous information. The model shows how an equilibrium distribution of FX transaction prices and orders can arise at each point in time from the optimal trading decisions of dealers. This result motivates an empirical investigation of how the equilibrium distribution of FX prices behaves using a new data set that details trading activity in the FX market. This analysis produces two striking results: (i) Much of the observed short-term volatility in exchange rates comes from sampling the heterogeneous trading decisions of dealers in an equilibrium distribution that, under normal market conditions, changes comparatively slowly. (ii) In contrast to the assumptions of traditional macro models, public news is rarely the predominant source of exchange rate movements over any horizon.

PD July 2001. **TI** Portfolio Balance, Price Impact, and Secret Intervention. **AU** Evans, Martin D. D.; Lyons, Richard K. **AA** Evans: Georgetown University and National Bureau of Economic Research. Lyons: University of California, Berkeley and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8356; 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** F31, G12, G15. **KW** Monetary Policy. Portfolio Choice.

AB This paper tests the portfolio-balance approach to exchange rate determination in a new way. Past work on portfolio balance in foreign exchange falls into two groups: (1) tests using measures of asset supply and (2) tests using measures of central-bank asset demand. The demand side is addressed, but using a broad measure of public demand, rather than focusing on demand by central banks. Under floating rates, changing public demand has no direct effect on interest rates, current or future. This provides an opportunity to test for portfolio-balance effects on price. The paper develops and estimates a micro portfolio balance model that has both Walrasian and microstructure features. Portfolio-balance effects are clearly present: the immediate price impact of public trades is 0.44 percent per $1 billion (of which, about 80 percent persists indefinitely). This estimate is applicable to central-bank trades as well, as long as they are sterilized, secret, and provide no monetary-policy signal. Intervention of this type is most effective when the flow of macroeconomic news is strong.

Fachat, Christian

PD March 2000. **TI** Agency Costs, Net Worth, and the Transmission Mechanism of Monetary Policy. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/02; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 23. **PR** no charge. **JE** E13, E32, E44, E51. **KW** Financial Intermediation. Monetary Transmission. Credit Channel. Limited Participation. Liquidity Effect.

AB A variety of empirical and theoretical evidence published in recent years suggests that frictions in credit markets are crucial to understand the monetary transmission mechanism. The objective of this paper is to provide a quantitative evaluation of the credit view interpretation of this evidence. Special attention is paid to the role of borrowers' net worth. A model with endogenous agency costs is developed where a debt contracting problem with asymmetric information between lender and borrower is embedded in a stochastic dynamic general equilibrium model with money. The model incorporates a cash-in-advance constraint and a limited participation assumption in order to induce a liquidity effect of monetary shocks and to propagate monetary disturbances. The paper has two principal conclusions: First, the model economy shows that a positive money supply shock generates an increase in output and in employment. Second, ex ante heterogeneity of borrowers has a significant influence on the reactions of the model economy to a monetary shock.

PD April 2000. **TI** Agency Costs, Net Worth, and the Credit Channel of Monetary Transmission. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/03; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 32. **PR** no charge. **JE** E13, E32, E44, E51. **KW** Financial Intermediation. Monetary Transmission. Endogenous Banking. Business Cycles.

AB This paper presents a full model of the Credit Channel of the monetary transmission mechanism. In particular, the special role of the banking sector is derived endogenously and special attention is paid to the role of borrowers' net worth. A debt contracting problem with asymmetric information and heterogeneous borrowers is embedded in a monetary real business cycle model. The paper assumes that agency costs arise in the production of aggregate output. Numerical simulations of the model economy show two major points: First, the model with heterogeneous borrowers does not replicate as many stylized facts as the model without heterogeneous borrowers. Second, the model dampens the impulse response of output after a positive money supply shock, compared to the standard monetary business cycle model. Interestingly, the results of this paper differ considerably from the results of a related paper with agency costs arising in the production of the investment good.

Farrell, Joseph

PD August 2001. **TI** Competition or Predation? Schumpeterian Rivalry in Network Markets. **AU** Farrell, Joseph; Katz, Michael L. **AA** University of California at Berkeley. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/306; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720- 1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 34. **PR** $3.50 U.S.; $7.50 International. **JE** D40, D60. **KW** Predation. Network Effects. Price Floors. Competition.

AB We explore the logic of predation and rules designed to prevent it in markets subject to network effects. Although, as many have informally argued, predatory behavior is plausibly more likely to succeed in such markets, we find that it is particularly hard to intervene in network markets in ways that improve welfare. We find that imposition of the leading proposals for rules against predatory pricing may lower or raise consumer welfare, depending on conditions that may be difficult to identify in practice.

Fatas, Antonio

PD February 2001. **TI** Do Monetary Handcuffs Restrain Leviathan? Fiscal Policy in Extreme Exchange Rate Regimes. **AU** Fatas, Antonio; Rose, Andrew K. **AA** Fatas: INSEAD and CEPR. Rose: University of California, Berkeley. **SR** CEPR Discussion Paper: 2692; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E52, E62, F33. **KW** Currency Unions. Dollarized. Fiscal Policy. Exchange Rates. Monetary Policy.

AB This Paper is an empirical study of fiscal policy in countries with extreme monetary regimes. We study members of multilateral currency unions, dollarized countries that officially use the money of another country, and countries using currency boards. We find that belonging to an international common currency area is not associated with fiscal discipline; if anything, spending and taxes are higher inside currency unions. This effect is especially pronounced for dollarized countries that unilaterally adopt the currency of another country. Currency boards are associated with fiscal restraint.

PD April 2001. **TI** The Effects of Fiscal Policy on Consumption and Employment: Theory and Evidence. **AU** Fatas, Antonio; Mihov, Ilian. **AA** INSEAD and CEPR. **SR** CEPR Discussion Paper: 2760; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E20, E30, H30. **KW** Business Cycles. Fiscal Policy.

AB This paper compares the dynamic impact of fiscal policy on macroeconomic variables implied by a large class of general equilibrium models with the empirical results from an identified vector autoregression. In the data we find that positive innovations in government spending are followed by strong and persistent increases in consumption and employment. The effects are particularly pronounced when government wage expenditures increase. We compare these findings to several variations of a standard real business cycle model and we find that the positive correlation in the responses of employment and consumption cannot be matched by the model under plausible assumptions for the values of the calibration parameters.

Fauli-Oller, Ramon

PD May 2001. **TI** Delegation and Polarization of Platforms in Political Competition. **AU** Fauli-Oller, Ramon; Ok, Efe A.; Ortuno-Ortin, Ignacio. **AA** Fauli-Oller: Universidad de Alicante. Ok and Ortuno-Ortin: not available. **SR** CEPR Discussion Paper: 2799; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D72, D74. **KW** Polarization. Political Competition.

AB We consider a model of political competition among two ideological parties who are uncertain about the distribution of voters. The distinguishing feature of the model is that parties can delegate electoral decisions to candidates by nomination. It is shown that if the credible platform commitments of the candidates are feasible, then at least one of the parties nominates in equilibrium to a candidate who has an ideology that is more radical than the delegating party's ideology. In a variety of circumstances, this, in turn, yields a polarization of equilibrium policy choices of the candidates. It is thus argued formally that strategic nomination of the candidates may well be one of the major reasons behind the well documented observation that the platforms associated with the political parties in two-party democracies are often surprisingly polarized.

Fayolle, Jacky

TI Macroeconomic Consequences of Pension Reforms in Europe: An Investigation with the INGENUE World Model. **AU** Aglietta, Michel; Chateau, Jean; Fayolle, Jacky; Juillard, Michel; Le Cacheux, Jacques; Le Garrec, Gilles; Touze, Vincent.

Fehr, Ernst

PD May 2001. **TI** Fairness, Incentives and Contractual Incompleteness. **AU** Fehr, Ernst; Klein, Alexander; Schmidt, Klaus. **AA** Fehr: Universitat Zurich and CEPR. Klein: not available. Schmidt: Universitat Munchen. **SR** CEPR Discussion Paper: 2790; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** C70, C90, J30. **KW** Fairness. Incentive Contracts. Incomplete Contracts. Moral Hazard. Reciprocity.

AB We show that concerns for fairness may have dramatic consequences for the optimal provision of incentives in a moral hazard context. Incentive contracts that are optimal when there are only selfish actors become inferior when some agents are concerned with fairness. Conversely, contracts that are doomed to fail when there are only selfish actors provide powerful incentives and become superior when there are also fair-minded players. These predictions are strongly supported by the results of a series of experiments. Furthermore, our results suggest that the existence of fair actors may be an important reason why many contracts are left deliberately incomplete.

Feldstein, Martin

PD May 2001. **TI** Economic Problems of Ireland in Europe. **AA** NBER. **SR** National Bureau of Economic Research Working Paper: 8264; 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** E62, F01, F02. **KW** European Union. Ireland. Growth. Inflation. Budget Surpluses.

AB This paper uses the recent controversy between the European Union and the Irish Republic to discuss the more general relation between the European Union, the EMU and the member countries. Despite outstanding economic growth and budget surpluses, Ireland has been criticized by the European Commission because it has reduced taxes in the context of a relatively high rate of inflation. The first part of this paper considers the ways in which the EMU is likely to affect inflation and cyclical unemployment in the member countries over the longer term. The second part deals more specifically with the current Irish situation and the reasons for an EU reprimand of a very small country. This part suggests that an alternative standard, based on the principle of "do no harm" would have lead to a different outcome. Finally, the paper describes a policy of creating investment-based personal retirement accounts that would allow Ireland to share its future budget surpluses with taxpayers in a way that does not contribute to inflationary pressures.

Felli, Leonardo

TI How to Sell a (Bankrupt) Company? **AU** Cornelli, Francesca; Felli, Leonardo.

TI Unforeseen Consequences. **AU** Al-Najjar, Nabil; Anderlini, Luca; Felli, Leonardo.

Fernald, John G.

TI Productivity Growth in the 1990s: Technology, Utilization, or Adjustment? **AU** Basu, Susanto; Fernald, John G.; Shapiro, Matthew D.

Fernandez-Villaverde, Jesus

PD March 2002. **TI** Can We Really Observe Hyperbolic Discounting? **AU** Fernandez-Villaverde, Jesus; Mukherji, Arijit. **AA** Fernandez-Villaverde: University of Pennsylvania. Mukherji: University of Minnesota. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/008; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 23. **PR** free from website. **JE** C91, D81, E21. **KW** Hyperbolic Discounting. Intertemporal Choice. Uncertainty.

AB We propose a new, more robust, experiment to test for the presence of hyperbolic discounting. Recently, a growing literature has studied intertemporal choice when individuals discount the future hyperbolically. These preferences generate dynamically inconsistent choices, in contrast with the usual assumption of exponential discounting, where this issue cannot arise. Hyperbolic discounting is justified based on experimental evidence of individual self-control problems. We argue that this interpretation depends crucially on the absence of uncertainty. We show that, once uncertainty is included, the observed behavior is compatible with exponential discounting. We then test for the presence of hyperbolic discounting in a new experiment that controls for uncertainty. The experiment offers two choice sets, the second being a strict subset of the first. Exponential discounters will (possibly weakly) prefer the largest one. Hyperbolic discounters, in contrast, will (strictly) prefer the second set because its design makes it equivalent to a commitment technology. The experiment is conducted on a sample of undergraduate students. Our results suggest that hyperbolic behavior is more difficult to find than implied by previous experiments.

PD November 2002. **TI** Consumption over the Life Cycle: Some Facts from Consumer Expenditure Survey Data. **AU** Fernandez-Villaverde, Jesus; Krueger, Dirk. **AA** Fernandez-Villaverde: University of Pennsylvania. Krueger: Stanford University and NBER. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/044; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 59. **PR** free from website. **JE** C14, D12, D91, J10. **KW** Consumption. Life Cycle Profiles. Durables. Nonparametric Estimation. Bootstrap.

AB We use a semi-non-parametric model and Consumer Expenditure Survey data to estimate life cycle profiles of consumption, controlling for demographics, cohort and time effects. In addition to documenting profiles for total and nondurable consumption, we devote special attention to the age expenditure pattern for consumer durables. We find hump-shaped paths over the life cycle for total, for nondurable and for durable expenditures. Changes in household size account for roughly half of these humps. The other half remains unaccounted for by the standard complete markets life cycle model. Our results imply that households do not smooth consumption over their lifetimes. This is especially true for services from consumer durables. Bootstrap simulations suggest that our empirical estimates are tight and sensitivity analysis indicates that the computed profiles are robust to a large number of different specifications.

Fershtman, Chaim

PD February 2002. **TI** Discrimination and Nepotism: The Efficiency of the Anonymity Rule. **AU** Fershtman, Chaim; Gneezy, Uri; Verboven, Frank. **AA** Fershtman: Tel Aviv University. Gneezy: University of Chicago Graduate School of Business. Verboven: Catholic University of Leuven. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2002/04; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 27. **PR** no charge. **JE** C92, J71. **KW** Discrimination. Nepotism. Anonymity Rules.

AB The paper considers two categories of discrimination: "discrimination against" and "discrimination in favor", which Becker coins "nepotism". The paper develops an experimental test to distinguish between these two types of discrimination. The experiment compares the behavior towards individuals of different groups with the behavior towards anonymous individuals (those having no clear group affiliation). We illustrate the two attitudes by considering two segmented societies: Belgian society, with its linguistic segmentation between the Flemish and the Walloons, and Israeli society, where we focus on religious versus secular segmentations. In Belgium, we find evidence of discrimination against. Both the Walloons and the Flemish treat people of their own group in the same way as anonymous individuals while discriminating against individuals of the other group. In contrast, the behavior of ultra-orthodox religious Jews in Israel can be categorized as nepotism: they favor members of their own group while treating anonymous individuals in the same way as secular individuals. The distinction between the different types of discrimination is important in evaluating the effectiveness and the efficiency consequences of anti-discriminatory legislations.

PD April 2002. **TI** Read My Lips, Watch For Leaps: A Theory of Endogenous Political Instability. **AU** Fershtman, Chaim; Heifetz, Aviad. **AA** Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2002/08; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 16. **PR** no charge. **JE** D72, I28. **KW** Political Instability. Endogenous Preferences. Public Policy. Politics.

AB As norms and tastes adapt to the social conditions shaped by policy variables, individuals' opinions about these policies may evolve as well. We show how this process can lead to political instability: Most voters may prefer the policy of the opposition over that of the current regime, but when the opposition party takes over and implements its policy, the new policy may influence the public's taste so that the old policy becomes more attractive. Alternatively, if a politician's platform is shaped opportunistically so as to gain the majority's support, once in office the politician should not implement the promised policy in order to remain popular and get re-elected. Rather, the effective policy in this respect is the one which will be deemed optimal by most voters after the norms and opinions will adjust to that very policy. We demonstrate these ideas when the policy variables are the level of pubic education and a subsidy for on-the-job education.

Fertig, Michael

PD May 2001. **TI** First- and Second-Generation Migrants in Germany -- What Do We Know and What Do People Think. **AU** Fertig, Michael; Schmidt, Christoph. **AA** University of Heidelberg. **SR** CEPR Discussion Paper: 2803; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** I30, J15, J61. **KW** Immigration. Public Transfers.

AB This paper provides a snapshot of the stock of immigrants in Germany using the 1995 wave of the Mikrozensus, with a particular emphasis on distinguishing first- and second-generation migrants. On the basis of this portrait, it draws attention to the empirically most relevant groups of immigrants and review the received literature on economic migration research in the three principal avenues of migration research. The aspect that the paper concentrates on in the empirical application, the welfare dependence of immigrants, is a matter of intense debate among economists and policy makers. The paper contrasts the very moderate actual public transfer payment dependence of migrants to Germany with the perception of migrants dependence on public assistance from Germans of various population strata.

Fidrmuc, Jan

PD April 2001. **TI** Economic Reform, Democracy and Growth During Post-Communist Transition. **AA** Trinity College, Dublin and CEPR. **SR** CEPR Discussion Paper: 2759; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E63, O11, P26, P27. **KW** Democracy. Economic Performance. Elections. Liberalization. Growth.

AB This paper explores interactions between growth, economic liberalization and democratization during transition. The results can be summarized as follows: (1) Liberalization has a strong positive effect on growth during transition. This holds also when controlling for possible endogeneity of liberalization in growth. (2) Democracy encourages liberalization -- countries which introduced greater democracy subsequently progress further in economic liberalization too. (3) Because of its reinforcing effect on liberalization, democracy has a positive overall impact on growth. Nevertheless, the marginal effect of democracy (after controlling for progress in economic liberalization) is negative during early transition. (4) The progress in democratization in turn depends on past economic performance in a surprising manner -- the relationship between past growth and subsequent democracy appears negative. (5) Economic performance is an important determinant of electoral outcomes and, in particular, of support for reforms.

Figura, Andrew

PD February 2001. **TI** Is Reallocation Related to the Cycle? A Look at Permanent and Temporary Job Flows. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/16; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 25. **PR** no charge. **JE** E32, J63, J64. **KW** Job Flows. Permanent Job Flows. Transitory Job Flows.

AB How much of aggregate employment fluctuations is due to plants destroying and then recreating the same jobs over the cycle and how much is due to some plants permanently destroying jobs in a recession and other plants permanently creating jobs in an expansion? This paper decomposes plant level job flows into permanent and temporary components to answer this question, and finds that the permanent reallocation of jobs across plants accounts for approximately 30 percent of the cyclical fluctuations in aggregate employment.

PD January 2002. **TI** The Cyclical Behavior of Short-Term and Long-Term Job Flows. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/12; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 22. **PR** no charge. **JE** E32, J63, J64. **KW** Job Flows. Band Pass Filter. Transitory Job Flows.

AB Using a band pass filter, this paper estimates plant-level job flows at different frequencies and examines the characteristics of the high frequency (transitory) and low frequency (permanent) component flows. Because high frequency employment movements, which likely result in changes in the utilization of plant assets, and low frequency movements, which likely coincide with the restructuring of plant assets, result in different costs to the economy, understanding their separate behavior is important. High frequency plant-level employment fluctuations account for the majority of cyclical movements in aggregate manufacturing employment, but the temporal separation between job destruction and job creation is more pronounced for low frequency job flows, suggesting that permanent job flows reflect a more protracted employment adjustment process. To facilitate the evaluation of job flow models, many of which describe either transitory or permanent job flows, time series of job flows at different frequencies are presented in the appendix.

Filardo, Andrew J.

PD July 2001. **TI** Should Monetary Policy Respond to Asset Price Bubbles? Some Experimental Results. **AA** Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP01/04; 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** 24. **PR** no charge. **JE** E52, G12. **KW** Monetary Policy. Asset Prices. Bubbles.

AB Should central banks respond to asset price bubbles? This paper explores this monetary policy question in a hypothetical economy subject to asset price bubbles. Despite the highly stylized structure of the model, the results reveal several practical monetary policy lessons. First, a monetary authority should generally respond to asset prices as long as asset prices contain reliable information about inflation and output. Second, this finding holds even if a monetary authority cannot distinguish between fundamental and bubble asset price behavior. Third, a monetary authority's desire to respond to asset prices falls dramatically as its preference to smooth interest rates rises. Finally, a monetary authority should not respond to asset prices if there is considerable uncertainty about the macroeconomic role of asset prices.

PD December 1998. **TI** Choosing Information Variables for Transition Probabilities in a Time-Varying Transition Probability Markov Switching Model. **AA** Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP98/09; 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** 12. **PR** no charge. **JE** C13, C22. **KW** Markov Switching. Transition Probabilities. Maximum Likelihood.

AB This paper discusses a practical estimation issue for time-varying transition probability (TVTP) Markov switching models. Time-varying transition probabilities allow researchers to capture important economic behavior that may be missed using constant (or fixed) transition probabilities. Despite its use, Hamilton's (1989) filtering method for estimating fixed transition probability Markov switching models may not apply to TVTP models. This paper provides a set of sufficient conditions to justify the use of Hamilton's method for TVTP models. In general, the information variables that govern time-variation in the transition probabilities must be conditionally uncorrelated with the state of the Markov process.

Fishback, Price V.

PD February 2001. **TI** The Impact of New Deal Expenditures on Local Economic Activity: An Examination of Retail Sales, 1929-1939. **AU** Fishback, Price V.; Horrace, William C.; Kantor, Shawn. **AA** University of Arizona and NBER. **SR** National Bureau of Economic Research Working Paper: 8108; 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** E62, H53, N42, R11. **KW** New Deal. Retail Sales. Spillovers.

AB This paper empirically examines the New Deal's impact on local economic activity, as measured by retail sales, during the 1930s. Using a recently-uncovered data set that describes over 30 federal New Deal spending, loan, and mortgage insurance programs across all U.S. counties from 1933-1939, we estimate how the various New Deal programs that were designed to accomplish different objectives influenced retail spending. Our empirical approach accounts for both the simultaneity between New Deal allocations and economic activity and the geographic spillovers that likely resulted when spending in one county may have affected the economies of its neighbors. We find that New Deal spending on public works tended to promote retail sales in both the county where the money was spent and in contiguous neighbors, while spending on work relief increased economic activity in the county where the money was spent but at the expense of neighboring counties. Agricultural spending that limited production was associated with lower retail spending. New Deal loan programs appear to have had little or a somewhat negative effect. Finally, increases in the value of mortgages insured by the Federal Housing Administration had a strong positive effect on local economic growth during the Depression.

PD May 2001. **TI** Do Federal Programs Affect Internal Migration? The Impact of New Deal Expenditures on Mobility During the Great Depression. **AU** Fishback, Price V.; Horrace, William C.; Kantor, Shawn. **AA** University of Arizona and NBER. **SR** National Bureau of Economic Research Working Paper: 8283; 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** H53, I38, J68, O15, R23. **KW** Mobility. Federal Programs. Migration. Spillover Effects.

AB Using a data set that describes over 30 federal New Deal spending, loan, and mortgage insurance programs across all U.S. counties from 1933 to 1939, we empirically examine the New Deal's impact on inter- county migration from 1930 to 1940. We construct a net migration measure for each county as the difference between the Census's reported population change from 1930 to 1940 and the natural increase in population over the same period. Our empirical approach accounts for both the simultaneity between New Deal allocations and migration and the geographic spillovers that likely resulted when spending in one county may have affected the migration decisions of people in neighboring counties. We find that greater spending on relief and public works and a larger value of loans insured by the Federal Housing Administration were all associated with migration into counties where such money was allocated. The FHA's stimulus to the housing industry and large-scale public works projects explain most of the regional variation in migration rates across the country. New Deal loans and agricultural spending to take land out of production had negligible effects on migration patterns.

Fisher, Jonas D. M.

TI Habit Persistence, Asset Returns and the Business Cycle. **AU** Boldrin, Michele; Christiano, Lawrence J.; Fisher, Jonas D. M.

Fishman, Arthur

PD January 2002. **TI** Consumer Inertia, Firm Growth and Industry Dynamics. **AU** Fishman, Arthur; Rob, Rafael. **AA** Fishman: Bar Ilan University. Rob: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/034; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 20. **PR** free from website. **JE** D11, L11, L15, O31. **KW** Consumer Inertia. Firm Growth. Industry Dynamics. Search Costs.

AB We develop a model of firm size, based on the hypothesis that consumers are "locked in," because of search costs, with firms they have patronized in the past. As a consequence, older firms have a larger clientele and are able to extract higher profits. The equilibrium of this model yields: (i) A downward sloping density of firm sizes; (ii) Older firms are less likely to exit than younger firms; (iii) Larger firms spend more on R&D.

PD May 2002. **TI** Product Innovations and Quality-Adjusted Prices. **AU** Fishman, Arthur; Rob, Rafael. **AA** Fishman: Bar Ilan University. Rob: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/032; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 8. **PR** free from website. **JE** L12, L63, O31. **KW** Quality-Adjusted Prices. Innovations. Durable Goods. Obsolescence.

AB A striking characteristic of high-tech products is the rapid decrease of their quality-adjusted prices (QAPs). Empirical studies show that the rate of decrease of QAPs is typically not constant over time. QAPs decrease rapidly at early stages of the product and then the rate of decrease tapers off. Studies also suggest that the QAP is positively correlated with the rate of product introductions: The faster new products are introduced, the faster is the rate of decrease in their QAPs. This paper presents a dynamic model of product innovations consistent with these empirical regularities.

Fitzgerald, Terry J.

TI The Band Pass Filter. **AU** Christiano, Lawrence J.; Fitzgerald, Terry J.

Fleming, Wendell H.

PD August 1999. **TI** A Stochastic Optimal Control Approach to International Finance and Foreign Debt. **AU** Fleming, Wendell H.; Stein, Jerome L. **AA** Brown University. **SR** Brown University, Department of Economics Working Paper: 99/23; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 37. **PR** no charge. **JE** C61, D81, F34. **KW** Stochastic Optimal Control. Foreign Debt. International Finance. External Shocks.

AB We develop an economic model of international finance and debt based upon two sources of uncertainty: the productivity of capital and the real interest rate. We use stochastic optimal control-dynamic programming to derive the: optimal consumption, foreign debt, capital, the growth of net worth and the current account. The objective is to maximize the expectation of the discounted value of the utility of consumption over an infinite horizon. We relate our optimality conditions to the vulnerability of the economy to crises. The major conclusions are as follows. (1) We derive explicit and implementable closed form equations for the optimum debt/net worth, which maximize the expectation of the discounted value of utility over an infinite horizon. (2) The derived debt/net worth ratio also maximizes the expected growth of net worth, given any fixed consumption/net worth ratio. (3) The vulnerability of an economy to shocks is positively related to the variance of the utility of consumption at any time.

Fonseca, Raquel

PD March 2002. **TI** Can the Matching Model Account for Spanish Unemployment? **AU** Fonseca, Raquel; Munoz, Rafael. **AA** Fonseca: Universite Catholique de Louvain and CEPREMAP. Munoz: Universite Catholique de Louvain and Universite Cergy-Pontoise. **SR** CEPREMAP Discussion Paper: 2002/03; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 16. **PR** between 4 and 5 euros. **JE** E24, J64. **KW** Spain. Unemployment. Technological Shock. Reallocation Shock. Matching Process. Beveridge Curve.

AB This paper aims to explain the dynamics of the Spanish labor market, focusing in particular on the high persistence of unemployment and the dynamics around the Beveridge curve. We develop a stochastic dynamic general equilibrium model in which we assume that the labor market may be characterized by coordination failures in the matching process between vacancies and the unemployed. The model is then calibrated and simulated for the Spanish economy. Two sources of disturbances are considered: a traditional technological shock that initiates movements along the Beveridge curve; and reallocation shocks that shift the Beveridge curve. Our results suggest that the model is capable of accounting for the main stylized facts characterizing the Spanish labor market. We also analyze the movements around the Beveridge curve. Our results also indicate that reallocation shocks are the main source of shocks driving labor market dynamics.

Forni, Lorenzo

TI The Adequacy of Life Insurance: Evidence from the Health and Retirement Survey. **AU** Bernheim, B. Douglas; Forni, Lorenzo; Gokhale, Jagadeesh; Kotlikoff, Laurence J.

Foster, Andrew D.

PD July 2002. **TI** Economic Growth and the Rise of Forests. **AU** Foster, Andrew D.; Rosenzweig, Mark R. **AA** Foster: Brown University. Rosenzweig: University of California, Berkeley and University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/028; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 44. **PR** free from website. **JE** J10, L73, O12, O13, Q23. **KW** Forest Cover. Wood Products. India. Economic Development. Population Growth.

AB Although forests have diminished globally over the past 400 years, forest cover has increased in some areas, including India in the last two decades. Aggregate time-series evidence on forest growth rates and income growth across countries and within India and a newly-assembled data set that combines national household survey data, census data and satellite images of land use in rural India at the village level over a 29-year period are used to explore the hypothesis that increases in the demand for forest products associated with income and population growth lead to forest growth. The evidence is consistent with this hypothesis, which also shows that neither the expansion of agricultural productivity nor rising wages in India increased local forest cover.

Freyssenet, Michel

TI Entre Innovations Historiques et Contraintes Structurelles: Elements d'Une Theorie des Modeles Productifs (Between Epochal Innovations and Structrual Contraints: Towards a Theory of Productive Models). **AU** Boyer, Robert; Freyssenet, Michel.

Fried, Jesse M.

TI A New Approach to Valuing Secured Claims in Bankruptcy. **AU** Bebchuk, Lucian Arye; Fried, Jesse M.

Fried, Joel

PD December 2001. **TI** Canadian Retirement Savings Programs and Russian Pension Reform. **AA** University of Western Ontario. **SR** University of Western Ontario, Department of Economics Research Report: 2001/12; Research Report Coordinator, Economics Reference Center, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/econref/html/RRPaper.html. **PG** 17. **PR** International $10.00 (Canadian) plus $3.00 (Canadian) per order handling fee; pre-paid orders only; make checks payable to the University of Western Ontario. **JE** H55, E21. **KW** Pension Savings. Retirement Plans.

AB This paper surveys the evolution of the Canadian pension system to provide possible ideas for pension reform in Russia. Particular emphasis is placed on the Canadian voluntary, tax assisted retirement savings plans. Such plans can be used as an incentive mechanism to draw savings into the financial system and, properly structured, provide a source of capital to small business. It is argued that instituting a "foreign property rule" limiting foreign assets in such plans is especially unhelpful in supporting the exchange rate, domestic investment, or financial market development. What matters for the exchange rate is whether the assets held are or are not hedged into domestic currency, a decision based on attitudes toward the central bank and not on the possible origin of the assets. With the ability to invest in foreign assets, and a tax deferral system similar to Canada, a likely source of funds to be deposited in such Russian plans could be from the barren foreign currency held by Russians outside of the financial system.

Froot, Kenneth A.

PD February 2001. **TI** The Pricing of Event Risks with Parameter Uncertainty. **AU** Froot, Kenneth A.; Posner, Steven E. **AA** Froot: Harvard Business School and NBER. Posner: Goldman Sachs. **SR** National Bureau of Economic Research Working Paper: 8106; 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** G12, G13. **KW** Parameter Uncertainty. Asset Pricing. Event Probabilities.

AB Financial instruments whose payoffs are linked to exogenous events, such as the occurrence of a natural catastrophe or an unusual weather pattern depend crucially on actuarial models for determining event (e.g., default) probabilities. In many instances, investors appear to receive premiums far in excess of these modeled actuarial probabilities, even for event risks that are uncorrelated with returns on other financial assets. Some have attributed these larger spreads to uncertainty in the probabilities generated by the models. We provide a simple model of such 'parameter uncertainty' and demonstrate how it affects rational investors' demand for event risk exposures. We show that while parameter uncertainty does indeed affect bond spreads, it does not tend to increase spreads by much. Indeed, the spread increases due to parameter uncertainty in our numerical examples are on the order of only 1-2 basis points. Moreover, in many instances, including those that have the most sensible correlation settings, parameter uncertainty tends to decrease the size of bond spreads. We therefore argue that parameter uncertainty does not appear to be a satisfactory explanation for high event-risk returns.

PD February 2001. **TI** The Market for Catastrophe Risk: A Clinical Examination. **AA** Harvard Business School and NBER. **SR** National Bureau of Economic Research Working Paper: 8110; 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** G12, G22. **KW** Event Risk. Natural Hazards. Financial Claims. Risk Management.

AB This paper examines the market for catastrophe event risk -- i.e., financial claims that are linked to losses associated with natural hazards, such as hurricanes and earthquakes. Risk management theory suggests protection by insurers and other corporations against the largest cat events is most valuable. We show, however, that historically most insurers have purchased relatively little cat reinsurance against large events. We also find that premiums are high relative to expected losses, especially after cat events. We then examine clinical evidence to understand why the theory fails. Specifically, we examine transactions that look to capital markets, rather than traditional reinsurance markets, for risk-bearing capacity. These provide hints as to why the theory fails. We explore these hints in eight theoretical explanations and find the most compelling to be supply restrictions associated with capital market imperfections and market power exerted by traditional reinsurers.

Fuchs, Victor R.

PD April 2001. **TI** The Financial Problems of the Elderly: A Holistic Approach. **AA** NBER. **SR** National Bureau of Economic Research Working Paper: 8236; 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** I10, J14. **KW** Health. Economics of the Elderly. Saving.

AB A holistic approach to the financial problems of the elderly focuses simultaneously on their expenditures that are self financed as well as those that are financed by transfers from the young (under age 65). It also focuses simultaneously on paying for health care and paying for other goods and services. The "full income" of the elderly, defined as the sum of personal income and health care expenditures not paid from personal income, provides a useful framework for empirical application of the holistic approach. In 1997, approximately 35 percent of the elderly's full income was devoted to health care; 65 percent to other goods and services. Approximately 56 percent of full income was provided by transfers from the young and 44 percent by the elderly themselves. The paper shows how these percentages might change under alternative assumptions about the growth of health care relative to other goods and services and the effect of these changes on the need for more saving and more work prior to retirement.

Galasso, Vincenzo

TI On the Political Complementarity Between Health Care and Social Security. **AU** Bethencourt Marrero, Carlos; Galasso, Vincenzo.

Galenson, David W.

TI Measuring Masters and Masterpieces: French Rankings of French Painters and Paintings from Realism to Surrealism. **AU** Bruegel, Martin; Galenson, David W.

Gali, Jordi

PD January 2001. **TI** European Inflation Dynamics. **AU** Gali, Jordi; Gertler, Mark; Lopez Salido, J. David. **AA** Gali: Universitat Pompeu Fabra and CEPR. Gertler: not available. Lopez Salido: Banco de Espana. **SR** CEPR Discussion Paper: 2684; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E31, O57, P52. **KW** European Monetary Union. Inflation Dynamics. New Phillips Curve. Sticky Prices. Europe.

AB We provide evidence on the fit of the New Phillips Curve (NPC) for the Euro area over the period 1970-1998, and use it as a tool to compare the characteristics of European inflation dynamics with those observed in the U.S. We also analyze the factors underlying inflation inertia by examining the cyclical behavior of marginal costs, as well as that of its two main components, namely, labor productivity and real wages. Some of the findings can be summarized as follows: (a) the NPC fits Euro area data very well, possibly better than US data, (b) the degree of price stickiness implied by the estimates is substantial, but in line with survey evidence and US estimates, (c) inflation dynamics in the Euro area appear to have a stronger forward-looking component (i.e., less inertia) than in the US, (d) labor market frictions, as manifested in the behavior of the wage markup, appear to have played a key role in shaping the behavior of marginal costs and, consequently, inflation in Europe.

Gallini, Nancy

PD August 2001. **TI** Intellectual Property: When is it the Best Incentive System? **AU** Gallini, Nancy; Scotchmer, Suzanne. **AA** Gallini: University of Toronto. Scotchmer: University of California, Berkeley. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/303; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720-1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 26. **PR** $3.50 U.S.; $7.50 International. **JE** K30, L50. **KW** Intellectual Property. Patents. Innovation. Incentive Schemes.

AB Our objective in this paper is to review what economists have said about incentive schemes to promote R&D, including intellectual property. While we focus on environments in which other forms of protection are not available, we note that other protections can obviate the need for any formal reward system. In Section II, we compare intellectual property to alternative incentive schemes. In Section III, we review optimal design issues for intellectual property, especially the question of patent breadth, and in Section IV, we turn to the special problems that arise when innovation is cumulative. In Section V, we summarize the arguments for and against intellectual property. We comment on whether the design recommendations of economists can actually be implemented, and argue that IP regimes should be designed so that the subject matter of each one has relatively homogeneous needs for protection.

Galor, Oded

PD September 1999. **TI** From Physical to Human Capital Accumulation: Inequality in the Process of Development. **AU** Galor, Oded; Moav, Omer. **AA** Brown University and

MIT. **SR** Brown University, Department of Economics Working Paper: 99/27; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 34. **PR** no charge. **JE** O11, O15. **KW** Income Distributions. Growth. Credit Constraints. Human Capital.

AB This paper presents a novel approach for the dynamic implications of income inequality on the process of development. The proposed theory provides an intertemporal reconciliation for conflicting viewpoints about the effect of inequality on economic growth. It argues that the replacement of physical capital accumulation by human capital accumulation as a prime engine of economic growth has changed the qualitative impact of inequality on the process of development. In early stages of industrialization as physical capital accumulation is a prime source of economic growth, inequality enhances the process of development by channeling resources towards individuals whose marginal propensity to save is higher. In later stages of development, however, as the return to human capital increases due to capital-skill complementarity, human capital becomes the prime engine of growth and equality, in the presence of credit constraints, stimulates investment in human capital and promotes economic growth. As wages increase, however, credit constraints become less binding, the adverse effect of inequality on human capital accumulation and growth subsides, and the overall effect of inequality becomes insignificant.

Gandal, Neil

PD January 2001. **TI** The Dynamics of Competition in the Internet Search Engine Market. **AA** University of California, Berkeley, Tel Aviv University, and CEPR. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/295; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720- 1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 16. **PR** $3.50 U.S.; $7.50 International. **JE** D43, L86. **KW** Internet. Search Engines. Entry. Empirical Study.

AB Search engines hold the key to helping consumers access the wealth of information on the web. This paper examines the evolution of and competition in the internet search engine market. The goal of this analysis is to examine whether early entrants benefit in the long-run from their first-mover position in internet markets. The paper finds that while early entrants (Yahoo, Lycos, Excite, Infoseek, and Altavista) still have an advantage, the pure "brand effect" advantage has been declining over time. Yahoo has maintained its leadership position by providing a superior product. The success of a wave of recent new entrants suggests that entry barriers are still quite low in the internet search engine market.

Ganslandt, Mattias

PD June 2001. **TI** Standards and Related Regulations in International Trade: A Modeling Approach. **AU** Ganslandt, Mattias; Markusen, James R. **AA** Ganslandt: Research Institute of Industrial Economics. Markusen: University of Colorado and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8346; 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** F01, F02. **KW** Government Regulations. International Trade.

AB Standards and technical regulations which govern the admissibility of imported goods into an economy raise costs of exporters entering new markets, and may have a particularly high impact on firms seeking to export from developing countries. Yet standards may also have a positive side, such as certifying product quality and safety for the consumer. This paper suggests approaches to modeling standards and technical regulations, with a particular concern that these approaches are at least potentially implementable in an applied general-equilibrium model with real data.

Garcia-Serrano, Carlos

TI Drawing Lessons from the Boom of Temporary Jobs in Spain. **AU** Dolado, Juan Jose; Garcia-Serrano, Carlos; Jimeno-Serrano, Juan Francisco.

Gaube, Thomas

PD May 2000. **TI** Group Size and Free Riding When Private and Public Goods are Gross Substitutes. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/13; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 7. **PR** no charge. **JE** D31, H41. **KW** Private Provision. Public Goods. Group Size. Free Riders.

AB Using the traditional model of voluntary public good provision, it is shown that an expansion of group size exacerbates free riding tendencies as long as private consumption and the public good are strictly normal and weak gross substitutes. This result generalizes a previous Cobb-Douglas example with respect to preferences and asymmetric equilibria.

PD October 2000. **TI** Income Taxation and Production Efficiency in a Simple Two-Sector Economy. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/14; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 18. **PR** no charge. **JE** H21, H23. **KW** Income Taxation. Production Efficiency. Price Distortion.

AB In a recent contribution, H. Naito (1999) has shown that production efficiency may be violated in the optimum with non-linear income taxation. Using a slightly simpler framework, this paper complements Naito's analysis in showing that production efficiency does not hold in the optimum with (i) non-linear and (ii) linear income taxation provided that second best and first best do not coincide. These findings indicate that income taxation generally implies the desirability to complement the distortion between consumer and producer prices by means of a corresponding distortion in input prices.

Gayer, Ted

PD March 2001. **TI** The Fatality Risks of Sport-Utility Vehicles, Vans, and Pickups. **AA** University of California, Berkeley. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/297; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720- 1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 31. **PR** $3.50 U.S.; $7.50 International. **JE** C20, D62, I18, R40. **KW** Sample Selection Bias. Externalities. Public Health.

AB This paper presents a model of vehicle choice and then examines the risk posed by light trucks relative to the risk posed by cars. The paper examines both the relative risk of dying given a crash as well as the relative crash frequencies of light trucks versus cars. The identification strategy uses information on pedestrian fatalities by vehicle type to correct for the sample selection bias that may exist due to the lack of reliable data on non-fatal crashes. The results suggest that, given a crash, a light truck driver is 0.29 to 0.69 times as likely to die than is a car driver. On the other hand, given a crash, a light truck driver is 1.48 to 2.63 times more likely to kill the opposing driver than is a car driver. The crash frequency estimates suggest that light trucks are approximately 2.2 times more likely to get into a crash than are cars. The relative safety of utility vehicles and pickups disappears, and their relative external risk increases once one factors in the greater crash frequencies of light trucks.

Geroski, Paul A.

PD June 2001. **TI** Advertising and the Evolution of Market Structure in the US Car Industry. **AU** Geroski, Paul A.; Mazzucato, Mariana. **AA** Geroski: Competition Commission, London Business School, and Centre for Economic Policy Research. Mazzucato: Open University. **SR** CEPR Discussion Paper: 2860; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** L10, L62. **KW** Advertising. Entry. Automobile Industry. United States.

AB This paper focuses on a simple, stylized fact that stands out from the post-war history of the US Auto industry, namely, *that industry concentration fell at just the same time as industry* advertising expenditures rose sharply. Since both events were almost certainly caused by the entry and market penetration of (largely) foreign owned car producers, this stylized fact raises interesting questions about whether -- and if so, how advertising affects entry. The paper uses a model of consumer switching behavior to help interpret the facts. The model predicts a simple linear association between market and advertising shares (which is observed at two different levels of aggregation in the data), and provides the basis for arguing that advertising can facilitate entry, but only for finite times.

Gershenson, Dmitriy

PD August 1999. **TI** Cooption and Repression in the Soviet Union. **AU** Gershenson, Dmitriy; Grossman, Herschel I. **AA** Gershenson: Colgate University. Herschel: Brown University. **SR** Brown University, Department of Economics Working Paper: 99/25; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 18. **PR** no charge. **JE** D78, N44, P21. **KW** Cooption. Repression. Soviet Union. Communist Party.

AB The Soviet ruling elite, the nomenklatura, used both cooption and political repression to encourage loyalty to the communist regime. The cost of coopting people into the communist party was a decrease in the standard of living of members of the nomenklatura, whereas the cost of political repression was the danger that members of the nomenklatura would themselves be victimized. We assume that the nomenklatura determined the extent of cooption and the intensity of political repression by equating perceived marginal benefits and marginal costs. We use this assumption to construct the following account of the historical evolution of the policies of cooption and political repression in the Soviet Union: Under Stalin's leadership the nomenklatura, after initially emphasizing a strategy of cooption, then experimented with political repression as a substitute for cooption, and finally, in response to the threats posed by German militarism and the onset of the Cold War, employed a combination of cooption and political repression. After Stalin was gone the nomenklatura, having learned the cost of repressive excesses, adopted a policy that combined more cooption with less intense political repression. The rapprochement between the United States and China, the emergence of Islamic fundamentalism, and the escalation of the cold war arms race resulted in the final episode of increased cooption.

PD October 1999. **TI** Civil Conflict: Ended or Never Ending? **AU** Gershenson, Dmitriy; Grossman, Herschel I. **AA** Gershenson: Colgate University. Grossman: Brown University. **SR** Brown University, Department of Economics Working Paper: 99/31; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 17. **PR** no charge. **JE** D74, N40. **KW** Civil Conflict. Political Dominance. Technology of Conflict.

AB In many historical cases victory by a challenger for political dominance over an initially dominant group has ended civil conflict. Twentieth century examples include the Bolshevik victory over the White army in the Russian civil war, the Communist victory over the Nationalists in China, the overthrow of the Shah and the establishment of the Iranian Islamic republic, and so it seems the victory of the African National Congress over the white regime in South Africa. But, in other places victory by a challenger has provided only a temporary respite, a brief intermission before the resumption of civil conflict. Current examples of apparently never-ending civil conflict include the Balkans, Israel/Palestine, and many parts of Africa, such as Angola, the Congo, and Rwanda. This paper uses a theoretical model of civil conflict to identify the factors that determine whether civil conflict is ended or never ending. The critical consideration as how the values that rival groups attach to political dominance relate to each other and to the technology of conflict.

Gertler, Mark

TI European Inflation Dynamics. **AU** Gali, Jordi; Gertler, Mark; Lopez Salido, J. David.

Ghosh, Parikshit

PD April 2002. **TI** Electoral Competition, Moderating Institutions and Political Extremism. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/04; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 31. **PR** international. **JE** C78, D72. **KW** Bargaining. Electoral Competition. Extremism. Moderating Institutions. Strategic Delegation.

AB Spatial models of electoral competition typically generate equilibria characterized by policy convergence and the median voter theorem. This paper assumes policy motivated parties who select candidates from various possible "types" and introduces two further elements: stochastic voting outcomes and Constitutional provision of some bargaining power to the Opposition in policy choice. As in Wittman (1983), Calvert (1985) and Roemer (1997), policy divergence results. It is shown that moderating institutions can have a perverse effect on policy -- political systems that allow greater bargaining strength to the Opposition usually generate more extreme policies. Indeed, an intermediate range of the Opposition's bargaining strength may develop policy extremism, i.e., parties may implement policies more extreme than their own ideal points. Increased noise in voting and more extreme party tastes tend to generate more extreme policies. The paper also analyzes a general model with fixed probabilities and finds that policy extremism is almost always the case in this model. Other applications involving delegated bargaining are discussed: oligarchies, secessionist movements and wage negotiations. Finally, it is shown that in an appropriately defined sense, elections have a moderating influence on policies, though post-election moderating institutions may not.

Giavazzi, Francesco

TI Macroeconomic Effects of Regulation and Deregulation in Goods and Labor Markets. **AU** Blanchard, Olivier; Giavazzi, Francesco.

Gibson, Heather D.

TI Greek Banking at the Dawn of the New Millennium. **AU** Eichengreen, Barry; Gibson, Heather D.

Gilbert, Richard

PD June 2001. **TI** Vertical Integration in Gasoline Supply: An Empirical Test of Raising Rivals' Costs. **AU** Gilbert, Richard; Hastings, Justine. **AA** University of California, Berkeley. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/302; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720- 1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 28. **PR** $3.50 U.S.; $7.50 International. **JE** L13, L22, L72. **KW** Vertical Integration. Oligopoly. Market Power. Gasoline.
AB This paper explores the relationship between the structure of the market for the refining and distribution of gasoline and the wholesale price of unbranded gasoline sold to independent gasoline retailers. Theoretically, the effect of an increase in vertical integration is ambiguous because opposing forces act to increase and decrease wholesale prices. This paper empirically examines the effects of vertical and horizontal market structures on wholesale prices using both a broad panel and an event analysis. The panel covers twenty-six metropolitan areas from January 1993 through June 1997. The event is a merger of Tosco and Unocal in 1997 that changed the vertical and horizontal structure of thirteen West Coast metropolitan areas. Both data sets show that an increase in the degree of vertical integration is associated with higher wholesale prices.

Gilbert, Richard J.

PD May 2001. **TI** An Economist's Guide to U.S. v. Microsoft. **AU** Gilbert, Richard J.; Katz, Michael L. **AA** University of California, Berkeley. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/300: UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720-1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 32. **PR** $3.50 U.S.; $7.50 International. **JE** K21, L12, L41. **KW** Microsoft. Antitrust Policy. Monopolization. Predation. Network Effects.
AB We analyze the central economic issues raised by U.S. v. Microsoft. Network effects and economies of scale in applications programs created a barrier to entry for new operating system competitors, which the combination of Netscape Navigator and the Java programming language potentially could have lowered. Microsoft took actions to eliminate this threat to its operating system monopoly, and some of Microsoft's conducts very likely harmed consumers. While we recognize the risks of the government's proposed structural remedy of splitting Microsoft into two, we are pessimistic that a limited conduct remedy would be effective in this case.

PD May 2001. **TI** Is Innovation King at the Antitrust Agencies? The Intellectual Property Guidelines Five Years Later. **AU** Gilbert, Richard J.; Tom, Willard K. **AA** Gilbert: University of California, Berkeley. Tom: District of Columbia Bar. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/301; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720- 1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 46. **PR** $3.50 U.S.; $7.50 International. **JE** K21, L12, L40, O31, O38. **KW** Innovation. Intellectual Property. Mergers. Antitrust Policy. Monopolization.
AB The Microsoft antitrust case focused public attention on the role of antitrust enforcement in preserving the forces of innovation in high- technology markets. Traditionally, regulators focused on whether companies artificially hiked prices or reduced output. Now, they're increasingly likely to look first at whether corporate behavior aids or impedes innovation. We examine whether innovation has displaced short- term price effects as the focus of antitrust enforcement by the Department of Justice and the Federal Trade Commission and, to the extent that it has, whether enforcement actions are any different as a result. We also ask whether enforcement actions in the area of intellectual property and innovation have been consistent with the 1995 DOJ/FTC Antitrust Guidelines for the Licensing of Intellectual Property (IP Guidelines). Finally, we consider whether recent enforcement actions identify key areas in which additional guidance from the agencies would be desirable. We address these questions first in merger cases and then in non-merger cases.

Gilboa, Itzhak

TI Bargaining Over an Uncertain Outcome: The Role of Beliefs. **AU** Billot, Antoine; Chateauneuf, Alain; Gilboa, Itzhak; Tallon, Jean-Marc.

PD June 2001. **TI** Subjective Distributions. **AU** Gilboa, Itzhak; Schmeidler, David. **AA** Gilboa: Tel Aviv University. Schmeidler: Tel Aviv University and Ohio State University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/22; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 7. **PR** no charge. **JE** D81, D84. **KW** Expected Utility Theory. Subjective Probabilities. Lotteries. Axiomatic.
AB A subjective lottery is an assignment of a distribution of outcomes to an act. This paper offers an axiomatization of expected utility maximization with respect to subjective lotteries. It does not assume that the decision maker can rank

any two acts, that is, any two functions from states to consequences. Rather, the decision maker is asked to rank only available acts, given various assignments of utility values to a given set of outcomes.

TI Accuracy vs. Simplicity: A Complex Trade-Off. **AU** Aragones, Enriqueta; Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David.

Giorgetti, Maria Letizia

PD September 2001. **TI** Quantile Regression in Lower Bound Estimation. **AA** University of Siena, Italy. **SR** STICERD, LSE Economics of Industry Group Discussion Paper: EI/29; STICERD, Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. **PG** 20. **PR** no charge. **JE** C13, L11. **KW** Lower Bound. Quantile Regression. Simplex.

AB In this paper, I illustrate the additional information that can be provided in estimating the lower bound (Sutton 1991, 1998) by using quantile regression. Quantile regression allows us to investigate the influence of outliers. Previous lower bound estimates have been obtained using the simplex method. In this paper, the lower bound estimates are obtained using both methods for sectors belonging to a "control group" and sectors belonging to an "experimental group" for Italian manufacturing sectors in 1995. The data employed are drawn from the ISTAT (National Institute of Statistics, Italy) dataset. The results suggest that Sutton's predictions are robust.

Giraitis, L.

PD August 2001. **TI** Gaussian Estimation of Parametric Spectral Density with Unknown Pole. **AU** Giraitis, L.; Hidalgo, Javier; Robinson, Peter M. **AA** LSE. **SR** STICERD, LSE Econometrics Discussion Paper: EM/01/424; STICERD, Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. **PG** 40. **PR** no charge. **JE** C13, C22. **KW** Long-Range Dependence. Unknown Pole.

AB We consider a parametric spectral density with power-law behavior about a fractional pole at the unknown frequency w. The case of known w, especially w = 0 is standard in the long memory literature. When w is unknown, asymptotic distribution theory for estimates of parameters, including the (long) memory parameter, is significantly harder. We study a form of Gaussian estimate. We establish n-consistency of the estimate of w, and discuss its (non-standard) limiting distributional behavior.

Glaeser, Edward L.

PD February 2001. **TI** Decentralized Employment and the Transformation of the American City. **AU** Glaeser, Edward L.; Kahn, Matthew E. **AA** Glaeser: Harvard University and NBER. Kahn: Tufts University. **SR** National Bureau of Economic Research Working Paper: 8117; 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** O18, R11, R58. **KW** Urban Economics. Decentralization of Employment. Development.

AB This paper examines the decentralization of employment using zip code data on employment by industry. Most American cities are decentralized -- on average less than 16 percent of employment in metropolitan areas is within a three mile radius of the city center. In decentralized cities, the classic stylized facts of urban economics (i.e. prices fall with distance to the city center, commute times rise with distance and poverty falls with distance) no longer hold. Decentralization is most common in manufacturing and least common in services. The human capital level of an industry predicts its centralization, but the dominant factor explaining decentralization is the residential preferences of workers. Political borders also impact employment density which suggests that local government policies significantly influence the location of industry.

PD May 2001. **TI** Legal Origins. **AU** Glaeser, Edward L.; Shleifer, Andrei. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8272; 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** K40, N40, N43. **KW** Protection of Law Enforcers. Coercion. Civil Law.

AB A central requirement in the design of a legal system is the protection of law enforcers from coercion by litigants through either violence or bribes. The higher the risk of coercion, the greater the need for protection and control of law enforcers by the state. This perspective explains why, in the 12th and 13th centuries, the relatively more peaceful England developed trials by jury, while the less peaceful France relied on state-employed judges for both collecting evidence and making decisions. Despite considerable legal evolution, these initial design choices have persisted for centuries (largely because France remained less peaceful than England), and may explain many differences between common and civil law traditions with respect to both the structure of legal systems and the observed social and economic outcomes.

PD July 2001. **TI** Is There a New Urbanism? The Growth of U.S. Cities in the 1990s. **AU** Glaeser, Edward L.; Shapiro, Jesse. **AA** Glaeser: Harvard University and National Bureau of Economic Research. Shapiro: National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8357; 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** R00. **KW** Urbanization.

AB The 1990s were an unusually good decade for the largest American cities and, in particular, for the cities of the Midwest. However, urban growth in the 1990s looked extremely similar to urban growth during the prior post-war decades. The growth of cities was determined by three large trends: (1) cities with strong human capital bases grew faster than cities without skills, (2) people moved to warmer, drier places, and (3) cities built around the automobile replaced cities that rely on public transportation. In the 1990s (as in the 1980s), more local government spending was associated with slower growth, unless that spending was on highways. The lack of change in patterns of urban growth is not surprising; after all, the correlation of city growth rates across decades is generally over 70 percent.

Gneezy, Uri

TI Discrimination and Nepotism: The Efficiency of the Anonymity Rule. **AU** Fershtman, Chaim; Gneezy, Uri; Verboven, Frank.

Gokhale, Jagadeesh

PD June 2001. **TI** Does Participating in a 401(k) Raise Your Lifetime Taxes? **AU** Gokhale, Jagadeesh; Kotlikoff, Laurence J.; Neumann, Todd. **AA** Gokhale and Neumann: The Federal Reserve Bank of Cleveland. Kotlikoff: Boston University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8341; 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** H20. **KW** Taxation. Household Investment.

AB Contributing to a 401 (k) and similar tax-deferred retirement accounts certainly lowers current taxes. But, does it lower lifetime taxes? If average and marginal tax rates were independent of income and did not change through time, the answer would be an unambiguous yes. The reduction in current taxes would exceed the increase in future taxes when measured in present value. But tax rates may be higher when retirement account withdrawals occur, either because one moves into a higher marginal federal and state tax brackets or because the government raises tax rates. In addition, reducing tax brackets when young, at the price of higher tax brackets when old, may reduce the value of mortgage deductions. Finally, and very importantly, shifting taxable income from youth to old age can substantially increase the share of Social Security benefits subject to federal income taxation. This paper uses ESPlanner, a detailed life-cycle personal financial planning model to study the lifetime tax advantage of participating in a 401(k) plan to stylized young couples.

PD September 1999. **TI** Social Security's Treatment of Postwar Americans: How Bad Can It Get? **AU** Gokhale, Jagadeesh; Kotlikoff, Laurence J. **AA** Gokhale: Federal Reserve Bank of Cleveland. Kotlikoff: Boston University and NBER. **SR** Federal Reserve Bank of Cleveland Working Paper: 9912; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clev.frb.org. **PG** 78. **PR** no charge. **JE** H23, H55. **KW** Social Security. Postwar Americans.

AB Under current rules, Social Security represents a bad deal for postwar Americans: They will lose over 5 cents per dollar earned in excess payroll taxes over benefits. At 1.86 percent, Old Age Survivor Insurance System's (OASI) rate of return falls far short of market rates -- it is less than half that on long term inflation indexed government bonds, and is much riskier. From another perspective, the insurance that OASI forces households to buy carries a load of 66 cents per dollar of premium. These findings assume that current law can be maintained indefinitely. However, paying OASI benefits as promised requires raising taxes immediately and permanently by about 40 percent. This paper considers how bad Social Security's treatment of postwar Americans would become once adjustments to "save" the system are made. It analyzes the impact on postwar Americans of alternative tax increases and benefit cuts such that system's finances are balanced in present value.

PD November 1999. **TI** The Impact of Social Security and Other Factors on the Distribution of Wealth. **AU** Gokhale, Jagadeesh; Kotlikoff, Laurence J. **AA** Gokhale: Federal Reserve Bank of Cleveland. Kotlikoff: Boston University and NBER. **SR** Federal Reserve Bank of Cleveland Working Paper: 9913; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clev.frb.org. **PG** 35. **PR** no charge. **JE** D31, D91, H55. **KW** Social Security. Distribution. Wealth.

AB Auerbach et al. (1995), document the dramatic postwar increase in the annuitization of the resources of America's elderly. Gokhale et al. (1996) suggest that greater annuitization may explain the significant postwar rise in the consumption propensity of the elderly out of remaining lifetime resources. Gokhale et al. (2000) consider the related point that increased annuitization will reduce bequests, especially for lower and middle-income households, whose entire earnings are taxed under Social Security. By differentially disenfranchising the children of the poor from receipt of inheritances, Social Security may materially alter the distribution of wealth. This paper uses data from the Panel Study of Income Dynamics to further analyze how Social Security and other factors affect wealth inequality. The Gini coefficient of the simulated equilibrium wealth distribution is 21 percent larger and the share of wealth held by the wealthiest 1 percent of households is 79 percent higher in the presence of Social Security.

TI The Adequacy of Life Insurance: Evidence from the Health and Retirement Survey. **AU** Bernheim, B. Douglas; Forni, Lorenzo; Gokhale, Jagadeesh; Kotlikoff, Laurence J.

TI The Adequacy of Life Insurance: Evidence from the Health and Retirement Survey. **AU** Bernheim, B. Douglas; Forni, Lorenzo; Gokhale, Jagadeesh; Kotlikoff, Laurence J.

Goldin, Claudia

PD April 2001. **TI** The Human Capital Century and American Leadership: Virtues of the Past. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8239; 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** I21, J24, N30. **KW** Human Capital. Education.

AB The modern concept of the wealth of nations emerged by the early twentieth century. Capital embodied in people -- human capital -- mattered. The United States led all nations in mass post elementary education during the "human-capital century." The American system of education was shaped by New World endowments and Republican ideology and was characterized by virtues including publicly funded mass education that was open and forgiving, academic yet practical, secular, gender neutral, and funded and controlled by small districts. The American educational template was a remarkable success, but recent educational concerns and policy have redefined some of its "virtues" as "vices.".

Goldman, Dana

TI Are the Young Becoming More Disabled? **AU** Bhattacharya, Jay; Goldman, Dana; Lakdawalla, Darius.

Goldreich, David

TI Bookbuilding: How Informative is the Order Book? **AU** Cornelli, Francesca; Goldreich, David.

Goldstein, Itay

PD April 2000. **TI** Demand Deposit Contracts and the Probability of Bank Runs. **AU** Goldstein, Itay; Pauzner, Ady. **AA** Goldstein: Bank of Israel and Tel Aviv University.

Pauzner: Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/32; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 18. **PR** no charge. **JE** C72, E52. **KW** Bank Runs. Multiple Equilibria. Panic-Based Runs.

AB We extend the Diamond and Dybvig model of bank runs by assuming that agents do not have common knowledge regarding the fundamentals of the economy, but rather receive slightly noisy signals. The new model has a unique equilibrium in which the fundamentals determine whether a bank run would occur. This lets us compute the probability of a bank run and relate it to the parameters of the demand deposit contract. We find that offering a higher return to agents demanding early withdrawal makes the bank more vulnerable to runs. Nonetheless, we show that even when this drawback is taken into account, demand deposit contracts still improve the welfare agents.

PD June 2001. **TI** Contagion of Self-Fulfilling Financial Crises Due to Diversification of Investment Portfolios. **AU** Goldstein, Itay; Pauzner, Ady. **AA** Goldstein: Princeton University. Pauzner: Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/33; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 18. **PR** no charge. **JE** C72, E51, G15. **KW** Contagion. Financial Crises. Multiple Equilibria.

AB We explore a model with two countries. Each might be subject to a self-fulfilling crisis, induced by agents withdrawing their investments in the fear that others will do so. While the fundamentals of the two countries are independent, the fact that they share the same group of investors may generate a contagion of crises. The realization of a crisis in one country reduces agents' wealth and thus makes them more risk averse (we assume decreasing absolute risk aversion). This reduces their incentive to keep their investments in the second country since doing so exposes them to the strategic risk associated with the unknown behavior of other agents. Consequently, the probability of a crisis in the second country rises. This yields a positive correlation between the returns on investments in the two countries even though the two are completely independent in terms of fundamentals.

Golosov, Mikhail

PD September 2001. **TI** Optimal Indirect and Capital Taxation. **AU** Golosov, Mikhail; Kocherlakota, Narayana R.; Tsyvinski, Aleh. **AA** Federal Reserve Bank of Minneapolis and University of Minnesota. **SR** Federal Reserve Bank of Minneapolis Staff Report: 293; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 29. **PR** no charge. **JE** D82, D91, E62. **KW** Capital Taxation. Dynamic Contracts. Private Information.

AB In this paper, we consider an environment in which agents' skills are private information, are potentially multi-dimensional, and follow arbitrary stochastic processes. We allow for arbitrary incentive- compatible and physically feasible tax schemes. We prove that it is typically Pareto optimal to have positive capital taxes. As well, we prove that in any given period, it is Pareto optimal to tax consumption goods at a uniform rate.

Gomme, Paul

TI Monetary Policy Regimes and Beliefs. **AU** Andolfatto, David; Gomme, Paul.

Gonzalez, Francisco M.

PD January 2002. **TI** Appropriative Conflict and Economic Performance. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/01; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 31. **PR** international. **JE** D23, D74, E21, O40. **KW** Appropriative Conflict. Security of Property. Decisiveness. Investment. Growth.

AB This paper develops a general-equilibrium model of the allocation of resources between productive and appropriative activities over time. Analysis of the model characterizes social outcomes in terms of an equilibrium balance between the accumulation of appropriative capital, which underlies appropriative conflict, and the accumulation of economically productive capital, which underlies economic growth. The relation between productive investment (accumulation of churns), appropriative investment (accumulation of guns) and consumption (butter) is shaped by the degree of property rights protection, population pressure and the decisiveness of conflict. Appropriative conflict, which measures the misallocation of resources, and economic growth, which measures the productive potential, may be positively or negatively related. For example, an equilibrium with more secure claims to property exhibits faster growth, but it may involve more or less intense conflict.

PD January 2002. **TI** Asymmetric Labor Adjustment, Organizational Capital and Aggregate Job Flows. **AU** Gonzalez, Francisco M.; Johri, Alok. **AA** Gonzalez: University of British Columbia. Johri: McMaster University. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/02; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 59. **PR** international. **JE** E00, J00. **KW** Job Flows. Organizational Capital. Adjustment Costs. Idiosyncratic Shocks. Heterogeneity.

AB This paper illustrates how the destruction of firm-specific organizational capital associated with changes in firm-level employment can influence the behavior of aggregate job flows, even in the presence of heterogeneity across firms and even in the absence of aggregate shocks. The analysis highlights the potential importance of the distinction between adjustment costs that are associated with a loss of output (output-costs of labor adjustment) and those associated with a loss of organizational capital (OC-costs of labor adjustment). In particular, the analysis indicates how this link between organizational capital and labor demand can shape the behavior of net employment growth and gross job reallocation when conventional hiring and firing costs of adjustment may be unable to do so.

https://doi.org/10.1017/S0951007900005751 Published online by Cambridge University Press

TI An Equilibrium Analysis of Information Aggregation and Fluctuations in Markets with Discrete Decisions. **AU** Beaudry, Paul; Gonzalez, Francisco M.

Goolsbee, Austan

PD July 2001. **TI** Competition in the Computer Industry: Online Versus Retail. **AA** University of Chicago. **SR** National Bureau of Economic Research Working Paper: 8351; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 13. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** L10. **KW** Online Shopping.

AB This paper estimates the relative price sensitivity of individuals' choice of whether to buy computers online versus in retail stores using a new data source on the computer purchase behavior of more than 20,000 people. To estimate the degree of competition between the two channels, the paper uses a two-step approach. First, it fits hedonic regressions for the prices paid for a computer in a retail store as a function of characteristics. The coefficients on the city fixed effects in these regressions give a measure of the retail price level. The second stage then looks at whether individuals purchase their computers in stores versus online as a function of the retail price and their own personal characteristics. The results indicate that the decision to buy remotely is sensitive to the relative price of computers in retail stores and that it varies by type of customer and type of computer. Conditional on buying a computer, the overall elasticity of buying remotely with respect to retail store prices is about 1.5.

Goriaev, Alexei

PD May 2001. **TI** Mutual Fund Tournament: Risk Taking Incentives Induced by Ranking Objectives. **AU** Goriaev, Alexei; Palomino, Frederic; Prat, Andrea. **AA** Goriaev and Palomino: Tilburg University. Prat: London School of Economics. **SR** CEPR Discussion Paper: 2794; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** G11, G24. **KW** Interim Performance. Ranking-Based Objectives. Risk-Taking Incentives.

AB There is now extensive empirical evidence showing that fund managers have relative performance objectives and adapt their investment strategy in the last part of the calendar year to balance their performance in the early part of the year. However, emphasis was put on returns in excess of some exogenous benchmark return. In this paper, we investigate whether fund managers have ranking objectives (as in a tournament). First, in a two-period model, we analyze the game played by two risk-neutral fund managers with ranking objectives. We show that ranking objectives provide incentives for an interim loser to increase risk in the last part of the year. In the second part of the paper, we test some predictions of the model. We find evidence that funds ranked in the top decile after the first part of the year have risk incentives generated by ranking objectives and that risk induced by ranking objectives is mainly systematic.

Gotlibovski, Menachem

PD December 2001. **TI** Immigration, Search and Loss of Skill. **AU** Gotlibovski, Menachem; Sauer, Robert M.; Weiss, Yoram. **AA** Tel Aviv University, Hebrew University of Jerusalem, and Academic College of Tel-Aviv-Yaffo. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/34; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 23. **PR** no charge. **JE** C33, J31, J44, J61. **KW** Immigration. Skills. Search. Earning-Loss. Israel. Labor Market.

AB This paper analyzes the process of entry of highly skilled immigrants into the Israeli labor market, using panel data on several cohorts of recent immigrants from the former USSR. The study develops and estimates an on-the-job search model, cast as a finite horizon, discrete choice dynamic programming problem under uncertainty that is capable of capturing the main features of this process; a speedy entry into the labor force, an initial phase of work at low skill occupations, a gradual occupational upgrading and a sharp increase in wages. The estimated parameters of the model, together with information on the wages of immigrants from earlier waves, allow the simulation of an occupational path and associated wages, for each new immigrant, from the time of arrival until retirement. The predicted lifetime earnings at the time of arrival are compared to the hypothetical lifetime earnings immigrants would have obtained had their imported observable skills been valued in the same way as comparable Israelis. The results of the study suggest that, on average, immigrants can expect lifetime earnings to fall short of the lifetime earnings of comparable Israelis by 57 percent.

Gourinchas, Pierre-Olivier

PD February 2001. **TI** The Empirical Importance of Precautionary Saving. **AU** Gourinchas, Pierre-Olivier; Parker, Jonathan A. **AA** Gourinchas: Princeton University and NBER. Parker: Princeton University. **SR** National Bureau of Economic Research Working Paper: 8107; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 12. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** D52, D91, E21. **KW** Precautionary Savings. Consumption. Imperfect Markets.

AB One of the basic motives for saving is the accumulation of wealth to insure future welfare. Both introspection and extant research on consumption insurance find that people face substantial risks that they do not fairly pool. In theory, the consumption and wealth accumulation of price-taking households in an economy with incomplete markets differs substantially from the behavior of these same households in the equivalent economy with complete-markets. The question we address in this article is whether we find this difference to be large in practice. What is the empirical importance of precautionary saving? We provide a simple decomposition that characterizes the importance of precautionary saving in the U.S. economy. We use this decomposition as an organizing framework to present four main findings: (a) the concavity of the consumption policy rule, (b) the importance of precautionary saving for life-cycle saving and wealth accumulation, (c) the contribution of changes in risk to fluctuations in aggregate consumption and (d) the significant impact of incomplete markets on aggregate fluctuations in calibrated general equilibrium models. We conclude with directions for future research.

PD April 2001. **TI** Lending Booms: Latin America and the World. **AU** Gourinchas, Pierre-Olivier; Landerretche, Oscar; Valdes, Rodrigo. **AA** Gourinchas: Princeton University and NBER. Landerretche: MIT. Valdes: Ministry of Finance, Chile. **SR** National Bureau of Economic Research Working Paper: 8249; 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, O11, O16, O54. **KW** Financial Crisis. Lending Booms. Development. Latin America.

AB Recent theories of crisis put lending booms at the root of financial collapses. Yet lending booms may be a natural consequence of economic development and fluctuations. So are lending booms dangerous? In this paper, we investigate empirically this question using a broad sample of lending boom episodes over 40 years, with a special eye for Latin America. Our results indicate that (1) lending booms are often associated with (i) a domestic investment boom; (ii) an increase in domestic interest rates; (iii) a worsening of the current account; (iv) a decline in reserves; (v) a real appreciation; (vi) a decline in output growth. (2) "typical" lending booms do not increase substantially the vulnerability of the banking sector or the balance of payments. Comparing Latin America and the rest of the world, we find that Latin America lending booms make the economy considerably more volatile and vulnerable to financial and balance of payment crisis.

Gradstein, Mark

PD April 2001. **TI** Education, Social Cohesion and Economic Growth. **AU** Gradstein, Mark; Justman, Moshe. **AA** Ben Gurion University of the Negev and CEPR. **SR** CEPR Discussion Paper: 2773; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D70, I21, O40. **KW** Economic Growth. Education. Social Cohesion.

AB Analysis of the contribution of education to growth through its role in promoting a common culture indicates that when different cultural groups separately determine the social content of their school curricula excessive polarization can result, with less than optimal growth. The optimal trajectory involves a gradual, reciprocal convergence of school curricula towards the middle ground. This may be difficult to implement in a political context in which all agents are identified with one group or another When curricula are determined by legislative bargaining, centralization of schooling may result in overly rapid homogenization in some cases, and -- perhaps surprisingly -- excessive polarization in others.

Gravelle, Jane

PD May 2001. **TI** Who Bears the Burden of the Corporate Tax in the Open Economy? **AU** Gravelle, Jane; Smetters, Kent. **AA** Gravelle: Library of Congress. Smetters: University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 8280; 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** F41, H20. **KW** Corporate Taxes. Open Economy. Substitutability.

AB We investigate the long-run incidence of the corporate income tax in an open-economy model calibrated with two economies: the United States and a larger mirror economy representing the rest of the world. Imperfect substitutability of products plays a key role in limiting the incidence borne by domestic labor. We reach two novel conclusions: 1) Contrary to conventional wisdom, our analysis reveals that most of the long-run incidence of the corporate income tax is not borne by domestic labor. Nor is much of it borne by landowners. This finding is usually true even at an implausibly large portfolio substitution elasticity. The incidence is typically borne by domestic capital, as in the original Harberger (1962) closed-economy model; 2) For those parameter values in which the incidence is not borne mostly by domestic capital, interestingly, most of the incidence is exported. The exportation of the incidence motivates tax coordination between countries. These results are robust to a range of parameter values and model assumptions. Our model is also compatible with several empirical rigidities.

Gravelle, Jennifer

TI The Exchange Theory of Teenage Smoking and the Counterproductiveness of Moderate Regulation. **AU** Smetters, Kent; Gravelle, Jennifer.

Green, David A.

PD August 2001. **TI** Tightening a Welfare System: The Effects of Benefit Denial on Future Welfare Receipt. **AU** Green, David A.; Warburton, William P. **AA** Green: University of British Columbia. Warburton: Ministry of Human Resources. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/07; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 37. **PR** international. **JE** I38. **KW** Welfare. Structural Dependence. Local Average Treatment Effect (LATE) Estimator.

AB This paper derives Local Average Treatment Effect (LATE) estimates of the impact of welfare receipt denial on future receipt using a unique experiment involving reassessment of some applicants who were originally slated to receive benefits. There is evidence of considerable heterogeneity among applicants. The results support a model with a peripheral group who exhibit scarring effects from being granted benefits and a core group who do not. The core group moves quickly back onto welfare when denied benefits. Even for the peripheral group, benefit denial has intermediate term but not permanent impacts.

TI Changes in US Wages 1976-2000: Ongoing Skill Bias or Major Technological Change? **AU** Beaudry, Paul; Green, David A.

PD May 2002. **TI** Literacy and Earnings: An Investigation of the Interaction of Cognitive and Non-Cognitive Attributes in Earnings Generation. **AU** Green, David A.; Riddell, W. Craig. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/11; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 44. **PR** international. **JE** J24, J31. **KW** Literacy. Earnings. Cognitive Skills. Non-Cognitive Skills. Education. Ability.

AB This paper uses direct measures of literacy to examine the influence of cognitive and non-cognitive skills on earnings.

It is found that cognitive skills contribute significantly to earnings and that their inclusion in earnings equations reduces the measured impact of schooling. The impact of literacy on earnings does not vary across quintiles of the earnings distribution; schooling and literacy do not interact in influencing earnings; and introducing literacy has little effect on the estimated impact of experience. The findings suggest that cognitive and non-cognitive skills are both productive, but that having more of one skill does not enhance the other's productivity.

Greenwood, Jeremy

PD June 1999. **TI** More on Marriage, Fertility, and the Distribution of Income. **AU** Greenwood, Jeremy; Guner, Nezih; Knowles, John. **AA** Greenwood: University of Rochester. Guner: Pennsylvania State University. Knowles: University of Pennsylvania. **SR** Federal Reserve Bank of Cleveland Working Paper: 9904; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clev.frb.org. **PG** 52. **PR** no charge. **JE** J12, J13. **KW** Distribution of Income. Marriage. Fertility. Overlapping Generations.

AB According to Pareto, the distribution of income depends on "the nature of the people comprising a society, on the organization of the latter, and, also, in part, on chance." An overlapping generations model of marriage, fertility and income distribution is developed here. The "nature of the people" is captured by attitudes toward marriage, divorce, fertility, and children. Singles search for mates in a marriage market. They are free to accept or reject marriage proposals. Married agents make their decisions through bargaining about work, and the quantity and quality of children. They can divorce. Social policies, such as child tax credits or child support requirements, reflect the "organization of the (society)." Finally, "chance" is modeled by randomness in income, opportunities for marriage, and marital bliss.

Grimalda, Gianluca

PD July 2002. **TI** Growth with Competing Technologies and Bounded Rationality. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0205; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 30. **PR** no charge. **JE** C62, E11, O33, O41. **KW** Unbalanced Growth. Technical Change. Bounded Rationality.

AB This paper develops a model of growth based on three assumptions: first, a variety of technologies characterised by different degrees of labor skill intensity, where technological change is localized; second, agents are boundedly rational, and the aggregate rule of motion of their behavior follows a replicator dynamics; third, markets do not clear instantaneously, with prices adjusting gradually. For simplicity, I study the case of two technologies and two labour markets, one for skilled and one for unskilled labor. The model is investigated by means of local stability and computer numerical analysis. Two types of steady states obtain, each characterised by the complete specialization of production into one of the two technologies. Convergence towards the low-growth steady state, associated with the unskilled labour intensive technology, occurs under adverse structural conditions, such as marked initial skill shortage and high skill upgrade costs. This result of lock-in to the inferior steady state is interpreted as co-ordination failure, in that market forces do not always provide sufficient incentives to ensure a high-growth path.

Groshen, Erica L.

PD August 1999. **TI** Firms' Wage Adjustments: A Break from the Past? **AU** Groshen, Erica L.; Schweitzer, Mark E. **AA** Groshen: Federal Reserve Bank of New York. Schweitzer: Federal Reserve Bank of Cleveland. **SR** Federal Reserve Bank of Cleveland Working Paper: 9908; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clev.frb.org. **PG** 30. **PR** no charge. **JE** D21, E31, J31. **KW** Wages. Inflation. Policy Transmission.

AB Despite advances in understanding the policies that cause inflation, economists know little about inflation's manifestations and transmission in the marketplace. In this paper, we ask whether inflation and its changes alter the distribution of wage shocks. We examine a time series of wages for a panel of mobile occupations for a set of employers in three Midwestern cities. We study wage changes during years with rising, falling, and steady inflation to identify regularities that could broaden our understanding of the inflationary process at the micro level. Our exploratory exercise uncovers strong evidence that the pattern of wage changes is not neutral with respect to inflation and other economic conditions. The dominant factor in predicting the distribution of wage changes is the inflationary environment. Another finding of this paper is that wage changes are slightly negatively autocorrelated over time.

Grossman, Gene M.

PD January 2002. **TI** Outsourcing in a Global Economy. **AU** Grossman, Gene M.; Helpman, Elhanan. **AA** Grossman: Princeton University. Helpman: Harvard University, Tel Aviv University, and CIAR. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2002/01; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 41. **PR** no charge. **JE** D23, F12, L14, L22. **KW** Outsourcing. Imperfect Contracting. Trade. Intra-Industry Trade.

AB We study the determinants of the location of subcontracted activity in a general equilibrium model of outsourcing and trade. We model outsourcing as an activity that requires search for a partner and relationship-specific investments that are governed by incomplete contract. The extent of international outsourcing depends inter alia on the thickness of the domestic and foreign market for input suppliers, the relative cost of searching in each market, the relative cost of customizing inputs, and the nature of the contracting environment in each country.

Grossman, Herschel I.

PD February 2001. **TI** Annexation or Conquest? The Economics of Empire Building. **AU** Grossman, Herschel I.; Mendoza, Juan. **AA** Grossman: Brown University and NBER. Mendoza: State University of New York at Buffalo. **SR** National Bureau of Economic Research Working Paper: 8109; 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** D74, F02, N43, N44, N45. **KW** Empires. Annexation. Military Financing.

AB This paper develops an economic theory of empire building. This theory addresses the choice among three strategies that empire builders historically have used. We call these strategies Uncoerced Annexation, Coerced Annexation, and Attempted Conquest. The theory shows how the choice among these strategies depends on such factors as the economic gains from imperial expansion, the relative effectiveness of imperial armies, the costs of projecting imperial military power, and liquidity constraints on financing imperial armies. This theory also addresses the scope of imperial ambitions. The paper uses examples from the history of the Roman, Mongol, Ottoman, and Nazi German empires to illustrate the applicability of the theory.

PD August 1999. **TI** Scarcity and Conflict. **AU** Grossman, Herschel I.; Mendoza, Juan. **AA** Grossman: Brown University. Mendoza: State University of New York at Buffalo. **SR** Brown University, Department of Economics Working Paper: 99/24; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 10. **PR** no charge. **JE** D23, D74. **KW** Resources. Conflict. Scarcity. Survival.

AB This paper formalizes the commonsensical hypothesis that resource scarcity causes people to allocate a large amount of time and effort to appropriative conflict. Our main innovation is to model explicitly the positive intertemporal effect of consumption on the probability of survival. The critical assumption is that this effect becomes stronger as resources become scarcer. We also show that anticipated future resource abundance increases the incremental value of survival and, consequently, amplifies the current allocation of time and effort to appropriative conflict. Interestingly, if resources are currently scarce, then larger anticipated future abundance can cause people to allocate sufficiently more time and effort to appropriative conflict to result in a decrease in the sum of current and expected future utility, a "paradox of anticipated abundance".

TI Cooption and Repression in the Soviet Union. **AU** Gershenson, Dmitriy; Grossman, Herschel I.

TI Civil Conflict: Ended or Never Ending? **AU** Gershenson, Dmitriy; Grossman, Herschel I.

Gruner, Hans Peter

TI Individual Preferences for Political Redistribution. **AU** Corneo, Giacomo; Gruner, Hans Peter.

Guiso, Luigi

PD May 2001. **TI** Insurance Within the Firm. **AU** Guiso, Luigi; Pistaferri, Luigi; Schivardi, Fabiano. **AA** Guiso: Ente Luigi Einaudi, Roma and CEPR. Pistaferri: Stanford University. **SR** CEPR Discussion Paper: 2793; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** C33, D21, J33, J41. **KW** Incentive Contracts. Insurance. Matched Employer-Employees Data.

AB The full insurance hypothesis states that shocks to the firm's performance do not affect workers' compensation. In principal-agent models with moral hazard, firms trade off insurance and incentives to induce workers to supply the optimal level of effort. We use a long panel of matched employer-employee data to test the theoretical predictions of principal-agent models of wage determination in a general context where all types of workers, not only CEOs, are present. We allow for both transitory and permanent shocks to firm performance and find that firms are willing to absorb fully transitory fluctuations in productivity but insure workers only partially against permanent shocks. Risk-sharing considerations can account for about 10 percent of overall earnings variability, the remainder originating in idiosyncratic shocks. Finally, we show that the amount of insurance varies by type of worker and firm in ways that are consistent with principal-agent models but are hard to reconcile with competitive labor market models, with or without frictions.

Gultekin, Bulent

TI Markov Chains in Predictive Models of Currency Crises -- With Applications to Southeast Asia. **AU** Abiad, Abdul G.; Gultekin, Bulent; Mariano, Roberto S.; Shabbir, Tayyeb; Tan, Augstine.

Guner, Nezih

TI More on Marriage, Fertility, and the Distribution of Income. **AU** Greenwood, Jeremy; Guner, Nezih; Knowles, John.

Guriev, Sergei M.

PD February 2001. **TI** Debt Overhang and Barter in Russia. **AU** Guriev, Sergei M.; Makarov, Igor; Maurel, Mathilde. **AA** Guriev: Stockholm School of Economics, New Economic School, Moscow, and CEPR. Makarov: not available. Maurel: Universite de Paris I. **SR** CEPR Discussion Paper: 2686; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D21, P34. **KW** Barter. Debt Overhang. Demonetization. Renegotiation. Russian.

AB In this Paper we study, both theoretically and empirically, the relationship between barter and the indebtedness of Russian firms. We build a model in which a firm uses barter to protect its working capital against outside creditors even when barter involves high transaction costs. The main innovation of our work is to allow renegotiation between the firm and its creditors. If the creditors are rational, they often agree to postpone debt payments in order to avoid destroying the firm's working capital. It turns out, however, that even if the firm cannot ensure it will not divert cash ex post, the outcome of renegotiation still provides ex ante incentives to use barter. We show that the greater the debt overhang, the more likely the use of barter, and although the possibility of debt restructuring reduces barter, it does not eliminate it altogether. We also discuss the role of the government bond market and weak bankruptcy legislation. The firm-level evidence from two independent surveys is consistent with the model's predictions.

Gurkaynak, Refet S.

TI Is Growth Exogenous? Taking Mankiw, Romer, and Weil Seriously. **AU** Bernanke, Ben S.; Gurkaynak, Refet S.

Guryan, Jonathan

PD May 2001. **TI** Does Money Matter? Regression-Discontinuity Estimates from Education Finance Reform in Massachusetts. **AA** University of Chicago GSB and NBER. **SR** National Bureau of Economic Research Working Paper: 8269: 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** I22, I28. **KW** Education. State aid.

AB This paper studies a typical state-level education finance equalization scheme, and considers two questions. First, what fraction of state education aid is spent on schools? And second, does increased educational funding for historically low-spending districts lead to improved student achievement? Estimates based on variation in spending caused by state aid formulas suggest that 50 to 75 cents of each dollar of education aid were spent on schools. Estimates also suggest that increased spending improved 4th-grade test scores, but show no effect on 8th-grade test scores. Further analysis shows that increases in 4th- grade average test scores were associated with improved performance by low-scoring students.

PD June 2001. **TI** Desegregation and Black Dropout Rates. **AA** University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8345; 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** H43, I28, J10, J78, N32. **KW** Education. Desegregation.

AB In 1954 the Supreme Court of the United States ruled that separate schools for black and white children were "inherently unequal." This paper studies whether the desegregation plans of the next 30 years in fact benefited the black students for whom the plans were designed. Analysis of data from the 1970 and 1980 censuses suggests that desegregation plans of the 1970's reduced the high school dropout rates of blacks by one to three percentage points during this decade. Desegregation plans can account for about half of the decline in dropout rates of blacks between 1970 and 1980. A similar analysis suggests that desegregation plans had no effect on the dropout rates of whites. The results are robust to controls for time-varying region and family income effects, as well as to tests for selective migration, though mean reversion may account for some portion of the larger estimated effects. Further investigation of conditions in segregated schools in 1970 suggests that peer effects explain at least some of the decline in the dropout rates of blacks due to desegregation plans.

Hagedorn, Marcus

TI Dynamic Efficiency and Pareto Optimality in a Stochastic OLG Model with Production and Social Security. **AU** Barbie, Martin; Hagedorn, Marcus; Kaul, Ashok.

Hall, Bronwyn H.

PD August 2001. **TI** Market Value and Patent Citations: A First Look. **AU** Hall, Bronwyn H.; Jaffe, Adam B.; Trajtenberg, Manuel. **AA** Hall: University of California, Berkeley, Nuffield College Oxford, NBER, and IFS. Jaffe: Brandeis University and NBER. Trajtenberg: Tel Aviv University and NBER. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/304; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720-1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 24. **PR** $3.50 U.S.; $7.50 International. **JE** O31, O38. **KW** Market Value. Patent Citations. Bibliometrics. Innovation.

AB As patent data become more available in machine-readable form, an increasing number of researchers have begun to use measures based on patents and their citations as indicators of technological output and information flow. This paper explores the economic meaning of these citation-based patent measures using the financial market valuation of the firms that own the patents. Using a new and comprehensive dataset containing over 4800 U. S. manufacturing firms and their patenting activity for the past 30 years, the paper explores the contributions of R&D spending, patents, and citation-weighted patents to measures of Tobin's Q for the firms. It is found that citation-weighted patent stocks are more highly correlated with market value than patent stocks themselves and that this fact is due mainly to the high valuation placed on firms that hold very highly cited patents. It is also found that self-citations are worth about twice as much as ordinary citations, especially to smaller firms.

PD November 2001. **TI** The NBER Patent Citations Data File: Lessons, Insights and Methodological Tools. **AU** Hall, Bronwyn H.; Jaffe, Adam B.; Trajtenberg, Manuel. **AA** Hall: University of California, Berkeley and NBER. Jaffe: Brandeis University and NBER. Trajtenberg: Tel Aviv University, NBER, and CIAR. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/29; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 38. **PR** no charge. **JE** C81, O34. **KW** Patents. Citations. Data Construction. Truncation.

AB This paper describes the database on U.S. patents that we have developed over the past decade, with the goal of making it widely accessible for research. We present main trends in U.S. patenting over the last 30 years, including a variety of original measures constructed with citation data, such as backward and forward citation lags, indices of "originality" and "generality", self-citations, etc. Many of these measures exhibit interesting differences across our six main technological categories (comprising Computers and Communications, Drugs and Medical, Electrical and Electronics, Chemical, Mechanical and Others). We discuss key issues that arise in the use of patent citations data, and suggest ways of addressing them. In particular, significant changes over time in the rate of patenting and in the number of citations made, as well as the inevitable truncation of the data, make it very hard to use the raw number of citations received by different patents directly in a meaningful way. To remedy this problem we suggest two alternative approaches: the fixed-effects approach involves scaling citations by the average citation count for a group of patents to which the patent of interest belongs; the quasi-structural approach attempts to distinguish the multiple effects on citation rates via econometric estimation.

Hamermesh, Daniel S.

TI Two-Sided Learning, Labor Turnover and Worker Displacement. **AU** Pfann, Gerard A.; Hamermesh, Daniel S.

Hamlin, Alan

PD June 2001. **TI** Group Formation and Competition:

Instrumental and Expressive Approaches. **AU** Hamlin, Alan; Jennings, Colin. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0110; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 31. **PR** no charge. **JE** D71, D72, D74. **KW** Group Formation. Expressive Behaviour. Conflict. Compromise.

AB This paper constructs models of group formation designed to capture some of the key features of political and social competition. The models draw on the "citizen candidate" approach and allow competition to be modeled as either compromise -- where all groups influence outcomes; or conflict -- where one group wins the right to dictate. It also considers both instrumental and expressive approaches to understanding group formation, first separately and then in a setting that encompasses both approaches.

Han, Song

PD October 2001. **TI** On the Economics of Discrimination in Credit Markets. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/02; Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 36. **PR** no charge. **JE** G21, G28, J71. **KW** Credit Discrimination. Credit Markets. Statistical Discrimination.

AB This paper develops a general equilibrium model of both taste-based and statistical discrimination in credit markets. We find that both types of discrimination have similar predictions for intergroup differences in loan terms. The commonly held view has been that if there exists taste-based discrimination, loans approved to minority borrowers would have higher expected profitability than to majorities with comparable credit background. We show that the validity of this profitability view depends crucially on how expected loan profitability is measured. We also show that there must exist taste-based discrimination if loans to minority borrowers have higher expected rate of return or lower expected rate of default loss than to majorities with the same exogenous characteristics observed at the time of loan origination. Using a reduced-form regression approach, we find that empirical evidence on expected rate of default loss cannot reject the null hypothesis of non-existence of taste-based discrimination.

PD November 2001. **TI** Inflation and the Size of Government. **AU** Han, Song; Mulligan, Casey B. **AA** Han: Board of Governors of the Federal Reserve System. Mulligan: University of Chicago. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/01; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 27. **PR** no charge. **JE** E31, H56. **KW** Inflation. Government Size. Defense Spending.

AB It is commonly supposed in public and academic discourse that inflation and big government are related. We show that economic theory delivers such a prediction only in special cases. As an empirical matter, inflation is significantly positively related to the size of government mainly when periods of war and peace are compared. We find a weak positive peacetime time series correlation between inflation and the size of government and a negative cross-country correlation of inflation with non-defense spending.

Haritchabalet, Carole

PD February 1999. **TI** The Production of Goods in Excess of Demand: A Generalization of Self Protection. **AA** Institut d'Analisi Economica. **SR** Universitat Autonoma de Barcelona DEHA/IAE Working Paper: 441/99; Departament d'Economia i d'Historia Economica, Universitat Autonoma de Barcelona, Campus UAB, 08193 Bellaterra, Barcelona, Spain. Website: www.iae-csic.uab.es. **PG** 17. **PR** papers only available on web page; no hard copies. **JE** D21, D81. **KW** Reserve Goods. Insurance.

AB This paper considers a risk-averse firm producing a limited number of goods that can be defective. The firm must determine its level of production before knowing which goods will be defective. This is the case, for example, for a producer of telecommunication satellites. The problem under scrutiny can be interpreted as a generalization of self- protection for more than two states of nature. In our model, the firm determines jointly its level of production and its demand for insurance. It is shown that, under reasonable assumptions, the two strategies are complements.

Harley, C. Knick

PD October 2001. **TI** Twentieth Century Monetary Regimes in Canadian Perspective. **AA** University of Western Ontario. **SR** University of Western Ontario, Department of Economics Research Report: 2001/08; Research Report Coordinator, Economics Reference Center, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/econref/html/RRPaper.html. **PG** 21. **PR** International $10.00 (Canadian) plus $3.00 (Canadian) per order handling fee; pre-paid orders only; make checks payable to the University of Western Ontario. **JE** N11, N12. **KW** Monetary Regimes. Gold Standard. Socialism. Post-Bretton Woods Era.

AB Three monetary regimes: the gold standard, a regime of "socialism in many countries" and the post-Bretton Woods regime and difficult transitions between them have shaped the economic history of the twentieth century. The regimes consisted of coherent sets of government policies and the public's expectations about policy and each made different decisions about which of the trilemma of policy goals- fixed exchange rates, domestic policy independence and integrated capital markets- to subordinate. Canada, as a small, open economy dependent on access to international capital markets, provides a revealing window on the monetary regimes and the transitions between regimes. The gold standard supported smooth integration of the Canadian economy into the pre First World War international economy, but proved disastrous in the changed environment that led to the Great Depression. Although Canada was unique with its floating exchange rate, it experienced the success of the post war the Bretton Woods era. The collapse of the regime under the stress of internationally integrated capital markets set off an inflationary transition. A new stable regime required two decades of learning about the new economic environment.

Harvey, Campbell R.

TI Does Financial Liberalization Spur Growth? **AU** Bekaert, Geert; Harvey, Campbell R.; Lundblad, Christian.

Hastings, Justine

TI Vertical Integration in Gasoline Supply: An Empirical Test of Raising Rivals' Costs. **AU** Gilbert, Richard; Hastings, Justine.

Hatton, Timothy J.

PD February 2001. **TI** Demographic and Economic Pressure on Emigration Out of Africa. **AU** Hatton, Timothy J.; Williamson, Jeffrey G. **AA** Hatton: University of Essex. Williamson: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8124; 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** F22, J11, N37, O15. **KW** Africa. Migration. Growth.

AB Two of the main forces driving European emigration in the late nineteenth century were real wage gaps between sending and receiving regions and demographic booms in the low-wage sending regions. These two features are even more prominent in Africa today, but do or can Africans respond to them with the same elasticity as in the days of "free" migration? Our new estimates of net migration and labor market performance for the countries of sub-Saharan Africa suggest that exactly the same forces are at work driving African across-border migration today. Rapid growth in the cohort of young potential migrants, population pressure on the resource base, and poor economic performance are the main forces driving African migration. A century ago, more modest demographic forces in Europe were accompanied by strong catching-up economic growth in the low-wage emigrant regions, followed by a slowdown in already-modest demographic growth. Yet, migrations were still mass. In Africa today, economic growth has faltered, its economies have fallen further behind the high-wage OECD leaders, and there is a demographic speed up in the making. Our estimates suggest that the pressure on emigration out of Africa will intensify, manifested in part by a growing demand for entrance into high-wage OECD labor markets.

Haubrich, Joseph G.

PD August 1999. **TI** Banking and Commerce: A Liquidity Approach. **AU** Haubrich, Joseph G.; Santos, Joao A. C. **AA** Haubrich: Federal Reserve Bank of Cleveland. Santos: Bank for International Settlements, Basel, Switzerland. **SR** Federal Reserve Bank of Cleveland Working Paper: 9907; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clev.frb.org. **PG** 33. **PR** no charge. **JE** G21, G32. **KW** Banking. Commerce. Liquidity. Financial Intermediation.

AB This paper looks at the advantages and disadvantages of mixing banking and commerce, using the "liquidity" approach to financial intermediation. Adding a commercial firm makes it easier for a bank to dispose of assets seized in a loan default. This 'internal market' increases the liquidity of such assets and improves the bank's ability to perform financial intermediation. In general, owning a commercial firm may act either as a substitute or a complement to commercial lending. In some cases, a bank will voluntarily refrain from making loans, choosing to become a non-bank bank in an unregulated environment.

Haug, Alfred A.

TI Currency Invoicing of U.S. Imports. **AU** Donnenfeld, Shabtai; Haug, Alfred A.

Hege, Ulrich

TI The Financing of Innovation: Learning and Stopping. **AU** Bergemann, Dirk; Hege, Ulrich.

Heifetz, Aviad

PD May 2001. **TI** Free-Entry Equilibrium in a Market for Certifiers. **AU** Heifetz, Aviad; Hvide, Hans K. **AA** Heifetz: Tel Aviv University and California Institute of Technology. Hvide: Norwegian School of Economics and Business. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/23; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 25. **PR** no charge. **JE** C72, D43, D82, G24, I21. **KW** Adverse Selection. Certification. Intermediaries. MBA Education. Signaling.

AB The role of certifiers is to test products for quality, and to communicate the test results to the market. We construct a free-entry model of certification, where each certifier chooses a test standard and a price for certification. In equilibrium, certifiers differentiate their test standards, and attract different segments of the market. The price for having certified a high-quality product is higher than the price for having certified a low-quality product, and the net gain from being certified increases in product quality. We test and find support for these predictions in the market for MBA education, and also discuss how to apply the model to questions of regulation and minimum quality standards.

TI Incomplete Information. **AU** Aumann, Robert J.; Heifetz, Aviad.

PD July 2001. **TI** The Evolutionary Role of Toughness in Bargaining. **AU** Heifetz, Aviad; Segev, Ella. **AA** Heifetz: California Institute of Technology and Tel Aviv University. Segev: Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/25; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 22. **PR** no charge. **JE** C78, D83. **KW** Bargaining. Asymmetric Information. Endowment Effect. Self-Serving Bias. Toughness. Payoff-Monotonic Dynamics.

AB The experimental evidence on the "endowment effect" (Kahneman et al. 1990) and the "self serving bias" in negotiations (Babcok and Loewenstein 1997) suggest that individuals enter a tough state of mind when they have to make a stand vis-a-vis somebody else. In this work we show how a toughness bias in bargaining may indeed be evolutionary viable. When the inherent toughness of the bargainer is observed by the opponent, this opponent will adjust his behavior accordingly, in a way which may enhance the actual payoff of the biased bargainer. Suppose, then, that a population consists initially of individuals with different inherent degrees of toughness or softness. They are often matched at random to bargain, and biases which are objectively more successful tend to appear more frequently in the society. We show how under various bargaining protocols with asymmetric information, the population will consist, asymptotically, of individuals with some moderate degree of toughness.

TI Read My Lips, Watch For Leaps: A Theory of Endogenous Political Instability. AU Fershtman, Chaim; Heifetz, Aviad.

Helpman, Elhanan

TI Outsourcing in a Global Economy. AU Grossman, Gene M.; Helpman, Elhanan.

Hendel, Igal

PD September 2001. TI Sales and Consumer Inventory. AU Hendel, Igal; Nevo, Aviv. AA Hendel: University of Wisconsin, Madison and NBER. Nevo: University of California, Berkeley and NBER. SR University of California, Berkeley, Department of Economics Working Papers: E01/307: UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720-1922. Website: iber.berkeley.edu/wps/econwp.html. PG 37. PR $3.50 U.S; $7.50 International. JE E21, E31. KW Consumer Choice. Inventory.

AB Temporary price reductions (sales) are quite common for many goods and usually result in an increase 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, has broad implications for interpretation of demand estimates. We construct a dynamic model of consumer choice and use it to derive testable predictions. We test the implications of the model using two years of store-level scanner data and data on the purchases of a panel of households over the same time. The results support the existence of household stockpiling behavior.

Henin, Pierre-Yves

PD July 2001. TI Testing for Unit Roots on Heterogeneous Panels: A Sequential Approach. AU Henin, Pierre-Yves; Jolivaldt, Phillippe; Nguyen, Anh. AA Henin: Universite de Paris-I, and CEPREMAP. Jolivaldt and Nguyen: Universite de Paris-I. SR CEPREMAP Discussion Paper: 2001/08: Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. PG 22. PR between 4 and 5 euros. JE C12, C23, F31. KW Panel Data. Unit Root Tests. Multiple Testing. Sequential Tests. Purchasing Power Parity.

AB There is a growing trend of criticism against the use of panel data unit root test for assessing hypotheses such as the purchasing power parity (PPP). The usual argument of a gain in power with respect to univariate unit root tests is not relevant as different nulls are involved when testing on panel data. In the context of a comparative, multi-country, study, inference based on individual unit root tests suffers mainly from a huge size distortion, even more than from low power. When the null hypothesis is a number of countries for which the variable of interest follows a unit root process, we propose to adopt a sequential strategy, as a way to combine a rigorous control over the size with the search for satisfactory power. We show how usual statistics have to be adapted, and we illustrate the implementation of this strategy both through simulation and through an empirical application to the PPP hypothesis within the OECD countries.

Henry, Peter Blair

TI Stock Market Liberalizations and the Repricing of Systematic Risk. AU Chari, Anusha; Henry, Peter Blair.

Hess, Gregory

PD December 1999. TI Risk Sharing of Disaggregate Macroeconomic and Idiosyncratic Shocks. AU Hess, Gregory; Shin, Kwanho. AA Hess: Oberlin College. Shin: Korea University. SR Federal Reserve Bank of Cleveland Working Paper: 9915; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clev.frb.org. PG 41. PR no charge. JE E21, F41. KW Risk Sharing. Quantity Anomaly. Macro Shocks.

AB We estimate the extent to which idiosyncratic and disaggregate macro shocks (such as regional and industry shocks) are not shared in the economy. Comparing the degree to which idiosyncratic and disaggregate macro shocks are not shared grants a deeper understanding as to why the economy lacks in specific areas of risk sharing arrangements. As well, it can point to areas where the economy's risk sharing capability can be enhanced. Using household data from the Panel Study of Income Dynamics, we find that a negligible amount of risk (around 10%) is shared in the aggregate; about 50% is shared within regions and industries, while the remaining 40% is not shared with other households. These findings suggest that given the low level of international risk sharing, increased international integration may not lead to a significant increase in international risk sharing.

Hess, Martin

TI Financial Development and the Sensitivity of Stock Markets to External Influences. AU Dellas, Harris; Hess, Martin.

Hidalgo, Javier

TI Gaussian Estimation of Parametric Spectral Density with Unknown Pole. AU Giraitis, L.; Hidalgo, Javier; Robinson, Peter M.

PD September 2001. TI Adapting to Unknown Disturbance Autocorrelation in Regression with Long Memory. AU Hidalgo, Javier; Robinson, Peter M. AA LSE. SR STICERD, LSE Econometrics Discussion Paper: EM/01/427; STICERD, Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. PG 50. PR no charge. JE C14, C22. KW Time Series Models. Long Memory. Adaptive Estimation.

AB We show that it is possible to adapt to nonparametric disturbance auto-correlation in time series regression in the presence of long memory in both regressors and disturbances by using a smooth nonparametric spectrum estimate in frequency-domain generalized least squares. When the collective memory in regressors and disturbances is sufficiently strong, ordinary least squares is not only asymptotically inefficient but asymptotically non-normal and has a slow rate of convergence, whereas generalized least squares is asymptotically normal and Gauss-Markov efficient with standard convergence rate. Despite the anomalous behavior of nonparametric spectrum estimates near a spectral pole, we are able to justify a standard construction of frequency- domain generalized least squares, earlier considered in case of short memory disturbances. A small Monte Carlo study of finite sample performance is included.

PD February 2002. **TI** Consistent Order Selection with Strongly Dependent Data and its Application to Efficient Estimation. **AA** LSE. **SR** STICERD, LSE Econometrics Discussion Paper: EM/02/430; STICERD, Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. **PG** 34. **PR** no charge. **JE** C13, C15, C22. **KW** Order Selection. Distributed Lag Models. Strong Dependence.

AB Order selection based on criteria by Akaike (1974), AIC, Schwarz (1978), BIC or Hannan and Quinn (1979) HIC is often applied in empirical examples. They have been used in the context of order selection of weakly dependent ARMA models, AR models with unit or explosive roots and in the context of regression models for weakly dependent data. On the other hand, it has been observed that in many cases data exhibits so-called strong dependence. Because of the interest in this type of data, our main objective in this paper is to examine order selection for a distributed lag regression model that covers weak and strong dependence. We propose a criterion function based on the decomposition of the variance of the innovations of the model in terms of their frequency components. Assuming that the order of the model is finite, we show that the proposed criterion provides consistent estimates. In addition, we show that adaptive estimation for parameters of the model is possible without knowledge of the order. Finally, a small Monte-Carlo experiment is included to illustrate the finite sample performance of the proposed criterion.

Hines, James R., Jr.

TI Exchange Rates and Tax-Based Export Promotion. **AU** Desai, Mihir A.; Hines, James R., Jr..

Hoddinott, John

TI Program Evaluation with Unobserved Heterogeneity and Selective Implementation: The Mexican Progresa Impact on Child Nutrition. **AU** Behrman, Jere R.; Hoddinott, John.

Hoernig, Steffen

PD May 2001. **TI** Universal Service and Entry: The Role of Uniform Pricing and Coverage Constraints. **AU** Hoernig, Steffen; Barros, Pedro Luis Pita. **AA** Universidade Nova de Lisboa and CEPR. **SR** CEPR Discussion Paper: 2789; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** L51. **KW** Competition. Coverage Constraint. Uniform Pricing Constraint. Universal Service.

AB Universal service objectives are pervasive in telecommunications, and have gained new relevance after liberalization and the introduction of competition in many markets. Despite their policy relevance, little work has been done allowing for a thorough discussion of instruments designed to achieve universal service objectives under competition. We intend to fill this gap, and consider various policy instruments, such as constraints on pricing and coverage. It is shown that these are not competitively neutral and may have far-reaching strategic effects. Equilibrium coverage of both incumbent and entrant may be lower than without regulation, and firms may even (noncooperatively) leave each others' markets to lessen competitive pressure in their remaining markets. These effects depend on which measures are imposed at the same time, thus no single measure can be evaluated in isolation. We also point out that different groups of consumers are affected in different ways, making welfare comparisons difficult.

Holmes, Thomas J.

PD February 2002. **TI** Geographic Concentration and Establishment Size: Analysis in an alternative Economic Geography Model. **AU** Holmes, Thomas J.; Stevens, John J. **AA** Holmes: University of Minnesota and Federal Reserve Bank of Minneapolis. Stevens: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/17; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 21. **PR** no charge. **JE** F12, L11, R12, R32. **KW** Geographic Concentration. Establishment Size. Transportation Costs. New Economic Geography.

AB Big cities specialize in services rather than manufacturing. Big- city establishments in services are larger than the national average while those in manufacturing are smaller. This paper proposes an explanation of these and other facts. The theory is developed in an economic geography model that is an alternative to the standard Dixit- Stiglitz structure. In our tractable structure that has potentially wider application, firms have monopoly power in local markets, but are price takers in export markets.

PD March 2002. **TI** The Home Market and the Pattern of Trade: Round Three. **AU** Holmes, Thomas J.; Stevens, John J. **AA** Holmes: University of Minnesota and Federal Reserve Bank of Minneapolis. Stevens: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/23; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 17. **PR** no charge. **JE** F02, F12, O19, R12. **KW** Market Size. Home Market Effects. Transport Costs.

AB Does national market size matter for industrial structure? Round One (Krugman) answered in the affirmative: Home market effects matter. Round Two (Davis) refuted this, arguing that an assumption of convenience-- transport costs only for the differentiated goods -- conveniently obtained the result. In Round Three we relax another persistent assumption of convenience -- two industry types differentiated only by the degree of scale economies -- and find that market size reemerges as a relevant force in determining industrial structure.

Holtz-Eakin, Douglas

PD April 2001. **TI** Distortion Costs of Taxing Wealth Accumulation: Income Versus Estate Taxes. **AU** Holtz-Eakin, Douglas; Marples, Donald. **AA** Holtz-Eakin: Syracus University and NBER. Marples: Syracuse University. **SR** National Bureau of Economic Research Working Paper: 8261; 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** H21, H22, H23, H24, H25. **KW** Estate Tax. Deadweight Loss. Capital Income Tax.

Efficiency.
AB Recently, attention has focused on the estate tax. To date, however, the debate over estate taxes has been nearly devoid of standard considerations of deadweight loss. We develop a framework for computing the deadweight loss of a revenue-neutral switch from an estate tax to a capital income tax, focusing on the potential lifetime behavioral responses in anticipation of paying the estate tax, while requiring relatively few parameters to estimate. We conclude that eliminating the estate tax and replacing the revenue with that from a capital income tax will likely enhance economic efficiency. Specifically, using our baseline parameter estimates we estimate that the mean decrease in deadweight loss is $0.018 per dollar of wealth. There is, however, considerable heterogeneity in the estimated impact. Importantly, our estimates are based on data that do not contain the "super-rich" who are most highly affected by the estate tax.

Hong, Harrison

PD July 2001. **TI** Social Interaction and Stock-Market Participation. **AU** Hong, Harrison; Kubik, Jeffrey D.; Stein, Jeremy C. **AA** Hong: Stanford University. Kubik: Syracuse University. Stein: Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8358; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 35. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E44, G11. **KW** Household Investment. Portfolio Choice. Stock Market.
AB This paper investigates the idea that stock-market participation is influenced by social interaction. A simple model is built in which any given "social" investor finds it more attractive to invest in the market when the participation rate among his peers is higher. The model predicts higher participation rates among social investors than among "non-socials". It also admits the possibility of multiple social equilibria. The theory is then tested using data from the Health and Retirement Study. Social households defined as those who interact with their neighbors, or who attend church -- are indeed substantially more likely to invest in the stock market than non-social households, controlling for other factors like wealth, race, education and risk tolerance. Moreover, consistent with a peer-effects story, the impact of sociability is stronger in states where stock-market participation rates are higher.

Hoppner, Florian

PD July 2000. **TI** Non-Linear Effects of Fiscal Policy in Germany: A Markov-Switching Approach. **AU** Hoppner, Florian; Wesche, Katrin. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/09; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 15. **PR** no charge. **JE** C22, E21, E62. **KW** Fiscal Policy. Private Consumption. Markov-Switching. Transition Probabilities.
AB Keynesian theory suggests that a reduction in government expenditure has a negative effect on private demand and therefore on output. Contrary, neoclassical theory argues that reduced public expenditure makes room for an expansion of the private sector and thus has a stimulating effect on the economy. Additionally, expectations of a lower tax burden in the future should stimulate consumption. The recent literature discusses that both theories might be right at different times. Especially, during times of fiscal contractions from high levels of debt the economy might react in a neoclassical way. In this paper, we test for non-linear effects of fiscal policy in a Markov-switching approach. We find two different regimes, with a neoclassical regime prevailing around 1972-74, 1979-82, and 1991-93. Furthermore, using time-varying transition probabilities (TVTP) for the Markov process, we test if the neoclassical reaction of private consumption to fiscal variables depends on some variable reflecting the sustainability of the debt path, as theory suggests. We find that the deficit influences the transition to the neoclassical regime, though results are significant only for the sample including the post-unification period.

Horrace, William C.

TI The Impact of New Deal Expenditures on Local Economic Activity: An Examination of Retail Sales, 1929-1939. **AU** Fishback, Price V.; Horrace, William C.; Kantor, Shawn.

TI Do Federal Programs Affect Internal Migration? The Impact of New Deal Expenditures on Mobility During the Great Depression. **AU** Fishback, Price V.; Horrace, William C.; Kantor, Shawn.

Horstmann, Ignatius J.

PD June 2001. **TI** Multi-Issue Bargaining and Linked Agendas: Ricardo Revisited or No Pain No Gain. **AU** Horstmann, Ignatius J.; Markusen, James R.; Robles, Jack. **AA** Horstmann: University of Western Ontario. Markusen: University of Colorado and National Bureau of Economic Research. Robles: University of Colorado. **SR** National Bureau of Economic Research Working Paper: 8347; 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** C78, F02, F13. **KW** International Trade. Negotiations.
AB There has been much discussion about what issues should be included in international "trade" negotiations. Different countries, firms and activists groups have quite different views regarding which items should (or should not) be negotiated together. Proposals run the gamut from no linking to linking trade with investment, the environment, labor and human-rights codes. This paper provides a formal framework for analyzing these questions. It employs a two-country, two-issue bargaining model and contrasts outcomes when issues are negotiated separately and when they are linked in some form. A key concept is "comparative interest", analogous to Ricardian comparative advantage. It provides general results and notes, in particular, where a country can benefit by agreeing to include an agenda item for which, when viewed by itself, the country does not receive a positive payoff.

Hsieh, Chang-Tai

PD February 2001. **TI** Was the Federal Reserve Fettered? Devaluation Expectations in the 1932 Monetary Expansion. **AU** Hsieh, Chang-Tai; Romer, Christina D. **AA** Hsieh: Princeton University. Romer: University of California, Berkeley and NBER. **SR** National Bureau of Economic Research Working Paper: 8113; 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** E52, F34, N12. **KW** Monetary Policy. Great Depression. Expectations of Devaluation.

AB A key question about the Great Depression is whether expansionary monetary policy in the United States would have led to a loss of confidence in the U.S. commitment to the gold standard. This paper uses the $1 billion expansionary open market operation undertaken in the spring of 1932 as a crucial case study of the link between monetary expansion and expectations of devaluation. Data on forward exchange rates are used to measure expectations of devaluation during this episode. We find little evidence that the large monetary expansion led investors to believe that the United States would devalue. The financial press and the records of the Federal Reserve also show little evidence of expectations of devaluation or fear of a speculative attack. We find that a flawed model of the effects of monetary policy and conflict among the twelve Federal Reserve banks, rather than concern about the gold standard, led the Federal Reserve to suspend the expansionary policy in the summer of 1932.

Huck, Steffen

PD May 2000. **TI** Through Trial and Error to Collusion -- The Discrete Case. **AU** Huck, Steffen; Normann, Hans-Theo; Oechssler, Jorg. **AA** Huck: Royal Holloway College. Normann: Humboldt University. Oechssler: University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/06; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 17. **PR** no charge. **JE** C72, L13. **KW** Learning. Cournot Oligopoly. Collusion.

AB In this note we study a very simple trial & error learning process in the context of a Cournot oligopoly. Without any knowledge of the payoff functions players increase, respectively decrease, their quantity by one unit as long as this leads to higher profits. We show that despite the absence of any coordination or punishing device this process converges to a collusive outcome.

Hvide, Hans K.

TI Free-Entry Equilibrium in a Market for Certifiers. **AU** Heifetz, Aviad; Hvide, Hans K.

Ianni, Antonella

PD May 2001. **TI** The Dynamics of Public Opinion under Majority Rules. **AU** Ianni, Antonella; Corradi, Valentina. **AA** Ianni: University of Southampton. Corradi: University of Exeter. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0109; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 26. **PR** no charge. **JE** D72. **KW** Majority Rules. Public Opinion. Contagion. Co-Existence. Local Interaction.

AB This note explains the process of public opinion formation via a locally interactive, space-time analysis. The model used is a special case of the general framework for modelling social interaction proposed in Blume and Durlauf (2001). The reduced form of the model studies how each individual, when faced with the choice of one, out of two, opinions, tends to conform to the opinion held by the majority of her neighbors. The paper considers different, symmetric and asymmetric, majority rules. Depending on the specific behavioral rule, the aggregate process of opinion formation may display contagion on one specific opinion, or consensus among all individuals in the population, or co-existence of both opinions. Whenever consensus obtains, the formation of homogeneous areas (clusters) that seem almost stationary along the dynamics can be observed.

PD March 2002. **TI** Reinforcement Learning and the Power of Practice: Some Analytical Results. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0203; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 27. **PR** no charge. **JE** C72, C92, D83. **KW** Learning in Games. Law of Effect. Power Law of Practice. Nash Equilibrium. Exponential Convergence.

AB Erev and Roth (1998) provide a comprehensive analysis of experimental evidence on learning in games, based on a stochastic model of learning that accounts for two main elements: the Law of Effect (positive reinforcement of actions that perform well) and the Power Law of Practice (learning curves tend to be steeper initially). This note complements this literature by providing an analytical study of the properties of such learning models. Specifically, the paper shows that up to an error term, the stochastic process is driven by a system of discrete time difference equations of the replicator type. This carries an analogy with Borgers and Sarin (1997), where reinforcement learning accounts only for the Law of Effect. Also, if the trajectories of the system of replicator equations converge sufficiently fast, then the probability that all realizations of the learning process over a possibly infinite amount of time lie within a given small distance of the solution path of the replicator dynamics becomes, from some time on, arbitrarily close to one. Fast convergence, in the form of exponential convergence, is shown to hold for any strict Nash equilibrium of the underlying game.

Ichino, Andrea

PD May 2001. **TI** Are Judges Biased by Labor Market Conditions? The Selection of Firing Litigations for Trial in an Italian Firm. **AU** Ichino, Andrea; Polo, Michele; Rettore, Enrico. **AA** Ichino: European University Institute and CEPR. Polo: University Bocconi. Rettore: University of Padua, Italy. **SR** CEPR Discussion Paper: 2804; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** J41, J65, K31. **KW** Conflict Resolutions. Firing Costs. Internal Labor Relations.

AB When a firing litigation is taken to court, only the characteristics of the employees' misconduct should be relevant for the judge's decision. Using data from an Italian bank, this paper shows that, instead, local labor market conditions influence the court's decision: the same misconduct episode may be considered sufficient for firing in a tight labor market but insufficient otherwise. This finding is obtained after taking carefully into consideration the non-random selection of firing litigation for trial. The existence of a judge's bias is relevant for at least two research fields. For macroeconomists it suggests that higher unemployment rates may increase firing costs via the effect on courts' decision criteria; thus, the real extent of firing rigidities cannot be assessed without considering the role of courts. For labor law scholars, this finding is important because, following traditional principles, the law should be applied in the same way for all citizens and over the entire national territory.

Idzik, Adam

PD November 1999. **TI** Intersecting Balanced Families of Sets. **AU** Idzik, Adam; Katona, Gyula O. H.; Vohra, Rajiv. **AA** Idzik: Polish Academy of Science. Katona: Hungarian Academy of Sciences. Vohra: Brown University. **SR** Brown University, Department of Economics Working Paper: 99/33; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 11. **PR** no charge. **JE** C71. **KW** Extremal Problems. Regular Family. Balanced Family.

AB Suppose that any t members (t is greater than or equal to 2) of a regular family on an n element set have at least k common elements. This paper proves that the largest member of the family has at least k raised to the one on t, all times n raised to the one minus one on t elements. The same holds for balanced families, which is a generalization of regularity. The estimate is asymptotically sharp.

Imai, Ryoichi

TI Unstable Relationships. **AU** Burdett, Kenneth; Imai, Ryoichi; Wright, Randall.

Imai, Susumu

PD May 2001. **TI** Employment, Dynamic Deterrence and Crime. **AU** Imai, Susumu; Krishna, Kala. **AA** Imai: Pennsylvania State University. Krishna: Pennsylvania State University and NBER. **SR** National Bureau of Economic Research Working Paper: 8281; 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** J20, J30, K14, K42. **KW** Crime. Employment. Maximum Likelihood Estimation.

AB Using monthly panel data we solve and estimate, using maximum likelihood techniques, an explicitly dynamic model of criminal behavior where current criminal activity adversely affects future employment outcomes. This acts as "dynamic deterrence" to crime: the threat of future adverse effects on employment payoffs when caught committing crimes reduces the incentive to commit them. We show that this dynamic deterrence effect is strong in the data. Hence, policies which weaken dynamic deterrence will be less effective in fighting crime. This suggests that prevention is more powerful than redemption since the latter weakens dynamic deterrence as anticipated future redemption allows criminals to look forward to negating the consequences of their crimes. Static models of criminal behavior neglect this and hence sole reliance on them can result in misleading policy analysis.

Inderst, Roman

PD April 2001. **TI** Corporate Borrowing and Financing Constraints. **AU** Inderst, Roman; Muller, Holger M. **AA** Inderst: London School of Economics and CEPR. Muller: New York University. **SR** CEPR Discussion Paper: 2784; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** G31, G32, G34. **KW** Diversification Discount. Internal Capital Markets. Theory of the Firm. Financing Constraints.

AB This paper adopts an optimal contracting approach to internal capital markets. The paper studies the role of headquarters in contracting with outside investors, with a focus on whether headquarters eases or amplifies financing constraints compared to decentralized firms where individual project managers borrow separately. If projects differ in their ex post cash-flows, headquarters makes greater repayments to investors than decentralized firms, which eases financing constraints. Effectively, headquarters then subsidizes low-return projects with high-return projects' cash. On the other hand, headquarters may, by pooling cash flows and accumulating internal funds, make investments without having to return to the capital market. Without any capital market discipline, however, it is harder for outside investors to force the firm to disgorge funds, which tightens financing constraints ex ante. Both the costs and benefits of internal capital markets are endogenous and arise as part of an optimal financial contract. The results are consistent with empirical findings showing that conglomerate firms trade at a discount relative to a comparable portfolio of stand-alone firms.

Iossa, Elisabetta

PD May 2001. **TI** Third Party Monitoring and Golden Parachutes. **AU** Iossa, Elisabetta; Legros, Patrick. **AA** Iossa: Brunel University. Legros: ECARES, Universite Libre de Bruxelles. **SR** CEPR Discussion Paper: 2777; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D62, D82, L33, L51. **KW** Externality. Golden Parachutes. Monitoring. Regulation.

AB When today's actions can affect tomorrow's value of an asset and when the principal does not have access to information, two incentive problems must be simultaneously solved: 1)The "ex-ante" moral hazard problem of inducing higher productive effort from the agent; 2)The "ex- post" problem of inducing auditing and revelation of information from the auditor. Surprisingly, the first best can be attained in the negative externality (higher effort decreases the expected future quality of the asset) case: it is enough for the principal to commit to reallocate the right to use the asset at the end of the first period. In the positive externality case, a change in the rights to use the asset is no longer sufficient for efficiency in the second best situation. Rather, auditing by a potential entrant becomes necessary and a mix of property rights reallocation and transfers is necessary to solve the two incentive problems. The paper shows that the second best optimal takes the form of a generalized "golden parachute" contract where for high outputs the agent is replaced by the third party and leaves with a fixed compensation.

Ireland, Peter N.

PD February 2001. **TI** Money's Role in the Monetary Business Cycle. **AA** Boston College and NBER. **SR** National Bureau of Economic Research Working Paper: 8115; 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** E31, E32, E52. **KW** Monetary Business Cycle. Monetary Policy.

AB A structural model of the monetary business cycle implies that real money balances enter into a correctly-specified, forward-looking IS curve if and only if they enter into a correctly-specified, forward- looking Phillips curve. The model also implies that empirical measures of real balances must be adjusted for shifts in money demand to accurately isolate and quantify the dynamic effects of money on output and inflation. Maximum likelihood estimates of the model's parameters take both of these considerations into account, but still suggest that money plays a minimal role in the monetary business cycle.

PD June 1999. **TI** A Method for Taking Models to the Data. **AA** Boston College. **SR** Federal Reserve Bank of Cleveland Working Paper: 9903; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clev.frb.org. **PG** 24. **PR** no charge. **JE** C51, C52, E32, E37. **KW** Business Cycle. General Equilibrium. VAR. Maximum Likelihood.
AB This paper develops a method for combining the power of a dynamic, stochastic, general equilibrium model with the flexibility of a vector autoregressive time-series model to obtain a hybrid that can be taken directly to the data. It estimates this hybrid model via maximum likelihood and uses the results to address a number of issues concerning the ability of a prototypical real business cycle model to explain movements in aggregate output and employment in the postwar US economy, the stability of the real business cycle model's structural parameters, and the performance of the hybrid model's out-of-sample forecasts.

Ivaldi, Marc

PD February 2001. **TI** Quantifying the Effects from Horizontal Mergers in European Competition Policy. **AU** Ivaldi, Marc; Verboven, Frank. **AA** Ivaldi: Universite des Sciences Sociales de Toulouse and CEPR. Verboven: Catholic University of Leuven. **SR** CEPR Discussion Paper: 2697; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** L13, L41, L62. **KW** Competition Policy. Differentiated Product Markets. Merger Analysis. Nested Logit. Europe.
AB This paper starts from a recent case studying how merger analysis in Europe may potentially be improved through simulation analysis. Starting from the product and geographic market definition in the Merger Decision, we formulate and estimate an oligopoly model with differentiated products. The model is simulated to account for the changed multiproduct ownership structure after the merger. We show how our first two tests, a potential and an actual market power test, produce useful information, complementary to the traditional dominance principle adopted in the European Union. A drastic revision of current merger principles is thus not required. We also show how simulation analysis can provide useful additional information that goes beyond the traditional dominance principle. This is illustrated through two examples. First, we analyze the effects of efficiencies through cost savings. Second, we compare alternative merger scenarios.

Ivanov, Ventzislav

PD January 2001. **TI** A Practitioner's Guide to Lag-Order Selection for Vector Autoregressions. **AU** Ivanov, Ventzislav; Kilian, Lutz. **AA** Ivanov: University of Michigan. Kilian: European Central Bank and University of Michigan. **SR** CEPR Discussion Paper: 2685; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** C32, C51, E37. **KW** Impulse Responses. Lag Orders. Model Selection. VAR. VEC.
AB An important preliminary step in impulse response analysis is to select the vector autoregressive (VAR) lag order from the data, yet little is known about the implications of alternative lag order selection criteria for the accuracy of the impulse response estimates. In this Paper, we compare the criteria most commonly used in applied work in terms of the mean-squared error of the implied impulse response estimates. We conclude that for monthly VAR models, the Akaike Information Criterion (AIC) produces the most accurate structural and semi-structural impulse response estimates for realistic sample sizes. For quarterly VAR models, the Hannan-Quinn Criterion (HQC) appears to be the most accurate criterion with the exception of sample sizes smaller than 120, for which the Schwarz Information Criterion (SIC) is more accurate. For persistence profiles based on quarterly vector error correction (VEC) models, the SIC is the most accurate criterion for all realistic sample sizes. Sequential Lagrange-multiplier and likelihood ratio tests cannot be recommended.

Jaffe, Adam B.

TI Market Value and Patent Citations: A First Look. **AU** Hall, Bronwyn H.; Jaffe, Adam B.; Trajtenberg, Manuel.

TI The NBER Patent Citations Data File: Lessons, Insights and Methodological Tools. **AU** Hall, Bronwyn H.; Jaffe, Adam B.; Trajtenberg, Manuel.

Janeba, Eckhard

PD April 2001. **TI** Global Corporations and Local Politics: A Theory of Voter Backlash. **AA** University of Colorado and NBER. **SR** National Bureau of Economic Research Working Paper: 8254; 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** D78, F23, H20. **KW** Foreign Investment. Local Politics. Policy Reversals.
AB Host governments often display two types of behavior toward outside investors. At an initial stage they eagerly compete for production facilities by offering subsidy packages, but often reverse these policies at a later point. In contrast to the literature that explains the behavior as a result of a hold-up problem, this paper argues that policy reversals are the result of a change in the policy choice or identity of the policy maker. Voters disagree over the net benefits of attracting corporations because of a redistributional conflict. Economic shocks change who is policy maker over time by affecting (i) the number of people who support the corporation, (ii) the incentive of an opponent of the firm to become a candidate, and (iii) the opponent's probability of winning the election against a proponent. The paper shows also that societies with more skewed income distributions are less likely to attract outside investment. While the interpretation of the model is cast in the context of foreign investment, the model has more applications and can be seen as a general theory of voter backlash.

Jang, Insong

PD January 2001. **TI** Forward Looking Behavior and Empirical Household Consumption Function. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2001/07; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 40. **PR** no charge. **JE** D12, D91, E21. **KW** Consumption Function. Uncertainty. Human Wealth. Forward Looking.

AB Modern consumer theories are built upon the premise of the forward looking behavior of households. While most of the empirical studies at micro level are based on Euler equation, there have been few to estimate the household consumption function and test the implication of forward looking behavior directly. One of the main difficulties is that forward looking behavior involves such variables as human wealth and income uncertainty which are not directly observable. This paper exploits the rotating panel feature of Consumer Expenditure Survey to construct the proxies and test significance of them in the household consumption function. We fail to find evidence to support forward- looking behavior over long horizon.

Jappelli, Tullio

PD May 2001. **TI** Tax Incentives and the Demand for Life Insurance: Evidence from Italy. **AU** Jappelli, Tullio; Pistaferri, Luigi. **AA** Jappelli: Universita di Salerno and CEPR. Pistaferri: Stanford University. **SR** CEPR Discussion Paper: 2787; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D10, D91, H20. **KW** Portfolio Choice. Saving. Tax Incentives. Life Insurance.

AB The theoretical literature suggests that taxation can have a large impact on household portfolio selection and allocation. This paper considers the tax treatment of life insurance, considering the cancellation of tax incentives in Italian life insurance contracts for investors with high marginal tax rates and the introduction of incentives for those with low rates. Using repeated cross-sectional data from 1989 to 1998, the paper finds that the tax reforms had no effect on the decision to invest in life insurance or the amount invested. The likely explanations are the lack of information and lack of commitment to long-term investment.

Jazbec, Bostjan

TI Real Exchange Rate Dynamics in Transition Economies. **AU** Coricelli, Fabrizio; Jazbec, Bostjan.

Jennings, Colin

TI Group Formation and Competition: Instrumental and Expressive Approaches. **AU** Hamlin, Alan; Jennings, Colin.

Jensen, Henrik

PD February 2001. **TI** Optimal Degrees of Transparency in Monetary Policymaking. **AA** University of Copenhagen and CEPR. **SR** CEPR Discussion Paper: 2689; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E42, E52, E58. **KW** Central Banking. Monetary Policy. Transparency.

AB According to most academics and policymakers, transparency in monetary policymaking is desirable. I examine this proposition in a small theoretical model emphasizing forward-looking private sector behavior. Transparency makes it easier for price setters to infer the central bank's future policy intentions, thereby making current inflation more responsive to policy actions. This induces the central bank to pay more attention to inflation rather than output gap stabilization. Then, transparency may be disadvantageous. It may actually be a policy-distorting straitjacket if the central bank enjoys low-inflation credibility, and there is need for active monetary stabilization policy.

Jensen, J. Bradford

TI Why Some Firms Export. **AU** Bernard, Andrew B.; Jensen, J. Bradford.

Jermann, Urban J.

TI The Size of the Permanent Component of Asset Pricing Kernels. **AU** Alvarez, Fernando; Jermann, Urban J.

Jimeno-Serrano, Juan

TI Drawing Lessons from the Boom of Temporary Jobs in Spain. **AU** Dolado, Juan Jose; Garcia-Serrano, Carlos; Jimeno-Serrano, Juan Francisco.

Johal, Surjinder

PD August 2002. **TI** Limiting Political Discretion and International Environmental Policy Coordination with Active Lobbying. **AU** Johal, Surjinder; Ulph, Alistair. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0212; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 43. **PR** no charge. **JE** D72, F02, F12, F18, Q28. **KW** Environmental Policy. Supranational Agencies. Special Interest Groups. Lobbying. Constitutional Choices.

AB This paper addresses two concerns: trade liberalization, which may lead to a race-to-the bottom in environmental standards; supra-national agencies, who might overcome this, but may be captured by special interest groups. This raises two sets of choices: whether to set environmental policy at the national or supra-national level, and whether to limit political discretion by agencies. In Johal and Ulph (2001a) it was shown that policy should always be set at the supra- national level, whether or not political discretion was limited, and that it would never pay to limit political discretion at the supra-national level unless it was also limited at the national level. In that paper, there were exogenous probabilities of agencies being captured by one group or another. In this paper, the probabilities of capture depend on the lobbying efforts of interest groups. Thus, the results of Johal and Ulph (2001a) are robust to the introduction of active lobbying.

Johnson, Richard

PD October 2001. **TI** Effects of Old-Age Insurance on Female Retirement: Evidence from Cross-Country Time-Series Data. **AA** Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP01/08; 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** 34. **PR** no charge. **JE** H55, J14, J21, J26. **KW** Social Security. Public Pensions. Elderly. Labor Force Participation. Retirement Policies.

AB *This paper examines the effect of Old-Age Insurance*

(OAI) on older women's labor-force participation in fourteen countries since around 1930. Older women's participation has risen in the US. but has fallen over time in some European countries. The discontinuity of incentives at the state pension age helps separate OAI's effects from those of social mores and husbands' retirements. Clear effects of OAI on female retirement emerge slowly in time series. A finding of this paper is that, were Germany to adopt the US Social Security system, the participation rate of German women aged 60-4 would increase by 7 percentage points.

Johri, Alok

TI Asymmetric Labor Adjustment, Organizational Capital and Aggregate Job Flows. **AU** Gonzalez, Francisco M.; Johri, Alok.

Jolivaldt, Phillippe

TI Testing for Unit Roots on Heterogeneous Panels: A Sequential Approach. **AU** Henin, Pierre-Yves; Jolivaldt, Phillippe; Nguyen, Anh.

Jones, Larry E.

PD November 2000. **TI** Technology (and Policy) Shocks in Models of Endogenous Growth. **AU** Jones, Larry E.; Manuelli, Rudolfo E.; Stacchetti, Ennio. **AA** Jones: Federal Reserve Bank of Minneapolis and University of Minnesota. Manuelli: University of Wisconsin. Stacchetti: University of Michigan. **SR** Federal Reserve Bank of Minneapolis Staff Report: 281; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 41. **PR** no charge. **JE** E32, E62. **KW** Business Cycles. Stochastic Growth. Stochastic Fiscal Policy.

AB Our objective is to understand how fundamental uncertainty can affect the long-run growth rate and what factors determine that nature of the relationship. Qualitatively, we show that the relationship between volatility in fundamentals and policies and mean growth can be either positive or negative. We identify the curvature of the utility function as a key parameter that determines the sign of the relationship. Quantitatively, we find that when we move from a world of perfect certainty to one with uncertainty that resembles the average uncertainty in a large sample of countries, growth rates increase, but not enough to account for the large differences in mean growth rates observed in the data. However, we find that differences in the curvature of preferences have substantial effects on the estimated variability of stationary objects like the consumption/output ratio and hours worked.

Jones, Stephen R. G.

PD August 2002. **TI** Unemployment and Non-Employment: Heterogeneities in Labour Market States. **AU** Jones, Stephen R. G.; Riddell, W. Craig. **AA** Jones: McMaster University. Riddell: University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/12; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 46. **PR** international. **JE** C82, E24, J60. **KW** Unemployment. Non-Employment. Labor Force Participation. Marginal Attachment. Discouraged Workers. Wait Unemployment.

AB Determining how to distinguish between unemployment and non- participation is important and controversial. The conventional approach employs a priori reasoning together with self-reported current behavior. This paper employs an evidence-based classification of labor force status using information about the consequences of the behavior of the non-employed. It is found that marginal attachment among those who desire work, although not searching is a distinct labor market state, lying between those who do not desire work and the unemployed. Furthermore, there are important heterogeneities within these non- employment states. Two subsets of non-participants -- both engaged in "waiting" -- display behavior similar to the unemployed.

Jousten, Alain

PD May 2001. **TI** Labour Mobility, Redistribution and Pensions Reform in Europe. **AU** Jousten, Alain; Pestieau, Pierre. **AA** Universite de Liege and CEPR. **SR** CEPR Discussion Paper: 2792; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** H30, H70, J60. **KW** Europe. Mobility. Pension. Redistribution.

AB In this paper, we discuss the main characteristics of European mandatory pension systems and the implications for these systems of increasing factor mobility. In particular, we expect the extent of redistribution (both intra- and intergenerational) in national pension systems to decrease. The latter result should hold true even in the presence of mobility limited to some particular subgroups in the working population. We explore this issue by considering three types of mobility: not only mobility at the beginning of the working life, but also mobility during the working career and mobility at retirement.

TI Micro-Modeling of Retirement in Belgium. **AU** Dellis, Arnaud; Jousten, Alain; Perelman, Sergio.

Juillard, Michel

TI Macroeconomic Consequences of Pension Reforms in Europe: An Investigation with the INGENUE World Model. **AU** Aglietta, Michel; Chateau, Jean; Fayolle, Jacky; Juillard, Michel; Le Cacheux, Jacques; Le Garrec, Gilles; Touze, Vincent.

TI Macroeconomic Consequences of Pension Reforms in Europe: An Investigation with the INGENUE World Model. **AU** Aglietta, Michel; Chateau, Jean; Fayolle, Jacky; Juillard, Michel; Le Cacheux, Jacques; Le Garrec, Gilles; Touze, Vincent.

Jullien, Bruno

PD July 2001. **TI** Competing with Network Externalities and Price Discrimination. **AA** Universite des Sciences Sociales de Toulouse and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2883; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D40, D83, L13, L15. **KW** Compatibility. Competition. Cross-Subsidy. Network Externalities. Price Discrimination.

AB This paper examines competition between a dominant network and a challenging network with third-degree or perfect price-discrimination, allowing for arbitrary configurations of network externalities, as well as horizontal and vertical product differentiation. Domination in the coordination game played by consumers is achieved through an adequate resolution that favors one firm over the other, and is interpreted as a reputation effect. Price-discrimination in this context has a strong impact because cross-subsidization allows a firm to coordinate the choices of consumers, reducing the impact of reputation effects. Competitive strategies subsidize the participation of some consumers in order to create a bandwagon effect on others. This drastically intensifies competition and reduces average equilibrium prices. Because bandwagon effects are due to the incompatibility of networks, under perfect price-discrimination, both networks prefer to be compatible. Price-discrimination promotes efficiency by reducing the extent of excess inertia, but new features of excess momentum and market instability appear. A network may also have incentives to unilaterally degrade the quality for some targeted group of consumers in order to weaken competition.

Justman, Moshe

TI Education, Social Cohesion and Economic Growth. **AU** Gradstein, Mark; Justman, Moshe.

Kahn, Matthew E.

TI Decentralized Employment and the Transformation of the American City. **AU** Glaeser, Edward L.; Kahn, Matthew E.

Kanbur, Ravi

TI The Race to the Bottom, From the Bottom. **AU** Chau, Nancy H.; Kanbur, Ravi.

Kantor, Shawn

TI The Impact of New Deal Expenditures on Local Economic Activity: An Examination of Retail Sales, 1929-1939. **AU** Fishback, Price V.; Horrace, William C.; Kantor, Shawn.

TI Do Federal Programs Affect Internal Migration? The Impact of New Deal Expenditures on Mobility During the Great Depression. **AU** Fishback, Price V.; Horrace, William C.; Kantor, Shawn.

Karceski, Jason

TI The Level and Persistence of Growth Rates. **AU** Chan, Louis K. C.; Karceski, Jason; Lakonishok, Josef.

Katona, Gyula O. H.

TI Intersecting Balanced Families of Sets. **AU** Idzik, Adam; Katona, Gyula O. H.; Vohra, Rajiv.

Katz, Michael L.

TI An Economist's Guide to U.S. v. Microsoft. **AU** Gilbert, Richard J.; Katz, Michael L.

TI Competition or Predation? Schumpeterian Rivalry in Network Markets. **AU** Farrell, Joseph; Katz, Michael L.

Kaul, Ashok

TI Dynamic Efficiency and Pareto Optimality in a Stochastic OLG Model with Production and Social Security. **AU** Barbie, Martin; Hagedorn, Marcus; Kaul, Ashok.

Keane, Michael

TI A Political Economy Model of Congressional Careers. **AU** Diermeier, Daniel; Keane, Michael; Merlo, Antonio.

Keeble, David

PD March 2001. **TI** Why Do Business Service Firms Cluster? Small Consultancies, Clustering and Decentralisation in London and Southern England. **AU** Keeble, David; Nachum, Lilach. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP194; Publications Secretary, ESRC Centre for Business Research, University of Cambridge, Austin Robinson Building, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 30. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. . **JE** L11, L22, L84, O31. **KW** Business Services. Clustering. Britain. Globalization. Collective Learning.

AB Notwithstanding their remarkable recent growth, surprisingly little research has hitherto been conducted on the evolving geography of professional and business services in Britain. This paper analyses the results of a detailed survey of 300 small and medium-sized management and engineering consultancies, in investigating the forces underpinning both the striking clustering of such firms in central London and their growth in decentralized locations of East Anglia and South West England. Particular attention is paid to the role of demand-side influences, localized "collective learning" processes, and increasing globalization in clustering, and to so called "enterprising behavior theory" in explaining decentralization.

TI External Networks and Geographic Clustering as Sources of MNE Advantages: Foreign and Indigenous Professional Service Firms in Central London. **AU** Nachum, Lilach; Keeble, David.

Kehoe, Patrick J.

TI Hot Money. **AU** Chari, V. V.; Kehoe, Patrick J.

TI A Decade Lost and Found: Mexico and Chile in the 1980s. **AU** Bergoeing, Raphael; Kehoe, Patrick J.; Kehoe, Timothy J.; Soto, Raimundo.

TI Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates? **AU** Chari, V. V.; Kehoe, Patrick J.; McGrattan, Ellen R.

TI Measuring Organization Capital. **AU** Atkeson, Andrew; Kehoe, Patrick J.

Kehoe, Timothy J.

TI Trade Theory and Trade Facts. **AU** Bergoeing, Raphael; Kehoe, Timothy J.

TI A Decade Lost and Found: Mexico and Chile in the 1980s. **AU** Bergoeing, Raphael; Kehoe, Patrick J.; Kehoe, Timothy J.; Soto, Raimundo.

Kessler, Anke S.

PD October 2000. **TI** Optimal Contracting with Verifiable Ex Post Signals. **AU** Kessler, Anke S.; Lulfesmann, Christoph; Schmitz, Patrick W. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/19; Graduate School of

Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 21. **PR** no charge. **JE** C72, D82. **KW** Adverse Selection. Ex Post Information. Wealth Constraints. Upward Distortion.

AB We study an adverse selection problem in which information that is imperfectly correlated with the agent's type becomes public ex post. Unbounded penalties are ruled out by assuming that the agent is wealth constrained. The following conclusions emerge. If the agent's utility is increasing in the contractual action (e.g. the quantity traded), the downward distortion in bad states may be strengthened. Hence, ex post information can reduce efficiency. In contrast, if the agent's utility is decreasing in the action level, there may be an upward distortion. Moreover, his rent may increase due to the ex post signal about his type. The qualitative results thus differ substantially depending on the specific situation under consideration, e.g., whether the agent is in a "buyer" or "seller" position. In both cases, however, additional information need not improve the efficiency of the relationship.

PD November 2000. **TI** Representative Versus Direct Democracy: The Role of Informational Asymmetries. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/18; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 35. **PR** no charge. **JE** D61, D78. **KW** Direct Democracy. Representative Democracy. Constitutional Choice. Delegation.

AB The paper studies the relative merits of direct and representative legislation in a setting where voters are uncertain both with respect to the likely consequences of different policies and with respect to the political preferences of their fellow citizens. Under representative legislation, the latter translates into uncertainty on the elected official's future policy intentions which involve a loss of control. The resulting discretionary power, however, also leads officials to endogenously acquire competence on the issues they oversee and specialize in policy formation. Policies determined in representative democracies are therefore better tailored to relevant contingencies but less close to the preferences of a majority than those determined in popular ballots. It is shown that the extent of the resulting trade-off depends on the set of alternatives among which the policy is to be chosen. Two extensions, referenda and the possibility of re-election are briefly considered.

Kilian, Lutz

TI A Practitioner's Guide to Lag-Order Selection for Vector Autoregressions. **AU** Ivanov, Ventzislav; Kilian, Lutz.

Kim, Sun-Bin

TI From Individual to Aggregate Labor Supply: A Quantitative Analysis Based on Heterogeneous-Agent Macroeconomy. **AU** Chang, Yongsung; Kim, Sun-Bin.

King, Elizabeth

TI Vouchers for a Private Schooling in Colombia: Evidence from a Randomized Natural Experiment. **AU** Angrist, Joshua; Bettinger, Eric; Bloom, Erik; King, Elizabeth; Kremer, Michael.

TI Vouchers for a Private Schooling in Colombia: Evidence from a Randomized Natural Experiment. **AU** Angrist, Joshua; Bettinger, Eric; Bloom, Erik; King, Elizabeth; Kremer, Michael.

Kinoshita, Yuko

PD May 2001. **TI** R&D and Technology Spillovers Through FDI: Innovation and Absorptive Capacity. **AA** CERGE-EI and CEPR. **SR** CEPR Discussion Paper: 2775; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E22, F21, F23, L60, O12. **KW** Absorptive Capacity. Foreign Direct Investment. R&D. Spillovers. Productivity.

AB This paper examines the effects of two faces of R&D (innovation and development of absorptive or learning capacity) and technology spillovers from foreign direct investment (FDI) on a firm's productivity growth. Using firm-level panel data on Czech manufacturing firms between 1995 and 1998, it is found that: 1) The learning effect of R&D is more important than the innovative effect of R&D in explaining the productivity growth of a firm; 2) Technology spillovers from FDI occur for firms that are more R&D intensive; 3) Spillovers from foreign joint ventures are insignificant for Czech manufacturing firms; 4) The extent of technology spillovers is greater in oligopolistic sectors (electrical machinery and radio and television) than in non-oligopolistic sectors (food, non-metallic minerals, and other manufacturing).

Kirchsteiger, Georg

PD January 2001. **TI** Your Morals are Your Moods. **AU** Kirchsteiger, Georg; Rigotti, Luca; Rustichini, Aldo. **AA** Kirchsteiger: University of Vienna. Rigotti: CentER, Tilburg University, and University of California, Berkeley. Rustichini: Boston University and University of Minnesota. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/294; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720- 1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 24. **PR** $3.50 U.S.; $7.50 International. **JE** C73, C93, L83. **KW** Emotions. Motivation. Rationality. Reciprocity. Fairness.

AB We test the effect of players' moods on their behavior in a gift- exchange game. In the first stage of the game, player 1 chooses a transfer to player 2. In the second stage, player 2 chooses an effort level. Higher effort is more costly for player 2, but it increases player 1's payoff. We say that player 2 reciprocates if effort is increasing in the transfer received. Player 2 is generous if an effort is incurred even when no transfer is received. Subjects play this game in two different moods. To induce a "bad mood," subjects in the role of player 2 watched a sad movie before playing the game; to induce a 'good mood', they watched a funny movie. Mood induction was effective: subjects who saw the funny movie reported a significantly better mood than those who saw the sad movie. These two moods lead to significant differences in player 2's behavior. We find that a bad mood implies more reciprocity while a good mood implies more generosity.

Klein, Alexander

TI Fairness, Incentives and Contractual Incompleteness. **AU** Fehr, Ernst; Klein, Alexander; Schmidt, Klaus.

Knowles, John

TI More on Marriage, Fertility, and the Distribution of Income. **AU** Greenwood, Jeremy; Guner, Nezih; Knowles, John.

Kocherlakota, Narayana R.

TI Finite Memory and Imperfect Monitoring. **AU** Cole, Harold L.; Kocherlakota, Narayana R.

PD March 2001. **TI** Building Blocks for Barriers to Riches. **AA** University of Minnesota and Federal Reserve Bank of Minneapolis. **SR** Federal Reserve Bank of Minneapolis Staff Report: 288; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 24. **PR** no charge. **JE** D42, O11, O17. **KW** Development. Technology Adoption. Enforcement. Inequality.
AB Total factor productivity (TFP) differs greatly across countries. This paper provides a novel rationalization for these differences. It considers two environments, one in which enforcement is full and the other in which enforcement is limited. In both settings, manufactured goods can be produced using a high-TFP technology or a low-TFP technology; there is a fixed cost associated with adoption of the former. The paper supposes that the fixed cost is sufficiently small that adoption takes place in a symmetric Pareto optimum in the limited-enforcement setting. Under this condition, the paper provides proofs of two results. First, adoption takes place in all Pareto optima in the full-enforcement setting, if the division of social surplus is sufficiently unequal. The paper concludes that limited enforcement and high inequality interact to create particularly strong barriers to riches (in the language of Parente and Prescott (1999, 2000)).

TI Optimal Indirect and Capital Taxation. **AU** Golosov, Mikhail; Kocherlakota, Narayana R.; Tsyvinski, Aleh.

Kohler, Hans-Peter

TI Social Networks, Family Planning and Worrying About AIDS: What Are the Network Effects if Network Partners are Not Determined Randomly? **AU** Behrman, Jere R.; Kohler, Hans-Peter; Watkins, Susan Cotts.

Kolmar, Martin

TI Self-Correcting Mechanisms in Public Procurement: Why Award and Contract Should be Separated. **AU** Bos, Dieter; Kolmar, Martin.

TI Anarchy, Efficiency, and Redistribution. **AU** Bos, Dieter; Kolmar, Martin.

Konings, Jozef

PD May 2001. **TI** Import Diversion Under European Antidumping Policy. **AU** Konings, Jozef; Springael, Linda; Vandenbussche, Hylke. **AA** Konings: Katholieke Universiteit Leuven and CEPR. Springael: not available. Vandenbussche: University of Leuven. **SR** CEPR Discussion Paper: 2785; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F13, L13, L50. **KW** Antidumping Measures. Econometric Testing. Trade Diversion.
AB This paper studies empirically the effects of European antidumping actions on import diversion from importers "named" in an antidumping investigation, and potentially subject to protectionist measures, to countries "not named" in the investigation. The paper uses a unique data set at the 8-digit product level. The amount of import diversion can be regarded as an indication of the effectiveness of antidumping policy, which is used to protect the home industry from foreign imports. The paper finds that trade diversion in the European Union caused by antidumping actions -- in contrast to the US -- is limited, suggesting that the EU's antidumping policy is more effective in keeping imports out. This result holds even after controlling for selection-bias in the antidumping investigation procedure. A number of explanations for this difference in trade diversion as a result of antidumping policy between the EU and US are formulated.

Konrad, Kai A.

PD February 2001. **TI** Repeated Expropriation Contests and Foreign Direct Investment. **AA** Wissenschaftszentrum Berlin fur Sozialforschung and CEPR. **SR** CEPR Discussion Paper: 2695; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F21, F23, G15, H87. **KW** Confiscatory Taxation. Conflict. Expropriation. Foreign Direct Investment. Fractionalization.
AB This Paper considers the incentives for foreign direct investment in transformation countries if actual expropriation is the possible result of a conflict between multinational firms and local or national governments. The Paper compares threats of complete expropriation and of repeated period-revenue confiscation. The Paper also shows that the timing of efforts in the contests is essential for the size of underinvestment. Short term commitment as regards timing can lead to first-best investment levels.

Kotlikoff, Laurence J.

PD April 2001. **TI** Finding a Way Out of America's Demographic Dilemma. **AU** Kotlikoff, Laurence J.; Smetters, Kent; Walliser, Jan. **AA** Kotlikoff: Boston University and NBER. Smetters: University of Pennsylvania and NBER. Walliser: International Monetary Fund. **SR** National Bureau of Economic Research Working Paper: 8258; 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** H20, H30, H55. **KW** Taxation. Fiscal Policies. Social Security.
AB Notwithstanding the rosy short-term fiscal scenarios being advanced, the demographic transition presents the United States with a very serious fiscal crisis. This study develops a dynamic general equilibrium life-cycle simulation model. The model is the first of its kind to admit realistic patterns of fertility and lifespan extension. It also features heterogeneity, within as well as across generations, and, thus, can be used to study both intra-and intergenerational equity. Unfortunately, the baseline demographic simulation, which assumes the continuation of current social security policy, shows deteriorating macroeconomic conditions that will exacerbate, rather than mitigate, the fiscal problems. Is there a painless way out of the demographic dilemma? The answer is no. Any policy, including replacing the existing social security system

with a privatized system of compulsory saving, will have losers as well as winners. But the simulations presented here demonstrate that social security's privatization, if conducted responsibly, entails moderate pain for current generations, but major gain for future generations, particularly those with very low incomes.

TI Does Participating in a 401(k) Raise Your Lifetime Taxes? **AU** Gokhale, Jagadeesh; Kotlikoff, Laurence J.; Neumann, Todd.

TI Social Security's Treatment of Postwar Americans: How Bad Can It Get? **AU** Gokhale, Jagadeesh; Kotlikoff, Laurence J.

TI The Impact of Social Security and Other Factors on the Distribution of Wealth. **AU** Gokhale, Jagadeesh; Kotlikoff, Laurence J.

Kozicki, Sharon

PD July 2001. **TI** Dynamic Specifications in Optimizing Trend-Deviation Macro Models. **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: RWP01/03; 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** 26. **PR** no charge. **JE** E32, E52. **KW** New-Keynesian Macro. Optimizing. Phillips Curve. Time-Varying Premiums.

AB As noted in surveys by Goodfriend and King (1997) and Walsh (1998) and exemplified by models analyzed in Taylor (1999), there is encouraging progress in developing optimizing trend-deviation macro models that provide useful insights into the transmission and design of monetary policy. Several controversial features of a minimalist trend- deviation model, with optimizing households, firms, and bond traders, are examined. Dynamic specifications are suggested to improve the data- based realism, while preserving the simplicity, of the minimalist model.

PD August 1998. **TI** Predicting Inflation With the Term Structure Spread. **AA** Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP98/02; 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** E37, E43, E52, F47. **KW** Expectations. Hypothesis. Fisher Hypothesis.

AB It is tempting to interpret empirical evidence in a number of recent studies as suggesting that term structure spreads help predict future inflation over moderate horizons of 3 to 5 years. This paper argues that common measures of the predictive power of the term structure spread for future inflation are misleading. In particular, R-squared for estimated inflation-change equations can drastically overstate the predictive power of spreads. The paper explains why the overstatement is likely to be particularly large in countries whose monetary authorities have strong reputations for credibly targeting a stable inflation rate. Results from an empirical analysis of data from eleven industrialized countries suggest that the level of the short-term real rate may be more useful for predicting inflation that the term structure spread, possibly because changes in short-term real rates provide clearer measures of changes in the stance of monetary policy.

PD August 1998. **TI** Vector Rational Error Correction. **AU** Kozicki, Sharon; Tinsley, P. A. **AA** Kozicki: Federal Reserve Bank of Kansas City. Tinsley: Federal Reserve System. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP98/03; 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** 22. **PR** no charge. **JE** C53, E22, G31. **KW** Adjustment Costs. Capital Equipment. Companion Systems. Vector Error Correction.

AB Systems of forward-looking linear decision rules can be formulated as vector "rational" error correction models. The closed-form solution of the restricted error corrections is derived, and a full-information estimator is suggested. The error correction format indicates that the assumptions of convex adjustment costs and rational expectations impose different types of a priori restrictions on the dynamic structure of the error corrections. An empirical model of the producer decision rule for capital investment illustrates that the data rejects dynamic restrictions imposed by a standard model of adjustment costs but supports a more general description of convex frictions.

PD September 1998. **TI** Term Structure Views of 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: RWP98/07; 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** 20. **PR** no charge. **JE** E43, E52. **KW** Expectations Hypothesis. Nonstationary Inflation. Shifting Endpoint.

AB Term structure models and many descriptions of the transmission of monetary policy rest on the empirical relevance of the expectations hypothesis. Small differences in the perceived policy reaction function in vector autoregressive models of agent expectations strongly influence the relevance in the transmission mechanism of the expected short rate component of bond yields. Mean-reverting or difference-stationary characterizations of interest rates require large and volatile term premiums to match the observable term structure. However, short rate descriptions that capture shifting perceptions of long- horizon inflation evident in survey data support a more substantial term structure role for short rate expectations.

Kraay, Aart

PD January 2001. **TI** Comparative Advantage and the Cross-Section of Business Cycles. **AU** Kraay, Aart; Ventura, Jaume. **AA** Kraay: The World Bank. Ventura: MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8104; 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** E32, F41. **KW** Business Cycles. Comparative Advantage.

AB Business cycles are both less volatile and more synchronized with the world cycle in rich countries than in poor ones. We develop two alternative explanations based on the idea that comparative advantage causes rich countries to specialize in industries that use new technologies operated by skilled workers, while poor countries specialize in industries that use traditional technologies operated by unskilled workers.

Since new technologies are difficult to imitate, the industries of rich countries enjoy more market power and face more inelastic product demands than those of poor countries. Since skilled workers are less likely to exit employment as a result of changes in economic conditions, industries in rich countries face more inelastic labor supplies than those of poor countries. We show that either asymmetry in industry characteristics can generate cross-country differences in business cycles that resemble those we observe in the data.

Krakel, Matthias

PD December 2000. **TI** Delegation and Strategic Compensation in Tournaments. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/17; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 21. **PR** no charge. **JE** C72, D82. **KW** Managers. Owners. Two-Stage Game. Incentives.

AB This paper considers a two-stage game with two owners and two managers. On the first stage, the owners choose a linear combination of profits and sales as incentives for their managers. On the second stage, the two managers compete in a tournament against each other. In a symmetric equilibrium, both owners induce their managers to maximize profits. In asymmetric equilibria, however, one owner puts a positive weight on sales and the other a negative weight.

Krause, Stefan

TI Financial Structure, Macroeconomic Stability and Monetary Policy. **AU** Cecchetti, Stephen G.; Krause, Stefan.

Krebs, Tom

PD April 1999. **TI** Information and Efficiency in Financial Market Equilibrium. **AA** Brown University. **SR** Brown University, Department of Economics Working Paper: 99/20; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 27. **PR** no charge. **JE** D52, D82, G12. **KW** General Equilibrium. Incomplete Markets. Efficiency. Information.

AB This paper studies the efficiency properties of competitive equilibria in one-good finance economies with private information and a finite state space. For a generic set of economies parameterized by signal-invariant endowment vectors, the endogenous variation of conditional probabilities generates a smooth manifold of fully revealing equilibria and a smooth manifold of partially revealing equilibria. The dimension of the manifold of fully revealing equilibria is strictly larger than the dimension of the manifold partially revealing (non-revealing) equilibria. Moreover, the set of (constrained) ex-ante Pareto efficient equilibria is contained in a lower dimensional submanifold of the manifold of fully revealing equilibria. Thus, for the typical finance economy the typical equilibrium is informationally efficient but allocationally inefficient. Finally, this paper shows that generically an increase in the informational content of signals has an arbitrary effect of the ex ante expected utility of individual agents and that this result holds for fully revealing and partially revealing (non-revealing) equilibria. Consequently, financial market prices sometimes reveal "too much" and sometimes "too little" information.

Krelle, Wilhelm

PD April 2000. **TI** Problems of Transition from a Planned to a Market Economy. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/04; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 41. **PR** no charge. **JE** E25, P21. **KW** Transition. Planned Economy. Market Economy. Suffering.

AB The paper shows that a transition from a planned to a market economy implies an important change of the structure of production, i.e. a reallocation of resources which takes time and induces sufferings for some people. These sufferings may be reduced by subsidization of some sectors, with some negative effects on GDP and growth if subsidization exceeds a certain size. The time till the economy in transition reaches an "old" market economy (asymptotically or totally) is estimated by different methods. Finally other problems, mostly non-economic ones, which are connected with the transition process, are discussed.

Kremer, Michael

PD April 2001. **TI** Searching for Prosperity. **AU** Kremer, Michael; Onatski, Alexei; Stock, James. **AA** Kremer and Stock: Harvard University and NBER. Onatski: Harvard University. **SR** National Bureau of Economic Research Working Paper: 8250; 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** D30, O47. **KW** Income Distribution. Transition Matrix Analysis. Ergodic Distribution.

AB Quah's (1993a) transition matrix analysis of world income distribution suggests an ergodic distribution with twin peaks at the rich and poor end of the distribution. Since the ergodic distribution is a highly non-linear function of the underlying transition matrix, it is estimated extremely noisily. Estimates over the foreseeable future are more precise. The Markovian assumptions underlying the analysis are much better satisfied with an analysis based on five-year transitions than one-year transitions. Such an analysis yields an ergodic distribution with 72% of mass in the top income category, but a prolonged transition, during which some inequality measures increase. The ergodic forecast and prolonged transition arise because countries' relative incomes move both up and down at moderate levels, but once countries reach the highest income category, they rarely leave it. This is consistent with a model in which countries search among policies until they reach an income level at which further experimentation is too costly. If countries can learn from each other's experience, the future may be much brighter than would be predicted based on projecting forward the historical transition matrix.

PD April 2001. **TI** A Biological Model of Unions. **AU** Kremer, Michael; Olken, Benjamin A. **AA** Kremer: Harvard University. Olken: Harvard University. **SR** National Bureau of Economic Research Working Paper: 8257; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 43. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** B41, E24, J51. **KW** Wages. Unions.

AB This paper applies principles from evolutionary biology to the study of unions. We show that unions which maximize the present discounted wages of current members will be displaced in evolutionary competition by unions with more moderate wage policies that allow their firms to live longer. This suggests that unions with constitutional incumbency advantages that allow leaders to moderate members' wage demands may have a selective advantage. The model also suggests that industries with high turnover of firms will have low unionization rates, and that there may be one equilibrium with high unionization and long-lived firms and another with low unionization and short-lived firms. These predictions seem broadly consistent with the data.

Krishna, Kala

TI Employment, Dynamic Deterrence and Crime. **AU** Imai, Susumu; Krishna, Kala.

Krishnan, Ramayya

TI Prices and Price Dispersion on the Web: Evidence from the Online Book Industry. **AU** Clay, Karen; Krishnan, Ramayya; Wolff, Eric.

Krueger, Dirk

TI Consumption over the Life Cycle: Some Facts from Consumer Expenditure Survey Data. **AU** Fernandez-Villaverde, Jesus; Krueger, Dirk.

Krusell, Per

PD February 2001. **TI** Equilibrium Welfare and Government Policy with Quasi-Geometric Discounting. **AU** Krusell, Per; Kuruscu, Burhanettin; Smith, Anthony A., Jr.. **AA** Krusell: University of Rochester and CEPR. Kuruscu and Smith: not available. **SR** CEPR Discussion Paper: 2693; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D61, E21, H21. **KW** Quasi-Geometric Discounting. Time Inconsistency. Welfare. Taxation.

AB We consider a representative-agent equilibrium model where the consumer has quasi-geometric discounting and cannot commit to future actions. With restricted attention to a parametric class for preferences and technology logarithmic utility, Cobb-Douglas production, and full depreciation we solve for time-consistent competitive equilibria globally and explicitly. For this class, we characterize the welfare properties of competitive equilibria and compare them to that of a planning problem. The planner is a consumer representative who, without commitment but in a time-consistent way, maximizes his present-value utility subject to resource constraints. The competitive equilibrium results in strictly higher welfare than does the planning problem whenever the discounting is not geometric. We also explicitly consider taxation in our environment. With a benevolent government that can tax income and capital, but cannot commit its future tax rates, time-consistent taxation leads to positive tax rates on capital. These tax rates reproduce the central planning solution, and thus imply a worse outcome in welfare terms than when there is no government.

Kubik, Jeffrey D.

TI Social Interaction and Stock-Market Participation. **AU** Hong, Harrison; Kubik, Jeffrey D.; Stein, Jeremy C.

Kurmann, Andre

TI Fair Wages in a New Keynesian Model of the Business Cycle. **AU** Danthine, Jean-Pierre; Kurmann, Andre.

Kuruscu, Burhanettin

TI Equilibrium Welfare and Government Policy with Quasi-Geometric Discounting. **AU** Krusell, Per; Kuruscu, Burhanettin; Smith, Anthony A., Jr..

La Ferrara, Eliana

TI Preferences for Redistribution in the Land of Opportunities. **AU** Alesina, Alberto F.; La Ferrara, Eliana.

LaCour-Little, Michael

TI Risk-Based Capital Requirements for Mortgage Loans. **AU** Calem, Paul S.; LaCour-Little, Michael.

Laderman, Elizabeth

TI Does the Community Reinvestment Act (CRA) Cause Banks to Provide a Subsidy to Some Mortgage Borrowers? **AU** Canner, Glenn B.; Laderman, Elizabeth; Lehnert, Andreas; Passmore, Wayne.

Lagos, Ricardo

TI Crime, Inequality, and Unemployment. **AU** Burdett, Kenneth; Lagos, Ricardo; Wright, Randall.

PD September 2002. **TI** A Unified Framework for Monetary Theory and Policy Analysis. **AU** Lagos, Ricardo; Wright, Randall. **AA** Lagos: New York University. Wright: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/040; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 48. **PR** free from website. **JE** D83, E40. **KW** Search. Monetary Exchange. Frictions. Money.

AB Search-theoretic models of monetary exchange are based on explicit descriptions of the frictions that make money essential. However, tractable versions usually have strong assumptions that make them ill- suited for discussing some policy questions, especially those concerning changes in the money supply. Hence most policy analysis uses reduced-form models. We propose a framework that attempts to bridge this gap: it is based explicitly on microeconomic frictions, but allows for interesting macroeconomic policy analyses. At the same time, the model is analytically tractable and amenable to quantitative analysis.

PD September 2002. **TI** Dynamics, Cycles and Sunspot Equilibria in "Genuinely Dynamic, Fundamentally Disaggregative" Models of Money. **AU** Lagos, Ricardo; Wright, Randall. **AA** Lagos: New York University. Wright: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/042; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 27. **PR** free from website. **JE** D83, E40. **KW** Money. Sunspots. Cycles. Search Models.

AB This paper pursues a line of Cass and Shell, who advocate monetary models that are "genuinely dynamic and fundamentally disaggregative" and incorporate "diversity among households and variety among commodities". Recent search-theoretic models fit this description. The paper shows that, like overlapping generations models, search models generate interesting dynamic equilibria, including cycles, chaos, and sunspot equilibria. This helps us understand how alternative models are related, and lends support to the notion that endogenous dynamics and uncertainty matter, perhaps especially in monetary economies. The paper also suggests such equilibria in search models may be more empirically relevant than in some other models.

Lagunoff, Roger D.

PD September 1998. **TI** A Model of Financial Fragility. **AU** Lagunoff, Roger D.; Schreft, Stacey L. **AA** Lagunoff: Georgetown University. Schreft: Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP98/01; 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** 41. **PR** no charge. **JE** E44, G11. **KW** Financial Crises. Interrelated Portfolios. Shocks to Investment.

AB This paper presents a dynamic, stochastic game-theoretic model of financial fragility. The model has two essential features. First, interrelated portfolios and payment commitments forge financial linkages among agents. Second, independently and identically distributed shocks to investment projects' operations at a single date cause some projects to fail. Investors who experience losses from project failures reallocate their portfolios, thereby breaking some linkages. In the Pareto-efficient symmetric equilibrium studied, two related types of financial crises can occur in response. One occurs gradually as defaults spread, causing even more links to break. An economy is more fragile ex post the more severe this financial crisis. The other type of crisis occurs instantaneously when forward-looking investors preemptively shift their wealth into a safe asset in anticipation of the contagion affecting them in the future. An economy is more fragile ex ante the earlier all of its linkages break from such a crisis. The paper also considers whether fragility is worse for larger economies.

Laidler, David E. W.

PD March 2001. **TI** From Bimetallism to Monetarism: The Shifting Political Affiliation of the Quantity Theory. **AA** University of Western Ontario. **SR** University of Western Ontario, Department of Economics Research Report: 2001/01; Research Report Coordinator, Economics Reference Center, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/econref/html/RRPaper.html. **PG** 32. **PR** International $10.00 (Canadian) plus $3.00 (Canadian) per order handling fee; pre-paid orders only; make checks payable to the University of Western Ontario. **JE** B10, B20, E50. **KW** Monetarism. Bimetallism. Gold Standard. Quantity Theory.

AB The quantity theory of money was associated with the politics of the right in the '70s and '80s, but a century earlier, particularly in America, it had played an important part in the proposals of the progressive left. These political associations are examined, and it is argued that a crucial factor in the quantity theory's apparent migration from left to right was its newly-forged links to the case for monetary policy rules in the interwar years. It was also in the 1930s that the endogenous-money Banking School doctrines deployed by anti-quantity theorists during the monetarist controversy first became mainly associated with the case for discretionary policy, rather than with support for the gold-standard rule, as they had been in earlier times. More generally, shifting scientific opinion about the causes of the Great Depression moved the political centre of gravity of monetary economics to the left from the 1930s onwards, and then back towards the right beginning in the '60s, creating an illusion of movement on the quantity theory's part.

PD July 2001. **TI** Phillips in Retrospect. **AA** University of Western Ontario. **SR** University of Western Ontario, Department of Economics Research Report: 2001/03; Research Report Coordinator, Economics Reference Center, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/econref/html/RRPaper.html. **PG** 14. **PR** International $10.00 (Canadian) plus $3.00 (Canadian) per order handling fee; pre-paid orders only; make checks payable to the University of Western Ontario. **JE** B31. **KW** Phillips Curve. Stabilization. Cycles.

AB A review essay on A. W. H. Phillips, Collected Works in Contemporary Perspective edited by Robert Leeson, Cambridge U.K., Cambridge University Press, 2000. pp. 515 + xvii.

PD October 2001. **TI** Skidelsky's Keynes: A Review Essay. **AA** University of Western Ontario. **SR** University of Western Ontario, Department of Economics Research Report: 2001/04; Research Report Coordinator, Economics Reference Center, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/econref/html/RRPaper.html. **PG** 19. **PR** International $10.00 (Canadian) plus $3.00 (Canadian) per order handling fee; pre-paid orders only; make checks payable to the University of Western Ontario. **JE** B10, B20, B30, B31. **KW** Keynes. Macroeconomics. Keynesian Revolution.

AB A review essay on Robert Skidelsky: John Maynard Keynes, Vol. 1: Hopes Betrayed 1883-1920, pp.447 + xxviii; Vol. 2: The Economist as Saviour, 1920-1937, pp731 + xxxv; Vol. 3: Fighting for Britain 1937- 1946, pp.580 + xxiii; London, Macmillan (1983, 1992, 2000).

PD December 2001. **TI** The Role of the History of Economic Thought in Modern Macroeconomics. **AA** University of Western Ontario. **SR** University of Western Ontario, Department of Economics Research Report: 2001/06; Research Report Coordinator, Economics Reference Center, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/econref/html/RRPaper.html. **PG** 20. **PR** International $10.00 (Canadian) plus $3.00 (Canadian) per order handling fee; pre-paid orders only; make checks payable to the University of Western Ontario. **JE** B00, E00. **KW** Expectations. Keynesian Economics. New Classical Economics. Economic Rhetoric.

AB Most "leading" economics departments no longer teach the History of Economic Thought. Prominent macroeconomists nevertheless frequently deploy inaccurate accounts of the earlier development of ideas as rhetorical devices. These same economists have, however, also taught us that an understanding of how the economy functions helps condition the behavior of maximizing agents. The History of Economic Thought documents the evolution of that understanding, so it is hard to see how economic history, which is the source of all the time series data which form the empirical basis of macroeconomics, can be interpreted without its help. Some implications of this insight are discussed and illustrated.

Lakdawalla, Darius

TI Are the Young Becoming More Disabled? **AU** Bhattacharya, Jay; Goldman, Dana; Lakdawalla, Darius.

PD April 2001. **TI** The Declining Quality of Teachers. **AA** RAND and NBER. **SR** National Bureau of Economic Research Working Paper: 8263; 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** I21, J24, J31, J41. **KW** Education. Human Capital. Productivity.

AB Concern is often voiced about the declining quality of American schoolteachers. This paper shows that, while the relative quality of teachers is declining, this decline is a result of technical change, which improves the specialized knowledge of skilled workers outside teaching. This raises the price of skilled teachers, but not their productivity. Schools respond by lowering the relative skill of teachers and raising quantity. On the other hand, college professors are predicted to experience increases in skill relative to schoolteachers. Finally, the lagging productivity of primary schools is predicted to raise the unit cost of primary education. These predictions appear consistent with the data. Analysis of US Census microdata suggests that, from the 1900 birth cohort to the 1950 birth cohort, the relative schooling of teachers has declined by about three years, and the human capital of teachers may have declined in value relative to that of college graduates by as much as thirty percent, but the teacher-student ratio has more than doubled. Finally, the human capital of college professors has risen by nearly thirty percent relative to schoolteachers.

Lakonishok, Josef

TI The Level and Persistence of Growth Rates. **AU** Chan, Louis K. C.; Karceski, Jason; Lakonishok, Josef.

Lambelet, Jean-Christian

TI Y a-t-il vraiment discrimination salariale contre les femmes? (Is There Really Salary Discrimination Against Women in Switzerland?). **AU** Dutoit, Laure; Lambelet, Jean-Christian.

TI La reelection des Conseillers federaux: Sanctions ciblees ou resultats predetermines? Une analyse econometrique des reelections au Conseil federal. (The Re-elections of Swiss Federal Ministers: Personal Scoring or Predetermined Results?) **AU** Bacher, Hansueli; Lambelet, Jean-Christian; Anson, Jose.

Lambertini, Luca

PD October 1999. **TI** Endogenous Choice of Capacity and Product Innovation in a Differentiated Duopoly. **AU** Lambertini, Luca; Rossini, Gianpaolo. **AA** Lambertini: Universita di Bologna. Rossini: Universita di Bologna and Brown University. **SR** Brown University, Department of Economics Working Paper: 99/30; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 18. **PR** no charge. **JE** C72, D43, L13, O31. **KW** Research and Development. Product Innovation. Capacity. Duopoly.

AB We model a symmetric duopoly where firms first choose whether to be quantity setters or price setters by deciding the optimal capacity. Then, they undertake research and development activity to determine the degree of differentiation, and finally compete in the market. Two games are proposed, where investment decisions follow different sequences. We assess price and quantity decisions, finding a set of equilibria where the choice of the market variable is affected by both technological commitments. As a result, the acquired wisdom that quantity setting is a dominant strategy for firms, while price setting is a dominant strategy from a social standpoint, may not be confirmed.

Landerretche, Oscar

TI Lending Booms: Latin America and the World. **AU** Gourinchas, Pierre-Olivier; Landerretche, Oscar; Valdes, Rodrigo.

Lane, Philip

PD July 2001. **TI** Long-Term Capital Movements. **AU** Lane, Philip; Milesi-Ferretti, Gian Maria. **AA** Lane: Trinity College, Dublin and Centre for Economic Policy Research. Milesi-Ferretti: International Monetary Fund. **SR** CEPR Discussion Paper: 2873; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E20, F20, F40, O10. **KW** Capital Flows. Net Foreign Assets. Portfolio Balance. Trade Balance.

AB International financial integration allows countries to become net creditors or net debtors with respect to the rest of the world. This paper shows that a small set of fundamentals shifts in relative output levels, the stock of public debt and demographic factors can do much to explain the evolution of net foreign asset positions. In addition, it highlights that "external wealth" plays a critical role in determining the behavior of the trade balance, both through shifts in the desired net foreign asset position and the investment returns generated on the outstanding stock of net foreign assets. Finally, some evidence is provided that shows a portfolio balance effect exists: real interest rate differentials are inversely related to net foreign asset positions.

TI Exchange Rates and Monetary Policy in Emerging Market Economies. **AU** Devereux, Michael B.; Lane, Philip.

Lanjouw, Jean O.

PD December 2001. **TI** Enforcing Intellectual Property Rights. **AU** Lanjouw, Jean O.; Schankerman, Mark. **AA** Lanjouw: Yale University. Schankerman: LSE. **SR** STICERD, LSE Economics of Industry Group Discussion Paper: EI/30; STICERD, Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. **PG** 42. **PR** no charge. **JE** K11, K41. **KW** Patents. Court Actions. Settlement.

AB We study the determinants of patent suits and their outcomes over the period 1978-1999 by linking detailed information from the U.S. patent office, the federal court system, and industry sources. The probability of being involved in a suit is heterogeneous, being much higher for valuable patents and for patents owned by individuals and smaller firms. Thus the patent system generates incentives, net of expected enforcement costs, that differ across inventors. Patentees with a large portfolio of patents to trade, or having other characteristics that encourage "cooperative" interaction with disputants, more successfully avoid court actions. At the same time, key post-suit outcomes do not depend on observed characteristics. This is good news: advantages in settlement are exercised quickly, before extensive legal proceedings consume both court and firm resources. But it is bad news in that the more frequent involvement of small patentees in court actions is not offset by a more rapid resolution of their suits. However, our estimates of the heterogeneity in litigation risk can facilitate development of private patent litigation to mitigate this adverse effect of high enforcement costs.

Laubach, Thomas

TI Implications of Habit Formation for Optimal Monetary Policy. **AU** Amato, Jeffery D.; Laubach, Thomas.

PD November 2001. **TI** Measuring the Natural Rate of Interest. **AU** Laubach, Thomas; Williams, John C. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/56; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 22. **PR** no charge. **JE** C32, E43, E52, O42. **KW** Natural Rate of Interest. Interest Rate Rules. Kalman Filter. Trend Growth. Potential Output. Equilibrium Real Interest Rate.

AB A key variable for the conduct of monetary policy is the natural rate of interest-the real interest rate consistent with output equaling potential and stable inflation. Economic theory implies that the natural rate of interest varies over time and depends on the trend growth rate of output. In this paper we apply the Kalman filter to jointly estimate the natural rate of interest, potential output, and its trend growth rate, and examine the empirical relationship between these estimated unobserved series. We find substantial variation in the natural rate of interest over the past four decades in the United States. Our natural rate estimates vary about one-for-one with changes in the trend growth rate. We show that policymakers' mismeasurement of the natural rate of interest can cause a significant deterioration in macroeconomic stabilization.

TI Rule-of-Thumb Behaviour and Monetary Policy. **AU** Amato, Jeffery D.; Laubach, Thomas.

Lawrence, Robert Z.

TI Do We Have A New E-Conomy? **AU** Baily, Martin N.; Lawrence, Robert Z.

Leahy, Dermot

TI Rivalry in Uncertain Export Markets: Commitment versus Flexibility. **AU** Dewit, Gerda; Leahy, Dermot.

Lebow, David E.

PD December 2001. **TI** Measurement Error in the Consumer Price Index: Where Do We Stand? **AU** Lebow, David E.; Rudd, Jeremy B. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/61; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 43. **PR** no charge. **JE** C43, E21, E31. **KW** Consumer Price Index. CPI. CPI Bias. Price Measurement.

AB We survey the evidence bearing on measurement error in the CPI and provide our best estimate of the magnitude of CPI bias. We also identify a "weighting" bias in the CPI that has not been previously discussed in the literature. In total, we estimate that the CPI overstates the change in the cost of living by about 0.6 percentage point per year, with a confidence interval that ranges from 0.1 to 1.2 percentage points. Roughly half of this bias is accounted for by the CPI's inability to fully capture the welfare improvement from quality change and the introduction of new items. Our bias estimate is smaller than that found in several earlier studies, in part because the BLS has recently made a variety of improvements to its procedures; our study highlights several potential areas for further improvement.

Lechevalier, Sebastien

PD March 2002. **TI** La Montee Contemporaine des Inegalites au Japon: Une Analyse en Terme de Segmentation du Marche du Travail et une Mise en Perspective Historique (The Contemporary Increasing Inequalities in Japan: An Analysis in Term of Segmentation of the Labor Market and a Historical Perspective). **AA** CEPREMAP and EHESS. **SR** CEPREMAP Discussion Paper: 2002/02; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 33. **PR** between 4 and 5 euros. **JE** J42, N35. **KW** Inequalities. Segmentation. Japanese Labor Market. Wage Labor Nexus.

AB This article proposes to resort the concept of segmentation so as to understand the current transformations of the Japanese labor market. In doing so, we adopt a historical perspective. We show that the segmented structure of the Gold Age (1950s) experienced a deep change at the turn of the 1960s, following the end of labor surplus. Despite a noteworthy increase in part-time workers this trend of homogenization of the working conditions does not seem to have been interrupted by the end of the High Growth period in the 1970s. On the contrary, it seems relevant to characterize the 1990s as a phase of "resegmentation," that is, unequally shared increasing unemployment and differentiated employment policies among firms. This recent trend towards increasing inequalities corresponds to a latent breach of the Post-War compromise, in new macroeconomic and institutional contexts. These last ones are indeed characterized by the fall of the average growth rate and increasing fluctuations on one side, and by the "financiarization" of the Wage Labor Nexus on the other side. This paper is written in French.

Legros, Patrick

TI Third Party Monitoring and Golden Parachutes. **AU** Iossa, Elisabetta; Legros, Patrick.

TI Moral Hazard and Capital Structure Dynamics. **AU** Dewatripont, Mathias; Legros, Patrick; Matthews, Steven.

Lehnert, Andreas

PD March 2002. **TI** Consumption, Debt and Portfolio Choice: Testing the Effect of Bankruptcy Law. **AU** Lehnert, Andreas; Maki, Dean M. **AA** Lehnert: Board of Governors of the Federal Reserve System. Maki: Putnam Investments. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/14; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 47. **PR** no charge.

JE D11, H31, H73, K00. **KW** Bankruptcy Law. Household Debt. Portfolio Puzzle. Consumption.
AB Consumer bankruptcy laws, which vary across states and over time, permit debtors to keep assets below a statutory exemption while debts are forgiven. High exemptions distort household portfolio decisions and tempt households to default on debts; but they also provide a crude form of consumption insurance. We combine information on state-level bankruptcy laws with the Consumer Expenditure Survey from 1984-1999. We find that higher exemptions are associated with (1) Higher bankruptcy rates, (2) Households that are more likely to simultaneously hold low- return liquid assets and owe high-cost unsecured debt, and (3) Slightly better consumption insurance for renters and worse consumption insurance for homeowners.

TI Does the Community Reinvestment Act (CRA) Cause Banks to Provide a Subsidy to Some Mortgage Borrowers? **AU** Canner, Glenn B.; Laderman, Elizabeth; Lehnert, Andreas; Passmore, Wayne.

TI Increasing Returns and Optimal Oscillating Labor Supply. **AU** Dupor, William D.; Lehnert, Andreas.

Leonard, Greg

PD July 2001. **TI** Current Accounts and Exchange Rates: A New Look at the Evidence. **AU** Leonard, Greg; Stockman, Alan C. **AA** Leonard: The Brattle Group. Stockman: University of Rochester and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8361; 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** F40. **KW** J-Curve. Macroeconomics. Forecasting.
AB This paper "goes back to basics" in empirical analysis of the J- Curve. First, it documents strong violations in the distributional assumptions that underlie nearly all previous work on this issue. Second, it employs distribution-free, non-parametric statistical tests to characterize the data and summarize the key relationships between real exchange rates, the current account, and real GDP. Some (weak) evidence of a J-Curve is found in the data. Interestingly, however, this evidence is not consistent with the standard theoretical explanation of the J-Curve. Consequently, these empirical results pose a strong challenge for international economic theory.

Leonard, Kenneth L.

PD April 2001. **TI** Bypassing Health Centers in Tanzania: Revealed Preferences for Observable and Unobservable. **AU** Leonard, Kenneth L.; Mliga, Gilbert R.; Mariam, Damen H. **AA** Leonard: Columbia University. Mliga: Ministry of Health, Tanzania. Mariam: Addis Ababa University, Ethiopia. **SR** Columbia University, Department of Economics Discussion Paper: 0001/02; Department of Economics, Columbia University, 420 West 118th Street, Room 1022 IAB. New York, NY 10027. Website: www/columbia.edu/cu/economics. **PG** 40. **PR** $4 U.S.; $5 Canada; $7 all other countries; Subscriptions $140 U.S.; $185 all other countries. **JE** I11, O12, R12. **KW** Rural. Health Care. Tanzania. Technical Quality.
AB When patients bypass one health facility to seek health care at another, strong preferences are revealed. This paper advances the view that the patterns of bypassing observed in Iringa Rural district in Tanzania show evidence of patients' understanding of various measures of quality at the facilities that they visit and bypass. We use two data sets on health facilities that measure consultation and prescription quality. This is matched with data collected from health center registers that included the symptoms of patients and the village they traveled from. The register data is transformed into a patient based sample and we use a multinomial/conditional logit regression on patient choice of provider to show the relationship between patient behavior and objective measure of technical quality in the health facilities. Patients seek facilities that provide quality consultations, are staffed by knowledgeable physicians, observe prescription practices, and are polite.

Lerner, Josh

TI Links and Hyperlinks: An Empirical Analysis of Internet Portal Alliances, 1995-1999. **AU** Elfenbein, Dan; Lerner, Josh.

Lettau, Martin

PD July 2001. **TI** Robustness of Adaptive Expectations as an Equilibrium Selection Device. **AU** Lettau, Martin; Van Zandt, Timothy. **AA** Lettau: Federal Reserve Bank of New York, New York University, and Centre for Economic Policy Research. Van Zandt: INSEAD. **SR** CEPR Discussion Paper: 2882; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D84, E31. **KW** Adaptive Expectations. Inflation. Stability.
AB Dynamic models in which agents' behavior depends on expectations of future prices or other endogenous variables can have steady states that are stationary equilibria for a wide variety of expectations rules, including rational expectations. When there are multiple steady states, stability is a criterion for selecting predictions of long-run outcomes among them. The purpose of this paper is to study how sensitive stability is to certain details of the expectations rules, in a simple overlapping generations (OLG) model with constant government debt that is financed through seigniorage. It compares simple recursive learning rules, learning rules with vanishing gain, and ordinary least squares (OLS) learning, and also relate these to expectational stability. One finding is that two adaptive expectation rules that differ only in whether they use current information can have opposite stability properties.

Levaux, Hugh

TI Economic Openness: Many Facets, Many Metrics. **AU** Wolf, Charles, Jr..; Levaux, Hugh; Tong, Daochi.

Levin, Andrew

TI Data Uncertainty and the Role of Money as an Information Variable for Monetary Policy. **AU** Coenen, Gunter; Levin, Andrew; Wieland, Volker.

Levine, David K.

TI Growth Cycles and Market Crashes. **AU** Boldrin, Michele; Levine, David K.

Levinsohn, Jim

PD June 2001. **TI** Creative Destruction or Just Plain Destruction? The U.S. Textile and Apparel Industries since 1972. **AU** Levinsohn, Jim; Petropoulos, Wendy.

AA Levinsohn: University of Michigan. Petropoulos: Lexecon. SR National Bureau of Economic Research Working Paper: 8348; 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 L67. KW Textile Industry. Apparel Industry. Manufacturing Decline.

AB Are the U.S. textile and apparel industries examples of creative destruction or are they just plain destructing? This question is investigated using both aggregate industry-level data and plant-level data from the U.S. Census' Longitudinal Research Database (LRD). It is found that while the aggregate-level evidence is consistent with the common view of these industries as examples of declining industries, the plant-level data support a very different and much more hopeful view. In the face of intensified international competition, each industry has evolved in its own way. In textiles, there has been tremendous capitalization. In apparel, the organization of production has changed. In both cases, industry productivity has increased markedly, and this is mostly because individual plants are becoming more productive.

Levy, Frank

TI The Skill Content of Recent Technological Change: An Empirical Exploration. AU Autor, David H.; Levy, Frank; Murnane, Richard J.

Li, Canlin

TI Forecasting the Term Structure of Government Bond Yields. AU Diebold, Francis X.; Li, Canlin.

Li, David

TI A Multi-Task Theory of the State Enterprise Reform. AU Bai, Chong-En; Li, David; Tao, Zhigang; Wang, Yijiang.

Li, Wenli

PD November 2001. TI Growth Effects of Progressive Taxes. AU Li, Wenli; Sarte, Pierre-Daniel. AA Li: Board of Governors of the Federal Reserve System. Sarte: Federal Reserve Bank of Richmond. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/03; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 21. PR no charge. JE E13, O23. KW Economic Growth. Progressive Taxation. Heterogeneous Households.

AB Criticisms of endogenous growth models with flat rate taxes have highlighted two features that are not substantiated by the data. These models generally imply: (1) that economic growth must fall with the share of government expenditures in output across countries, and (2) that one-time shifts in marginal tax rates should instantaneously lead to similar shifts in output growth. In contrast, we show that allowing for heterogeneous households and progressive taxes into otherwise conventional linear growth models radically changes these predictions. In particular, economic growth does not have to fall, and may even increase, with the share of government expenditures in output across countries. Moreover, discrete permanent shifts in tax policy now lead to protracted transitions between balanced growth paths. Both of these findings hold whether or not government expenditures are thought to be productive and better conform to available empirical evidence.

Liang, Meng-Yu

TI Bargaining with Interdependent Values. AU Deneckere, Raymond; Liang, Meng-Yu.

Lildholdt, Peter M.

TI Time Series Modeling of Daily Log-Price Ranges for SF/USD and USD/GBP. AU Brunetti, Celso; Lildholdt, Peter M.

Linton, Oliver

PD March 2002. TI Consistent Testing for Stochastic Dominance: A Subsampling Approach. AU Linton, Oliver; Maasoumi, Esfandiar; Whang, Yoon-Jae. AA Linton: LSE. Maasoumi: Southern Methodist University. Whang: Ewha University. SR STICERD, LSE Econometrics Discussion Paper: EM/02/433; STICERD, Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. PG 50. PR no charge. JE C13, C14, C15. KW Prospect Theory. Stochastic Dominance. Stochastic Equicontinuity. Subsampling.

AB We study a very general setting, and propose a procedure for estimating the critical values of the extended Kolmogorov-Smirnov tests of First and Second Order Stochastic Dominance due to McFadden (1989) in the general k-prospect case. We allow for the observations to be generally serially dependent and, for the first time, we can accommodate general dependence amongst the prospects which are to be ranked. Also, the prospects may be the residuals from certain conditional models, opening the way for conditional ranking. We also propose a test of Prospect Stochastic Dominance. Our method is based on subsampling and we show that the resulting data tests are consistent.

TI Nonparametric Neural Network Estimation of Lyapunov Exponents and a Direct Test for Chaos. AU Shintani, Mototsugu; Linton, Oliver.

Longhofer, Stanley D.

PD September 1999. TI Protection for Whom? Creditor Conflicts in Bankruptcy. AU Longhofer, Stanley D.; Peters, Stephen R. AA Longhofer: Federal Reserve Bank of Cleveland and Wichita State University. Peters: University of Illinois. SR Federal Reserve Bank of Cleveland Working Paper: 9909; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clev.frb.org. PG 33. PR no charge. JE G33, K39. KW Bankruptcy. Creditors. Debtors.

AB In this article we provide a rationale for bankruptcy law that is based on the conflicts among creditors that occur when a debtor's liabilities exceed its assets. We show that coordination clauses can be used by creditors in their loan agreements that will result in coordination, ex post. Although all creditors would benefit from including these clauses in their contracts, they nevertheless choose not to in precisely those circumstances in which it is desirable to coordinate. This is an important insight because previous theories supporting a role for bankruptcy law are based on the notion that creditors want to contract about bankruptcy, but cannot. In contrast, we demonstrate that creditors will choose not to coordinate ex ante, even though it is in their best interest ex post. We also examine a variety of other contractual mechanisms, including covenants and seniority, and show that although including these terms in loan contracts can improve creditors' incentives to write coordination clauses, they do so only in special circumstances. Our analysis of creditor conflicts and the potential for private contracting remedies provides an economic rationale for the existence of a bankruptcy law that mandates ex post coordination among the creditors of an insolvent debtor.

Lopez Salido, J. David

TI European Inflation Dynamics. **AU** Gali, Jordi; Gertler, Mark; Lopez Salido, J. David.

Loranth, Gyongyi

TI Corporate Leverage and Product Differentiation Strategy. **AU** Arping, Stefan; Loranth, Gyongyi.

Louri, Helen

TI Foreign Direct Investment and Efficiency Benefits: A Conditional Quantile Analysis. **AU** Dimelis, Sophia; Louri, Helen.

Lowell, Julia

TI Military Expenditures and Economic Growth. **AU** Castillo, Jasen; Lowell, Julia; Tellis, Ashley J.; Munoz, Jorge; Zycher, Benjamin.

PD December 1998. **TI** U.S. Economic Unilateralism: Implications for Pacific Rim Countries. **AA** RAND Corporation. **SR** RAND Corporation Report: P/8029; Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. **PG** 27. **PR** $5.00. **JE** F10, F14, F15. **KW** International Economic Relations. Foreign Economic Relations.

AB In contrast to the multilateral, consensus-driven approach to world trade pursued by U.S. policymakers from approximately 1946 to 1985, U.S. trade policy today has a strong unilateral component. Nevertheless, the United States has by no means abandoned its long-standing claim to the role of free trade champion. One indication is that U.S. policymakers continue to emphasize market-opening measures abroad, as opposed to market-closing measures at home. Efforts to open foreign markets are justified not only in terms of the potential benefits to U.S. exporters, but also by increases in foreign consumer welfare. Other exporting nations may also benefit from U.S.-initiated market-opening measures. This paper synthesizes the results of a September 1996 conference designed to explore the implications of U.S. economic unilateralism for the countries of the Pacific Basin. The conference was co-sponsored by RAND's Center for Asia-Pacific Policy, The Japan-America Society of Southern California, and The Asia Society of Southern California. Background research for the conference was made possible by the Korea Foundation.

Lubik, Thomas A.

PD July 2002. **TI** Testing for Indeterminacy: An Application to U.S. Monetary Policy. **AU** Lubik, Thomas A.; Schorfheide, Frank. **AA** Lubik: John Hopkins University. Schorfheide: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/025; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 45. **PR** free from website. **JE** C52, C62, E52. **KW** Rational Expectations Models. Indeterminacy. Monetary DSGE Models.

AB This paper considers a prototypical monetary business cycle model for the U.S. economy, in which the equilibrium is undetermined if monetary policy is "inactive". In previous multivariate studies it has been common practice to restrict parameter estimates to values for which the equilibrium is unique. We show how the likelihood-based estimation of dynamic stochastic general equilibrium models can be extended to allow for indeterminacies and sunspot fluctuations. We propose a posterior odds test for the hypothesis that the data are best explained by parameters that imply determinacy. Our empirical results show that the Volcker-Greenspan policy regime is consistent with determinacy, whereas the pre-Volcker regime is not. We find that before 1979 non-fundamental sunspot shocks may have contributed significantly to inflation and interest rate volatility, but essentially did not affect output fluctuations.

Lubotsky, Darren

TI Economic Status and Health in Childhood: The Origins of the Gradient. **AU** Case, Anne; Lubotsky, Darren; Paxson, Christina.

Lulfesmann, Christoph

TI Optimal Contracting with Verifiable Ex Post Signals. **AU** Kessler, Anke S.; Lulfesmann, Christoph; Schmitz, Patrick W.

PD October 2000. **TI** Central Governance or Subsidiarity: A Property-Rights Approach to Federalism. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2001/05; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 27. **PR** no charge. **JE** D23, H72, H77. **KW** Federalism. Property Rights. Grants. Spillovers.

AB The paper reconsiders the theory of fiscal federalism in a framework inspired by property-rights theory. We set up a two-period model where on a first stage a region in a federation can expend value-enhancing investments into a public project. The project can be implemented on a second stage, and causes spillovers on other regions. Under centralized as well as decentralized governance, negotiations on the federal level facilitate the realization of the efficient policy. Still, non-contractibility of investments causes the overall outcomes to differ across regimes. If the region with access to the public project bears the entire implementation costs of its policies, underinvestment prevails and subsidiarity (centralized governance) is superior when spillovers are weak (strong). Conversely, if linear cost-sharing arrangements are feasible, decentralized authority often leads to a socially optimal outcome while centralized authority (with majority or unanimity rule) does not.

PD October 2000. **TI** Team Production, Sequential Investments and Stochastic Payoffs. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2001/06; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 17. **PR** no charge.

JE D23, K12, L23. KW Team Production. Asset Ownership. Sequential Investments. Optimal Contract.
AB We investigate a team production problem where two parties sequentially invest to generate a joint surplus. In this framework, it is possible to implement the first best even if the investment return is highly uncertain. The optimal contract entails a basic dichotomy: it is a simple option contract if the investments of both parties are substitutive and a linear incentive contract if they are complementary. These schemes can be interpreted in terms of asset ownership: for the case of substitutive investments, a conditional ownership structure is optimal while for complementary investments shared equity in combination with a bonus component renders efficiency feasible. In either case, the parties renegotiate the initial arrangement after the first party invested.

PD February 2001. TI Strategic Defection in Bilateral Trade. AA University of Bonn. SR University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2001/04; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. PG 20. PR no charge. JE D23, H57, L51. KW Bilateral Trade. Hold-Up. Specific Investments. Incomplete Contracts.
AB The paper studies a generic bilateral trade model with relationship- specific investments. Only the seller invests, and subsequent trade becomes inefficient if his investments are too low. We show that the seller may defect strategically under a fixed-price contract even though he attains any arbitrary surplus when expending the (second- best) investment. In this case, no general mechanism facilitates trade and the parties should not start their relationship. Also, the defection problem may be more severe when the parties' trade after the buyer's valuation has been disclosed, as compared to a situation where the parties have to complete trade under uncertainty.

Lumenga-Neso, Olivier

PD June 2001. TI On "Indirect" Trade-Related R&D Spillovers. AU Lumenga-Neso, Olivier; Olarreaga, Marcelo; Schiff, Maurice. AA Lumenga-Neso: University of Geneva. Olarreaga and Schiff: World Bank. SR CEPR Discussion Paper: 2871; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE C32, F01, O30, O47. KW Research and Development. Spillovers.
AB An influential literature argues that trade promotes knowledge flows and technology transmission between trading partners. This literature focuses on "direct" research and development (R&D) spillovers which are related to the levels of R&D produced by the trading partners.This paper argues that "indirect" trade-related R&D spillovers also take place between countries, even if they do not trade with each other. These "indirect" spillovers are associated with available rather than with produced levels of R&D. Empirical results suggest that these "indirect" trade-related spillovers are at least as important as the "direct" ones, and strengthen the view that trade does matter for the international transmission of R&D. They also suggest that, due to the existence of these "indirect" effects, bilateral trade patterns are relatively less important as determinants of the level of foreign R&D spillovers acquired through trade.

Lundblad, Christian

TI Does Financial Liberalization Spur Growth? AU Bekaert, Geert; Harvey, Campbell R.; Lundblad, Christian.

Lusardi, Annamaria

PD April 2001. TI Saving Puzzles and Saving Policies in the United States. AU Lusardi, Annamaria; Skinner, Jonathan; Venti, Steven. AA Lusardi: Dartmouth College. Skinner and Venti: Dartmouth College and NBER. SR National Bureau of Economic Research Working Paper: 8237; 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, D14, E21, E22. KW Personal Saving. Investment. Capital Accumulation. Saving Policies.
AB In the past two decades the widely reported personal saving rate in the United States has dropped from double digits to below zero. First, this paper attempts to account for the decline in the National Income and Product Accounts (NIPA) saving rate. The macroeconomic literature suggests that about half of the drop since 1988 can be attributed to households spending stock market capital gains. Another thirty percent is accounting transfers from personal saving into government and corporate saving. Second, while NIPA saving measures are well suited for measuring the supply of new funds for investment and capital accumulation, it is not clear that they should be the target of government saving policies. Finally, the paper emphasizes that the NIPA saving rate is not useful in judging whether households are preparing for retirement or other contingencies. The paper explores reasons and policy options for the households' puzzlingly low saving rate.

Lyons, Richard K.

TI Portfolio Balance, Price Impact, and Secret Intervention. AU Evans, Martin D. D.; Lyons, Richard K.

Maasoumi, Esfandiar

TI Consistent Testing for Stochastic Dominance: A Subsampling Approach. AU Linton, Oliver; Maasoumi, Esfandiar; Whang, Yoon-Jae.

MacCulloch, Robert

TI Inequality and Happiness: Are Europeans and Americans Different? AU Alesina, Alberto F.; Di Tella, Rafael; MacCulloch, Robert.

Mailath, George J.

PD February 2002. TI Social Assets. AU Mailath, George J.; Postlewaite, Andrew. AA University of Pennsylvania. SR Penn Institute for Economic Research (PIER) Working Paper: 02/003; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. PG 37. PR free from website. JE D20, D31, D50, J41, Z13. KW Social Assets. Social Capital. Social Arrangements. Nonmarket Interactions.
AB We present a model incorporating both social and economic components, and analyze their interaction. We argue that such analysis is necessary for an understanding of the social arrangements that are consistent with underlying economic fundamentals. We introduce the notion of a social

asset, an attribute that has value only because of the social arrangements governing society. We consider a generational matching model in which an attribute has value in some equilibrium social arrangements (matching patterns), but not in others. We then show that productive attributes (such as education) can have their value increased above their inherent productive value by some social arrangements, leading to the notion of the social value of an asset.

PD February 2002. **TI** Contemporaneous Perfect Epsilon-Equilibria. **AU** Mailath, George J.; Postlewaite, Andrew; Samuelson, Larry. **AA** Mailath and Postlewaite: University of Pennsylvania. Samuelson: University of Wisconsin. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/004; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 14. **PR** free from website. **JE** C70, C72, C73. **KW** Epsilon Equilibrium. Ex Ante Payoff. Multistage Game. Subgame Perfect Equilibrium.
AB We examine contemporaneous perfect e-equilibria, in which a player's actions after every history, evaluated at the point of deviation from the equilibrium, must be within e of a best response. This concept implies, but is not implied by Radner's ex ante perfect e-equilibrium. A strategy profile is a contemporaneous perfect e-equilibrium of a game if it is a subgame perfect equilibrium in a game achieved by perturbing payoffs by at most e /2, with the converse holding for pure equilibria.

PD July 2002. **TI** The Incentive Costs of Internalizing Externalities. **AU** Mailath, George J.; Nocke, Volker; Postlewaite, Andrew. **AA** University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/018; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 12. **PR** free from website. **JE** D62, G34, L22. **KW** Firm Organization. Mergers. Managerial Incentives. Externalities.
AB We present a dynamic agency model in which changes in the structure of a firm affect its value due to altered incentives. There may be disadvantages in merging two firms even when such a merger allows the internalization of externalities between the two firms. Merging, by making unprofitable certain decisions, increases the cost of inducing managers to exert effort. This incentive cost arises as a natural consequence of the manager's firm-specific human capital.

TI Imperfect Monitoring and Impermanent Reputations. **AU** Cripps, Martin W.; Mailath, George J.; Samuelson, Larry.

PD September 2002. **TI** The Social Context of Economic Decisions. **AU** Mailath, George J.; Postlewaite, Andrew. **AA** University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/035; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 10. **PR** free from website. **JE** Z13. **KW** Social Capital. Social Assets. Social Institutions.
AB The social context can have a large impact on economic decisions. The theoretical challenge is to formulate a model that encompasses both social and economic decisions in a meaningful manner. We discuss the incorporation of social context into neoclassical economic models using social institutions. We also discuss the relationship between social institutions, social capital, and the social value of assets (introduced by Mailath and Postlewaite (2002)).

Makarov, Igor

TI Debt Overhang and Barter in Russia. **AU** Guriev, Sergei M.; Makarov, Igor; Maurel, Mathilde.

Maki, Dean M.

TI Consumption, Debt and Portfolio Choice: Testing the Effect of Bankruptcy Law. **AU** Lehnert, Andreas; Maki, Dean M.

Mankiw, N. Gregory

TI Intergenerational Risk Sharing in the Spirit of Arrow, Debreu, and Rawls, with Applications to Social Security Design. **AU** Ball, Laurence; Mankiw, N. Gregory.

Manuelli, Rudolfo E.

TI Technology (and Policy) Shocks in Models of Endogenous Growth. **AU** Jones, Larry E.; Manuelli, Rudolfo E.; Stacchetti, Ennio.

Marcus, Vincent

TI New Organizational Practices and Working Conditions: Evidence from France in the 1990s. **AU** Askenazy, Philippe; Caroli, Eve; Marcus, Vincent.

Mariam, Damen H.

TI Bypassing Health Centers in Tanzania: Revealed Preferences for Observable and Unobservable. **AU** Leonard, Kenneth L.; Mliga, Gilbert R.; Mariam, Damen H.

Mariano, Roberto S.

PD April 2002. **TI** A New Coincident Index of Business Cycles. **AU** Mariano, Roberto S.; Murasawa, Yasutomo. **AA** Mariano: University of Pennsylvania. Murasawa: Osaka Prefecture University. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/014; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 24. **PR** free from website. **JE** C22, C53, E32, E37. **KW** Business Cycle Indicators. Maximum Likelihood Factor Analysis. Coincident Indices. Mixed Frequencies. State-Space Modeling.
AB Popular monthly coincident indices of business cycles, e.g., the composite index and the Stock-Watson coincident index, have two shortcomings. First, they ignore information contained in quarterly indicators such as real GDP. Second, they lack economic interpretation; hence the heights of peaks and the depths of troughs depend on the choice of an index. This paper extends the Stock-Watson coincident index by applying maximum likelihood factor analysis to a mixed-frequency series of quarterly real GDP and monthly coincident business cycle indicators. The resulting index is related to latent monthly real GDP.

TI Markov Chains in Predictive Models of Currency Crises -- With Applications to Southeast Asia. **AU** Abiad, Abdul G.; Gultekin, Bulent; Mariano, Roberto S.; Shabbir, Tayyeb; Tan, Augstine.

Markusen, James R.

PD June 2001. **TI** General-Equilibrium Approaches to the Multinational Firm: A Review of Theory and Evidence. **AU** Markusen, James R.; Maskus, Keith E. **AA** Markusen: University of Colorado and National Bureau of Economic Research. Maskus: University of Colorado. **SR** National Bureau of Economic Research Working Paper: 8334; 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** F13, F23. **KW** Multinational Firms. International Trade.

AB Beginning in the early 1980s, theoretical analyses have incorporated the multinational firm into the microeconomic, general-equilibrium theory of international trade. Recent advances indicate how vertical and horizontal multinationals arise endogenously as determined by country characteristics, including relative size and relative endowment differences, and trade and investment costs. Results also characterize the relationship between foreign affiliate production and international trade in goods and services. This paper surveys some of this recent work, and notes the testable predictions generated in the theory. The second part of the paper examines empirical results that relate foreign affiliate production to country characteristics and trade/investment cost factors. Findings from analyses of the pattern of substitutability or complementarity between trade and foreign production are also reviewed.

PD June 2001. **TI** A Unified Approach to Intra-Industry Trade and Direct Foreign Investment. **AU** Markusen, James R.; Maskus, Keith E. **AA** Markusen: University of Colorado and National Bureau of Economic Research. Maskus: University of Colorado. **SR** National Bureau of Economic Research Working Paper: 8335; 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** F13, F23. **KW** International Trade. Direct Investment. Trade Patterns.

AB Economic interactions among the high-income developed countries are characterized by high degrees of both intra-industry trade and intra- industry affiliate production and sales. Similar high-income countries both heavily trade with and invest into each other. The purpose of this paper is to show how the theory of direct investment can now be integrated with the theory of international trade in goods, and to show how the two combine to determine the pattern of trade and foreign affiliate production. Empirical estimation gives good support to the predictions of the theory for intra-industry affiliate sales, with somewhat weaker results for intra-industry trade. Results confirm that the intra-industry affiliate sales index rises relative to the intra- industry trade index as countries become richer and more similar in size and in relative endowments.

TI Standards and Related Regulations in International Trade: A Modeling Approach. **AU** Ganslandt, Mattias; Markusen, James R.

TI Multi-Issue Bargaining and Linked Agendas: Ricardo Revisited or No Pain No Gain. **AU** Horstmann, Ignatius J.; Markusen, James R.; Robles, Jack.

Marples, Donald

TI Distortion Costs of Taxing Wealth Accumulation: Income Versus Estate Taxes. **AU** Holtz-Eakin, Douglas; Marples, Donald.

Martin, Antoine

PD August 2001. **TI** Liquidity Provision vs. Deposit Insurance: Preventing Bank Panics Without Moral Hazard? **AA** Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP01/05; 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** 26. **PR** no charge. **JE** E51, E52, E53, G21. **KW** Liquidity Provision. Deposit Insurance. Bank Runs.

AB This paper asks whether a central bank policy of providing liquidity to banks during panics can prevent bank runs without causing moral hazard. This kind of policy has been widely advocated, most notably by Bagehot (1873). To analyze such a policy, this paper builds a model with three key features: 1) bank panics can occur in equilibrium, 2) there can be moral hazard, and 3) the central bank can create money which is willingly held. One finding of this paper is that a particular central bank repurchase policy provides liquidity to the banking system and can prevent bank panics without moral hazard problems. Another finding is that a deposit insurance policy, while preventing runs, creates moral hazard problems.

PD September 2001. **TI** When Should Labor Contracts Be Nominal? **AU** Martin, Antoine; Monnet, Cyril. **AA** Martin: Federal Reserve Bank of Kansas City. Monnet: European Central Bank. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP01/07; 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** D82, E31, J41. **KW** Nominal Contracts. Uncertainty and Information.

AB We propose a theory to explain the choice between nominal and indexed labor contracts. We find that contracts should be indexed if prices are difficult to forecast and nominal otherwise. Our analysis is based on a principal-agent model developed by Jovanovic and Ueda (1997) in which renegotiation can take place once the nominal value of the agent's output is observed. Their model assumes that agents use pure strategy, with the strong result that only nominal contracts can be written without being renegotiated. But, in reality, we do observe indexed contracts. We resolve this weakness of their model by allowing agents to choose mixed strategies, and find that the optimal contract is indeed nominal for certain parameters. For other parameters, however, we show that the optimal contract is indexed. Our findings are consistent with two empirical regularities: that price is more volatile with higher inflation, and that countries with high inflation tend to have indexed contracts.

Martinez, Isabelle

TI Price Discovery Across the Rhine. **AU** Biais, Bruno; Martinez, Isabelle.

Maskus, Keith E.

TI General-Equilibrium Approaches to the Multinational Firm: A Review of Theory and Evidence. **AU** Markusen, James R.; Maskus, Keith E.

TI A Unified Approach to Intra-Industry Trade and Direct Foreign Investment. **AU** Markusen, James R.; Maskus, Keith

E.

Matthews, Steven

TI Moral Hazard and Capital Structure Dynamics. **AU** Dewatripont, Mathias; Legros, Patrick; Matthews, Steven.

Mattoo, Aaditya

PD June 2001. **TI** Mode of Foreign Entry, Technology Transfer, and FDI Policy. **AU** Mattoo, Aaditya; Olarreaga, Marcelo; Saggi, Kamal. **AA** Mattoo and Olarreaga: World Bank. Saggi:Southern Methodist University. **SR** CEPR Discussion Paper: 2870; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F13, F23, O32. **KW** Foreign Direct Investment. Investment Policies. Technology Transfer.

AB Foreign direct investment (FDI) can take place either through the direct entry of foreign firms or the acquisition of existing domestic firms. The preferences of a foreign firm and the host country government over these two modes of FDI are examined in the presence of costly technology transfer. The trade-off between technology transfer and market competition emerges as a key determinant of preferences. This paper identifies the circumstances in which the government and foreign firm's choices diverge, and how domestic welfare can be improved by restrictions on FDI which induce the foreign firm to choose the socially preferred mode of entry.

Maurel, Mathilde

TI Debt Overhang and Barter in Russia. **AU** Guriev, Sergei M.; Makarov, Igor; Maurel, Mathilde.

Mazzucato, Mariana

TI Advertising and the Evolution of Market Structure in the US Car Industry. **AU** Geroski, Paul A.; Mazzucato, Mariana.

McArthur, John W.

PD February 2001. **TI** Institutions and Geography: Comment on Acemoglu, Johnson and Robinson (2000). **AU** McArthur, John W.; Sachs, Jeffrey D. **AA** McArthur: Harvard University. Sachs: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8114; 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** O11, P16, P51, R11. **KW** Economic Development. Colonies. Growth.

AB This paper responds to findings by Acemoglu, Johnson and Robinson (2000) that suggest weak institutions, but not physical geography and correlates like disease burden, explain current variation in levels of economic development across former colonies. Using similar data and expanding the sample of countries analyzed, our regression analysis shows that both institutions and geographically-related variables such as malaria incidence or life expectancy at birth are strongly linked to gross national product per capita. We argue that the evidence presented in Acemoglu, Johnson and Robinson is likely limited by the inherently small sample of ex-colonies and the limited geographic dispersion of those countries.

McCracken, Michael W.

TI Tests of Equal Forecast Accuracy and Encompassing for Nested Models. **AU** Clark, Todd E.; McCracken, Michael W.

McGrattan, Ellen R.

TI Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates? **AU** Chari, V. V.; Kehoe, Patrick J.; McGrattan, Ellen R.

PD December 2001. **TI** The Stock Market Crash of 1929: Irving Fisher Was Right! **AU** McGrattan, Ellen R.; Prescott, Edward C. **AA** Federal Reserve Bank of Minneapolis and University of Minnesota. **SR** Federal Reserve Bank of Minneapolis Staff Report: 294R; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 18. **PR** no charge. **JE** E62, G12, N22. **KW** Great Crash. Asset Pricing. Capital Stocks. Valuation.

AB In the fall of 1929, the market value of all shares listed on the New York Stock Exchange fell by 30 percent. Many analysts then and now take the view that stocks were then overvalued and the stock market was in need of a correction. But Irving Fisher argued at the time that instead, the fundamentals were strong and the stock market was undervalued. In this paper, we estimate the fundamental value of corporate equity in 1929 using data on stocks of productive capital and tax rates as in McGrattan and Prescott (2000, 2001) and compare it to actual stock valuations. We find that the stock market did not crash in 1929 because the market was overvalued. In fact, the evidence strongly suggests that stocks were undervalued, even at their 1929 peak.

McKelvey, Richard D.

PD June 1999. **TI** Taking the Coase Theorem Seriously. **AU** McKelvey, Richard D.; Page, Talbot. **AA** McKelvey: California Institute of Technology. Talbot: Brown University. **SR** Brown University, Department of Economics Working Paper: 99/21; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 20. **PR** no charge. **JE** C78, D74, D82, H23. **KW** Coase Theorem. Myerson-Satterthwaite Theorem. Incomplete Information.

AB We argue that a formally correct version of the Coase theorem yielding the usual conclusions requires assumptions that are too restrictive to give the theorem much policy relevance. On the other hand, relaxing the assumptions of the theorem to be sufficiently plausible to be applicable in real world settings modifies the conclusions of the theorem. More specifically, to obtain the conclusions of efficiency and invariance to the assignment of property rights, it is necessary to make restrictive assumptions on preferences and use solution concepts that preclude the possibility of modeling transaction costs and incomplete information. On the other hand, if we relax the assumption of complete information, then the standard conclusions of efficiency and invariance do not hold, even in an environment with no transaction costs. Unlike transaction costs, the inefficiencies and property rights biases due to incomplete information cannot be eliminated by policies designed to make it easier to bargain and negotiate, since these inefficiencies will persist in any game form, even when there are no costs to bargaining.

McLean, Richard

PD July 2002. **TI** Informational Size and Efficient Auctions. **AU** McLean, Richard; Postlewaite, Andrew. **AA** McLean: Rutgers University. Postlewaite: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/020; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 27. **PR** free from website. **JE** C70, D44, D60, D82. **KW** Auctions. Vickrey Auction. Informational Size. Interdependent Values.

AB We develop an auction model for the case of interdependent values and multidimensional signals in which agents' signals are correlated. We provide conditions under which a modification of the Vickrey auction, which includes payments to the bidders, will result in an ex post efficient outcome. Furthermore, we provide a definition of informational size such that the necessary payments to bidders will be arbitrarily small if agents are sufficiently informationally small.

Mehran, Hamid

PD July 2001. **TI** The Impact of Employee Stock Options on the Evolution of Compensation in the 1990s. **AU** Mehran, Hamid; Tracy, Joseph. **AA** Mehran: Federal Reserve Bank of New York. Tracy: Federal Reserve Bank of New York and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8353; 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** G10, J33, J38. **KW** Employee compensation.

AB Between 1995 and 1998, actual growth in nominal compensation per hour (CPH) accelerated from approximately 2 percent to 5 percent. Yet, as labor markets continued to tighten in 1999, the growth in CPH paradoxically slowed. This article attempts to solve this aggregate wage puzzle by exploring whether changes in pay structure -- specifically, the increased use of employee stock options -- can account for the behavior of CPH in the late 1990s. CPH reflects employee stock options on the date they are realized rather than on the date they are granted. When CPH growth is recalculated to reflect the value of current stock options when they are granted -- rather than their value when they are realized - it is found that the adjusted CPH measure accelerated in each year from 1995 to 1999.

Mendoza, Enrique G.

PD June 2001. **TI** Credit, Prices, and Crashes: Business Cycles with a Sudden Stop. **AA** Duke University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8338; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 49. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E30, F32, F34, F40. **KW** Emerging Markets. Foreign Debt. Sudden Stops. International Trade.

AB The 1990s emerging-markets crises were characterized by sudden reversals in inflows of foreign capital followed by unusually large declines in current account deficits, private expenditures, production, and prices of nontradable goods relative to tradables. This paper shows that these Sudden Stops can be the outcome of the equilibrium dynamics of a flexible-price economy with imperfect credit markets. Foreign debt is denominated in units of tradables and a liquidity constraint links credit-market access to the income generated in the nontradables sector and the relative price of nontradables. Sudden Stops occur when real shocks of foreign or domestic origin, or policy-induced shocks make this constraint binding. Sudden Stops are not reflected in long-run business cycle statistics but still they entail nontrivial welfare costs. These results question crises-management policies seeking to impose direct controls on private capital flows and favor those that work to weaken credit frictions.

Mendoza, Juan

TI Annexation or Conquest? The Economics of Empire Building. **AU** Grossman, Herschel I.; Mendoza, Juan.

TI Scarcity and Conflict. **AU** Grossman, Herschel I.; Mendoza, Juan.

Merlo, Antonio

TI A Structural Model of Government Formation. **AU** Diermeier, Daniel; Eraslan, Hulya; Merlo, Antonio.

PD February 2002. **TI** Bargaining Over Residential Real Estate: Evidence from England. **AU** Merlo, Antonio; Ortalo-Magne, Francois. **AA** Merlo: University of Pennsylvania. Ortalo-Magne: London School of Economics and University of Wisconsin. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/005; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 36. **PR** free from website. **JE** D40, L10, L85, R00. **KW** Real Estate. Listing Price. Sale Price. Time to Sale. Bargaining.

AB This paper presents and investigates a new data set of individual residential property transactions in England. The main novelty of the data is the record of all listing price changes and all offers ever made on a property since it appears on the market, as well as all the visits by potential buyers for a subset of the sample. We analyze individual seller and potential buyers' behavior within property transaction histories. This leads us to establish a number of stylized facts pertaining specifically to the timing and terms of agreement in housing transactions, and more generally, to the sequence of events that occur from initial listing to sale agreement.

TI Bicameralism and Government Formation. **AU** Diermeier, Daniel; Eraslan, Hulya; Merlo, Antonio.

PD July 2002. **TI** Bargaining over Residential Real Estate: Evidence from England. **AU** Merlo, Antonio; Ortalo-Magne, Francois. **AA** Merlo: University of Pennsylvania. Ortalo-Magne: London School of Economics and University of Wisconsin. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/023; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** .36. **PR** free from website. **JE** D40, L10, L85, R00. **KW** Real Estate. Listing Price. Sale Price. Time to Sale. Bargaining.

AB See the abstract for Merlo, Antonio; Ortalo-Magne, Francois. February 200, "Bargaining Over Residential Real Estate: Evidence from England". Penn Institute for Economic Research (PIER) Working Paper: 02/005; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website:

www.econ.upenn.edu/Centers/pier.

TI A Political Economy Model of Congressional Careers. AU Diermeier, Daniel; Keane, Michael; Merlo, Antonio.

Messner, Simon

PD January 2001. TI Allocative and Productive Efficiency in REE with Asymmetric Information. AU Messner, Simon; Vives, Xavier. AA Messner: Universite des Sciences Sociales de Toulouse. Vives: INSEAD, Fontainebleau. SR CEPR Discussion Paper: 2678; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE D82, L13, L40. KW Asymmetric Information. Informational Externalities. Market Efficiency. Rational Expectations.

AB We characterize the divergence between informational and economic efficiency in a rational expectations competitive market with asymmetric information about the costs of production. We find that prices may contain too much or too little information with respect o incentive efficient allocations depending on whether the main role of the price is, respectively, the traditional as index of scarcity or informational. Only when rational expectations equilibrium (REE) degenerates to Cournot equilibria, does the market solution not show allocative inefficiency. With multidimensional uncertainty we find that the REE price does not, in general, have the incentive efficient information mix: it pays to sacrifice allocative efficiency at the REE to improve productive efficiency.

Micklewright, John

TI Intra-Household Transfers and the Part-Time Work of Children. AU Dustmann, Christian; Micklewright, John.

Midelfart, Karen-Helene

TI Relative Wages and Trade-Induced Changes in Technology. AU Ekholm, Karolina; Midelfart, Karen-Helene.

Mihov, Ilian

TI The Effects of Fiscal Policy on Consumption and Employment: Theory and Evidence. AU Fatas, Antonio; Mihov, Ilian.

Miles, David K.

TI Risk Return and Portfolio Allocation Under Alternative Pension Systems with Imperfect Financial Markets. AU Cerny, Ales; Miles, David K.

Milesi-Ferretti, Gian Maria

TI Long-Term Capital Movements. AU Lane, Philip; Milesi-Ferretti. Gian Maria.

Miravete, Eugenio J.

PD February 2001. TI Quantity Discounts for Time-Varying Consumers. AA University of Pennsylvania and CEPR. SR CEPR Discussion Paper: 2699; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road. London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE D42, D82, L96. KW Convolution Distributions. Hazard Rate. Nonlinear Pricing. Quantity Discounts. Stochastic Dominance.

AB When a monopolist asks consumers to choose a particular nonlinear tariff option, consumers do not completely know their type. Their valuations of the good and/or optimal quantity purchases are only fully realized after the optional tariff has been subscribed. In order to characterize the menu of optimal nonlinear tariffs when consumers' demands are stochastic, we show that the increasing hazard rate property of distributions is preserved under convolution. This result, together with very weak assumptions on demand, ensures that the continuum of optional nonlinear tariffs is characterized by quantity discounts. We also test nonparametrically the theoretical prerequisites of the model using data directly linked to consumer types from the 1986 Kentucky telephone tariff experiment. Then it provides evidence that the distribution of actual calls second order stochastically dominates the distribution of expected calls, which fully supports the suggested type-varying theoretical model. Finally, we analyze possible welfare effects of the introduction of optional tariffs and their relative expected profitability using the empirical distribution of consumer types in two local exchanges with differentiated calling patterns. The evidence suggests that a menu of optional two-part tariffs dominates any other pricing strategy.

Miron, Jeffrey A.

PD August 2000. TI Prohibitions and the Prices of Prohibited Goods: Evidence from the Markets for Heroin and Cocaine. AA Boston University and Bastiat Institute. SR Boston University, Industry Studies Program Working Paper Series on Economics: 105; Department of Economics, Boston University, 270 Bay State Road, Boston, MA 02215. Website: www.bu.edu/econ/isp/. PG 66. PR no charge. JE K42, L51, L65, L66. KW Drugs. Prices. Markups. Prohibition.

AB This paper examines the effect of drug prohibition on the black market prices of heroin and cocaine. The paper compares the markup from farmgate to retail for these goods to those of several legal goods, and it compares the prices of legal cocaine and heroin to black market prices. The paper also estimates the tax and regulatory costs evaded by black market suppliers as well as the costs imposed by enforcement on black market suppliers. The results suggest that cocaine is 2.5-5 times more expensive than it would be in a legal market while heroin is 8-19 times more expensive. These effects of drug prohibition are substantial but considerably smaller than those suggested by previous research.

Missale, Alessandro

TI High Public Debt in Currency Crises: Fundamentals versus Signaling Effects. AU Benigno, Pierpaolo; Missale, Alessandro.

Mitchell, Matthew F.

PD July 2001. TI Specialization and the Skill Premium in the 20th Century. AA Federal Reserve Bank of Minneapolis and University of Minnesota. SR Federal Reserve Bank of Minneapolis Staff Report: 290; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. PG 28. PR no charge. JE D23, J31, N32. KW Skill Premium. Plant Size. Skill-Biased Technological Change. Specialization.

AB The skill premium fell substantially in the first part of the 20th century, and then rose at the end of the century. This paper argues that these changes are connected to the organization of production. When production is organized into large plants, jobs become routinized, favoring less skilled workers. Building on the notion that numerically controlled machines made capital more "flexible" at the end of the century, the model allows for changes in the ability of capital to do a wide variety of tasks. When calibrated to data on the distribution of plant sizes, the model can account for between half and two-thirds of the movement in the skill premium over the century. It is also in accord with a variety of industry level evidence.

Mliga, Gilbert R.

TI Bypassing Health Centers in Tanzania: Revealed Preferences for Observable and Unobservable. **AU** Leonard, Kenneth L.; Mliga, Gilbert R.; Mariam, Damen H.

Moav, Omer

TI From Physical to Human Capital Accumulation: Inequality in the Process of Development. **AU** Galor, Oded; Moav, Omer.

Monnet, Cyril

TI When Should Labor Contracts Be Nominal? **AU** Martin, Antoine; Monnet, Cyril.

Montoro, Vidal Fernandez

PD November 2001. **TI** Expectations and the Behavior of Spanish Treasury Bill Rates. **AA** University of Southampton and Universitat Jaume I, Castellon, Spain. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0112; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 29. **PR** no charge. **JE** E43, E50. **KW** Treasury Bill Rates. Interest Rates. Expectations Hypothesis. Autoregressive Vectors. Spain.

AB Rational Expectations models are tested here under the standard assumptions of the Expectations Hypothesis (EH) of interest rates. It examines the theoretical unbiasedness of the spread of interest rates by predicting changes in the shorter spot rates. Unit root tests are applied and VAR systems are specified as a framework to apply Johansen's Maximum Likelihood Cointegration Analysis. Homogeneity and exogeneity tests are also carried out. Finally, some Vector Error Correction Models (VECM) are provided to determine the significance of the main assertions of the EH. Our VECM are coherent with the EH. It is concluded that, by providing stability and strengthening the monetary transmission mechanism, the Spanish Treasury bills played a very relevant role in the monetary policy applied in Spain in order to enter the EMU.

Moretto, Michele

PD October 1999. **TI** The Efficient Assignment of the Exit Option. **AU** Moretto, Michele; Rossini, Gianpaolo. **AA** Moretto: University of Padova. Rossini: Universita di Bologna and Brown University. **SR** Brown University, Department of Economics Working Paper: 99/29; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 24. **PR** no charge. **JE** D92, L21. **KW** Specificity. Shut Down. Profit Sharing. Endogenous Ownership. Layoff Compensation.

AB Our concern is the assignment of the shut-down decision of a firm in which there is profit sharing. The framework is one of market uncertainty and factor specificity in a dynamic setting. The paper belongs to the literature on the endogenous ownership structure of the firm. A variety of scenarios are considered according to different layoff compensations vis a vis different degrees of factors' specificity. We find circumstances in which granting employees the decision to close can increase the aggregate payoff accruing to employees and shareholders, with respect to the usual practice of owners' decision making. In the traditional case a deadweight loss emerges, since a failure arises in the internal market for specific factors. Since the loss of control over exit is costly for shareholders, we design a compensation scheme for the transfer and/or sharing of the closing decision, leading to a Markov-Nash perfect equilibrium. The result is a non-stop flow of payments from employees to shareholders.

Morris, Charles

PD December 1998. **TI** Credit Spreads and Interest Rates: A Cointegration Approach. **AU** Morris, Charles; Neal, Robert; Rolph, Doug. **AA** Morris: Federal Reserve Bank of Kansas City. Neal: Indiana University. Rolph: University of Washington. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP98/08; 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** 27. **PR** no charge. **JE** C32, E43, E52. **KW** Cointegration. Interest Rates. Corporate Bonds.

AB This paper uses cointegration to model the time-series of corporate and government bond rates. We show that corporate rates are cointegrated with government rates and the relation between credit spreads and Treasury rates depends on the time horizon. In the short- run, an increase in Treasury rates causes credit spreads to narrow. This effect is reversed over the long-run and higher rates cause spreads to widen. The positive long-run relation between spreads and Treasuries in inconsistent with prominent models for pricing corporate bonds, analyzing capital structure, and measuring the interest rate sensitivity of corporate bonds.

Mukherji, Arijit

TI Can We Really Observe Hyperbolic Discounting? **AU** Fernandez-Villaverde, Jesus; Mukherji, Arijit.

Muller, Holger M.

TI Corporate Borrowing and Financing Constraints. **AU** Inderst, Roman; Muller, Holger M.

Mulligan, Casey B.

TI Inflation and the Size of Government. **AU** Han, Song; Mulligan, Casey B.

Munoz, Jorge

TI Military Expenditures and Economic Growth. **AU** Castillo, Jasen; Lowell, Julia; Tellis, Ashley J.; Munoz, Jorge; Zycher, Benjamin.

TI Military Expenditures and Economic Growth. **AU** Castillo, Jasen; Lowell, Julia; Tellis, Ashley J.; Munoz, Jorge; Zycher, Benjamin.

Munoz, Rafael

TI Can the Matching Model Account for Spanish Unemployment? **AU** Fonseca, Raquel; Munoz, Rafael.

Murasawa, Yasutomo

TI A New Coincident Index of Business Cycles. **AU** Mariano, Roberto S.; Murasawa, Yasutomo.

Murnane, Richard J.

TI The Skill Content of Recent Technological Change: An Empirical Exploration. **AU** Autor, David H.; Levy, Frank; Murnane, Richard J.

Nachum, Lilach

TI Why Do Business Service Firms Cluster? Small Consultancies, Clustering and Decentralisation in London and Southern England. **AU** Keeble, David; Nachum, Lilach.

PD March 2001. **TI** External Networks and Geographic Clustering as Sources of MNE Advantages: Foreign and Indigenous Professional Service Firms in Central London. **AU** Nachum, Lilach; Keeble, David. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP195; Publications Secretary, ESRC Centre for Business Research, University of Cambridge, Austin Robinson Building, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 32. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** L14, L21, L22, L84. **KW** Networking. Multinational Enterprises. Geographic Clustering. Britain.

AB This study combines the theories of international business and management with network theory in order to examine the networking activities of foreign affiliates. It focuses on a specific kind of network, which is taking place between firms based in geographic proximity. A comparative analysis between foreign and indigenous firms in selected professional service industries located in Central London is used as the analytical tool to isolate the networking attributes of firms in general from those that are unique to foreign affiliates and emerge as a result of their specific characteristics. The findings suggest considerable differences between foreign and indigenous firms in terms of their network behavior. Multinational enterprises (MNE) internal networks appear partially to replace the advantages provided by external networks, acting both to diminish the MNE's need for external linkages and channel it into somewhat different directions.

Naga, Ramses H. Abul

PD December 2001. **TI** Social Welfare Orderings: A Life-Cycle Perspective. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 01/12; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 18. **PR** no charge. **JE** C31, D60, D90, I30. **KW** Social Welfare Orderings. Life-Cycle Income. Household Income and Expenditure. Deficit Curve.

AB Consider the problem of measuring long-run household welfare and investigating welfare orderings from cross-section data. Life-cycle theories emphasize that consumption is allocated intertemporally on the basis of a long-term concept of resources, which differs from household income. Expenditure is also subject to transitoriness because diaries on spending are kept for a period of two to four weeks. Via joint modelling of household income and expenditure, we provide bounds for the deficit curve of lifecycle incomes using two distinct predictors of this unobservable. A third predictor generates a deficit curve also lying within these bounds.

PD April 2002. **TI** A Test for Correlation between Signal and Noise within the Errors in Variables Model. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/08; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 7. **PR** no charge. **JE** C10, C40. **KW** Errors in Variables. Correlated Measurement Error. Consistent Adjusted Least Squares. Hausman Tests.

AB When testing for measurement error, the vector of contrasts is the difference between the OLS and IV solutions. When testing for correlated measurement error, the OLS estimator must be replaced by a statistic which achieves consistency under the null hypothesis of uncorrelated measurement error. We propose one such estimator when one amongst several regressors is assumed to be measured with noise, and derive the related Hausman-type test.

PD June 2002. **TI** Quantity Constraints, Poverty Lines, and Poverty Orderings. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/11; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 10. **PR** no charge. **JE** C20, C30, D60, I30. **KW** Poverty Lines. Rationing. Poverty Orderings. Bivariate Stochastic Dominance.

AB By limiting the scope for substitution between commodities, other things equal, quantity constraints raise the cost of living. Thus, rationed families have higher poverty lines than unconstrained ones. This heterogeneity in both resources and poverty lines means that, in principle, bivariate dominance results are required to order distributions in terms of poverty.

Nakamura, Alice O.

TI The Measurement of Aggregate Total Factor Productivity Growth. **AU** Diewert, W. Erwin; Nakamura, Alice O.

Neal, Robert

TI Credit Spreads and Interest Rates: A Cointegration Approach. **AU** Morris, Charles; Neal, Robert; Rolph, Doug.

Nechyba, Thomas J.

PD July 2001. **TI** Centralization, Fiscal Federalism and Private School Attendance. **AA** Duke University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8355; 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** H71, I20. **KW** Educational Finance. School Quality. Private Schools.

AB This paper uses a computational general equilibrium model to analyze the impact of public school finance regimes on rates of private school attendance. It is shown that, when viewed in such a general equilibrium context, state intervention in locally financed systems can have somewhat unexpected and counterintuitive effects on the level of private school attendance. In particular, the common perception that centralization of public school finance will necessarily lead to greater private school attendance is no longer correct when general equilibrium forces are taken into account -- even when that centralization involves an extreme equalization of the kind observed in California. Furthermore, if centralization occurs through less dramatic means that allow for some remaining discretion on the part of local districts, declines in private school attendance become much more unambiguous and pronounced. These results then weaken the speculation that low exit rates to private schools in centralizing states imply that general public school quality does not drop as a result of such centralization.

Nelson, William R.

TI Interpreting the Significance of the Lagged Interest Rate in Estimated Monetary Policy Rules. **AU** English, William B.; Nelson, William R.; Sack, Brian P.

Neumann, Todd

TI Does Participating in a 401(k) Raise Your Lifetime Taxes? **AU** Gokhale, Jagadeesh; Kotlikoff, Laurence J.; Neumann, Todd.

Neumark, David

TI External Job Churning and Internal Job Flexibility. **AU** Cappelli, Peter; Neumark, David.

Nevo, Aviv

TI Sales and Consumer Inventory. **AU** Hendel, Igal; Nevo, Aviv.

Nguyen, Anh

TI Testing for Unit Roots on Heterogeneous Panels: A Sequential Approach. **AU** Henin, Pierre-Yves; Jolivaldt, Phillippe; Nguyen, Anh.

Nocke, Volker

TI The Incentive Costs of Internalizing Externalities. **AU** Mailath, George J.; Nocke, Volker; Postlewaite, Andrew.

PD 2003. **TI** Monopoly Pricing Under Demand Uncertainty: Final Sales versus Introductory Offers. **AU** Nocke, Volker; Peitz, Martin. **AA** Nocke: University of Pennsylvania. Peitz: University of Mannheim. **SR** Penn Institute for Economic Research (PIER) Working Paper: 03/002; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 43. **PR** free from website. **JE** L12, M31. **KW** Rationing. Priority Pricing. Demand Uncertainty. Introductory Offers. Price Dispersion.

AB We study rationing as a tool of the monopolist's pricing strategy when demand is uncertain. Three pricing strategies are potentially optimal in our environment: uniform pricing, final sales, and introductory offers. The final sales strategy consists of charging a high price initially, but then lowering the price while committing to a total capacity. Consumers with high valuations to pay may decide to buy at the high price since the endogenous probability of rationing is higher at the lower price. The introductory offers strategy consists of selling a limited quantity at a low price initially, and then raising price. Those consumers with high valuations who were rationed initially at the lower price may find it optimal to buy the good at the higher price. We show that while the introductory offers strategy may dominate uniform pricing, it is never optimal if the monopolist can use the final sales strategy.

Noldeke, Georg

PD January 2001. **TI** Existence of Linear Equilibria in the Kyle Model with Multiple Informed Traders. **AU** Noldeke, Georg; Troger, Thomas. **AA** Noldeke: University of Bonn. Troger: University College London. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2001/01; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 8. **PR** no charge. **JE** C62, D82, G14. **KW** Insider Trading. Kyle Model. Linear Equilibrium. Normal Distribution.

AB We consider Kyle's market order model of insider trading with multiple informed traders and show: if a linear equilibrium exists for two different numbers of informed traders, asset payoff and noise trading are independent and have finite second moments, then these random variables are normally distributed.

Normann, Hans-Theo

TI Through Trial and Error to Collusion -- The Discrete Case. **AU** Huck, Steffen; Normann, Hans-Theo; Oechssler, Jorg.

O'Brien, Raymond J.

TI Monthly, Annual and Quarterly Frequencies: A Comparison of Models for Tourism in Sardinia. **AU** Pulina, Manuela; O'Brien, Raymond J.

O'Rourke, Kevin H.

PD June 2001. **TI** Globalization and Inequality: Historical Trends. **AA** Trinity College and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8339; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 35. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F00, N70. **KW** Globalization. International Trade.

AB This paper surveys trends in both international economic integration and inequality over the past 150 years, as well as the links between them. In doing so, it distinguishes between (a) the different dimensions of globalization; and (b) between-country and within-country inequality. Theory suggests that globalization will have very different implications for within-country inequality, depending on the dimension of globalization involved (e.g. trade versus factor flows), on the country concerned, and on the distribution of endowments; the historical record provides ample evidence of this ambiguous relationship. Late 19th century globalization had large effects on within-country income distribution, but the effect on inequality differed greatly across countries: both trade and migration (but not capital flows) made the rich New World more unequal, and the (less rich) Old World more equal. The evidence on the links between within- country inequality and globalization in the late 20th century is mixed. The balance of evidence suggests that globalization has been a force for between-country convergence in both the late 19th and late 20th centuries; long run patterns of divergence are due to other factors (e.g. the unequal spread of the Industrial Revolution).

PD July 2001. **TI** Globalization and Inequality: Historical Trends. **AA** Trinity College, Dublin and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2865; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** N10, N70. **KW** Inequality. Globalization.
AB See the abstract for O'Rourke, Kevin H., June 2001, "Globalization and Inequality: Historical Trends". National Bureau of Economic Research Working Paper: 8339; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org.

Oberholzer-Gee, Felix

PD April 2001. **TI** Electoral Acceleration: The Effect of Minority Population on Minority Voter Turnout. **AU** Oberholzer-Gee, Felix; Waldfogel, Joel. **AA** Oberholzer-Gee: University of Pennsylvania. Waldfogel: University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 8252; 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** D72, L82. **KW** Minority Population. Voter Turnout. Median Voter. Electoral Acceleration.
AB Political outcomes are well understood to depend on the spatial distribution of citizen preferences. In this paper, we document that the same holds for the individual decision to be politically active. Using both cross-sectional and longitudinal evidence on turnout, we show that citizens are more likely to vote if they live in a jurisdiction with a larger number of persons sharing similar political preferences. As a result, changes in the identity of a district's median citizen lead to even larger changes in the identity of its median voter, a phenomenon we term electoral acceleration. We present evidence that electoral acceleration is in part due to the structure of media markets. Candidates find it easier to direct campaign efforts at larger groups because many existing media outlets cater to this audience.

Oechssler, Jorg

TI Through Trial and Error to Collusion -- The Discrete Case. **AU** Huck, Steffen; Normann, Hans-Theo; Oechssler, Jorg.

PD June 2000. **TI** On the Dynamic Foundation of Evolutionary Stability in Continuous Models. **AU** Oechssler, Jorg; Riedel, Frank. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/07; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 29. **PR** no charge. **JE** C72, C73. **KW** Replicator Dynamics. Evolutionary Stability. Evolutionary Robustness. Continuously Strategy.
AB We show in this paper that none of the existing static evolutionary stability concepts (evolutionary stable strategy, continuously stable strategy, uninvadability, neighborhood invader strategy) is sufficient to guarantee dynamic stability in the weak topology with respect to standard evolutionary dynamics if the strategy space is continuous. We propose a new concept, evolutionary robustness, which is stronger than the previous concepts. Evolutionary robustness ensures dynamic stability for replicator dynamics in doubly symmetric games.

PD September 2000. **TI** Can You Guess the Game You're Playing? **AU** Oechssler, Jorg; Schipper, Burkhard C. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/11; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 17. **PR** no charge. **JE** C72, C92, D83. **KW** Learning. Subjective Games. Experiments.
AB Recently there has been much theoretical and experimental work on learning in games. However, learning usually means "learning about the strategic behavior of opponents" rather than "learning about the game" as such. In contrast, here we report on an experiment designed to test whether players learn a) the relevant features of the payoff structure of a 2 by 2 game (e.g. the best reply structure) and b) whether they play according to equilibrium predictions regardless of how question a) is being answered. Question a) is being tested by asking subjects to guess the payoff structure of their opponents in a repeated encounter and rewarding subjects for correct answers.

PD February 2001. **TI** Cooperation as a Result of Learning with Aspiration Levels. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2001/08; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 8. **PR** no charge. **JE** C72, L13. **KW** Cooperation. Cournot Oligopoly. Prisoners' Dilemma.
AB It is shown that a win-stay, lose-shift behavior rule with endogenous aspiration levels yields cooperation in a certain class of games. The aspiration level in each round equals the current population average. The class of games includes the prisoner's dilemma and Cournot oligopoly and thus yields an explanation for cooperation and collusion.

Ohanian, Lee E.

PD March. 2001. **TI** Why Did Productivity Fall So Much During the Great Depression? **AA** Federal Reserve Bank of Minneapolis and University of California, Los Angeles. **SR** Federal Reserve Bank of Minneapolis Staff Report: 285; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 8. **PR** no charge. **JE** E32, N12. **KW** Great Depression. Total Factor Productivity. Factor Measurement.
AB Between 1929 and 1933, real output per adult fell over 30 percent and total factor productivity fell 18 percent. This productivity decrease is much larger than expected from just extrapolating the productivity decrease that typically occurs during recessions. This paper evaluates what factors may have caused this large decrease, including unmeasured factor utilization, changes in the composition of production, and increasing returns. A finding of the paper is that these factors combined explain less than one-third of the 18 percent

decreases, thus the productivity decrease during the Great Depression remains a puzzle.

Ok, Efe A.

TI Delegation and Polarization of Platforms in Political Competition. **AU** Fauli-Oller, Ramon; Ok, Efe A.; Ortuno-Ortin, Ignacio.

Olarreaga, Marcelo

TI Mode of Foreign Entry, Technology Transfer, and FDI Policy. **AU** Mattoo, Aaditya; Olarreaga, Marcelo; Saggi, Kamal.

TI On "Indirect" Trade-Related R&D Spillovers. **AU** Lumenga-Neso, Olivier; Olarreaga, Marcelo; Schiff, Maurice.

Olivella, Pau

TI Waiting Lists and Patient Selection. **AU** Pita Barros, Pedro; Olivella, Pau.

Olken, Benjamin A.

TI A Biological Model of Unions. **AU** Kremer, Michael; Olken, Benjamin A.

Onatski, Alexei

TI Searching for Prosperity. **AU** Kremer, Michael; Onatski, Alexei; Stock, James.

Ono, Yukako

PD December 1999. **TI** Outsourcing Services, City Size, and Productivity of City. **AA** Brown University. **SR** Brown University, Department of Economics Working Paper: 99/34; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 17. **PR** no charge. **JE** L13, R34. **KW** Outsourcing. In-House Production. Service. Agglomeration Economies.

AB This paper presents a theoretical model which shows that the productivity advantage of firms in large cities can be explained by the effects of increased competition in the local market for services. In particular, the paper uses a two-stage model with Cournot competition to show that increased city demand for services by final producers induces entry of service suppliers; this results in lower outsourcing prices and greater use of outsourcing in the city. The agglomeration economies are derived endogenously through the higher degree of outsourcing in larger cities.

Orphanides, Athanasios

PD December 2001. **TI** Monetary Policy Rules, Macroeconomic Stability and Inflation: A View from the Trenches. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/62; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 21. **PR** no charge. **JE** E31, E37, E52, E58. **KW** Monetary Policy Rules. Real-Time Data. Greenbook Forecasts. Stagflation.

AB I estimate a forward-looking monetary policy reaction function for the Federal Reserve for periods before and after Paul Volcker's appointment as Chairman in 1979, using information that was available to the FOMC in real time from 1966 to 1995. The results suggest broad similarities in policy and point to a forward looking approach to policy consistent with a strong reaction to inflation forecasts during both periods. This contradicts the hypothesis, based on analysis with ex post constructed data, that the instability of the Great Inflation was the result of weak FOMC policy responses to expected inflation. A difference is that prior to Volcker's appointment, policy was too activist in reacting to perceived output gaps that retrospectively proved overambitious. Drawing on contemporaneous accounts of FOMC policy, I discuss the implications of the findings for alternative explanations of the Great Inflation and the improvement in macroeconomic stability since then.

PD January 2002. **TI** Monetary Policy Rules and the Great Inflation. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/08; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 8. **PR** no charge. **JE** E31, E52, E58. **KW** Monetary Policy Rules. Inflation. Unemployment. Greenbook Forecasts.

AB The nature of monetary policy during the 1970s is evaluated through the lens of a forward looking Taylor rule based on perceptions regarding the outlook for inflation and unemployment the time policy decisions were made. The evidence suggests that policy during the 1970s was essentially indistinguishable from a systematic, activist, forward- looking approach such as is often identified with good policy advice in theoretical and econometric policy evaluation research. This points to the unpleasant possibility that the policy errors of the 1970s occurred despite the use of a seemingly desirable policy approach. Though the resulting activist policies could have appeared highly promising, they proved, in retrospect, counterproductive.

Ortalo-Magne, Francois

TI Bargaining Over Residential Real Estate: Evidence from England. **AU** Merlo, Antonio; Ortalo-Magne, Francois.

TI Bargaining over Residential Real Estate: Evidence from England. **AU** Merlo, Antonio; Ortalo-Magne, Francois.

Ortuno-Ortin, Ignacio

TI Delegation and Polarization of Platforms in Political Competition. **AU** Fauli-Oller, Ramon; Ok, Efe A.; Ortuno-Ortin, Ignacio.

Ostmann, Axel

TI Imitation Equilibrium. **AU** Selten, Reinhard; Ostmann, Axel.

Pagano, Marco

PD January 2001. **TI** The Geography of Equity Listing: Why Do Companies List Abroad? **AU** Pagano, Marco; Roell, Ailsa A.; Zechner, Josef. **AA** Pagano: Universita di Salerno and CEPR. Roell: Princeton University. Zechner: University of Vienna. **SR** CEPR Discussion Paper: 2681; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** G15, G32. **KW** Cross-Listings. Geography.

Initial Public Offerings.
AB This paper documents the aggregate trends in the foreign listings of companies and analyses both their distinctive pre-listing characteristics and their post-listing performance relative to other companies. Between 1986 and 97, many European companies listed abroad, but did so mainly on US exchanges. At the same time, the number of US companies listed in Europe decreased. The cross-listings of European companies appear to have sharply different motivations and consequences depending on whether they cross-list in the United States or within Europe. In the first case, companies pursue a strategy of rapid expansion and large equity issues after the listing. They rely increasingly on export markets and tend to belong to high-tech industries. In the second case, companies do not grow more than the control group, and increase their leverage after the cross-listing. The only features common to all cross-listing companies are their large size and their tendency to be recently privatized companies.

PD January 2001. **TI** The Political Economy of Corporate Governance. **AU** Pagano, Marco; Volpin, Paolo. **AA** Pagano: Universita di Salerno and CEPR. Volpin: London Business School. **SR** CEPR Discussion Paper: 2682; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** G34, K22, K42. **KW** Acquisitions. Corporate Governance. Employment Legislation. Mergers. Political Economy.
AB The paper analyses the political decision that determines the degree of investor protection. We show that entrepreneurs and workers can strike a political agreement by which low investor protection is exchanged for high employment protection. This "corporatist" agreement is feasible if the political system favors the formation of coalition governments. In contrast, "non-corporatist" countries will feature high investor protection and low employment protection. The model also shows that the more diffused is share ownership, the higher the chosen degree of shareholder protection. Finally, the model predicts the frequency of mergers and acquisitions to be negatively correlated with employment protection. These predictions are shown to be consistent with OECD evidence.

PD January 2001. **TI** What Makes Stock Exchanges Succeed? Evidence from Cross-Listing Decisions. **AU** Pagano, Marco; Randl, Otto; Roell, Ailsa A.; Zechner, Josef. **AA** Pagano: Universita di Salerno and CEPR. Randl and Zechner:i University of Vienna. Roell: Princeton University. Zechner: University of Vienna. **SR** CEPR Discussion Paper: 2683; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F23, F36, G15, G32. **KW** Cross-Listings. Geography. Going Public. Initial Public Offerings. Stock Market Competition.
AB Despite the increasing integration of capital markets, geography has not yet become irrelevant to finance. Between 1986 and 1997, European public companies have increasingly listed abroad, especially in the US. We relate the cross-listing decisions to the characteristics of the destination exchanges (and countries) relative to those of the home exchange (and country). European companies appear more likely to cross- list in more liquid and larger markets, and in markets where several companies from their industry are already cross-listed. They are also more likely to cross-list in countries with better investor protection, and more efficient courts and bureaucracy, but not with more stringent accounting standards.

Page, Talbot
TI Taking the Coase Theorem Seriously. **AU** McKelvey, Richard D.; Page, Talbot.

Palomino, Frederic
TI Mutual Fund Tournament: Risk Taking Incentives Induced by Ranking Objectives. **AU** Goriaev, Alexei; Palomino, Frederic; Prat, Andrea.

Parker, Jonathan A.
TI The Empirical Importance of Precautionary Saving. **AU** Gourinchas, Pierre-Olivier; Parker, Jonathan A.

Passmore, Wayne
TI Does the Community Reinvestment Act (CRA) Cause Banks to Provide a Subsidy to Some Mortgage Borrowers? **AU** Canner, Glenn B.; Laderman, Elizabeth; Lehnert, Andreas; Passmore, Wayne.

Pastine, Ivan
TI Consumption Externalities, Coordination and Advertising. **AU** Pastine, Tuvana; Pastine, Ivan.

Pastine, Tuvana
TI Emerging Market Debt: Measuring Credit Quality and Examining Relative Pricing. **AU** Cumby, Robert; Pastine, Tuvana.

PD June 2001. **TI** Consumption Externalities, Coordination and Advertising. **AU** Pastine, Tuvana; Pastine, Ivan. **AA** Bilkent University and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2867; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D62, L13. **KW** Advertising. Consumption Externalities. Coordination.
AB The aim of this paper is to demonstrate that advertising can have an important function in markets with consumption externalities, apart from its persuasive and informative roles. It shows that advertising may function as a device to coordinate consumer expectations of the purchasing decisions of other consumers in markets with consumption externalities. The implications of advertising as a coordinating device are examined in the pricing and advertising decisions of firms interacting strategically. While, at times, the one period advertising expense can exceed the one period monopoly profit, in equilibrium consumers will pay a premium for the more heavily advertised brand.

Patacchini, Eleonora
PD January 2002. **TI** Unobservable Factors and Panel Data Sets: An Investigation in the Labour Market. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0202; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 25. **PR** no charge. **JE** C12, C13, C23, J64. **KW** Panel Data Models. Hypothesis Testing. Measurement Errors. Unobserved

Heterogeneity. Unemployment and Vacancy Data.
AB This paper investigates the effects of unobservable factors that contaminate two of the variables most used in labor market research, namely the stock of unemployment and the stock of vacancies. Using a matching function framework, different panel data estimators are compared using a number of appropriate Hausman tests robust to deviations from the classical errors assumptions. The relevance of the choice of the model specification is underlined. It is shown to what extent conclusions lacking a rigorous statistical analysis may be misleading.

Patrick, Robert H.

PD April 2001. **TI** The Impact of Market Rules and Market Structure on the Price Determination Process in the England and Wales Electricity Market. **AU** Patrick, Robert H.; Wolak, Frank A. **AA** Patrick: Rutgers University. Wolak: Stanford University. **SR** National Bureau of Economic Research Working Paper: 8248; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 56. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D40, E44, L94. **KW** Market Structure. Pricing. Electric Utilities.
AB This paper argues that the market rules governing the operation of the England and Wales electricity market in combination with the structure of this market present the two major generators with opportunities to earn revenues substantially in excess of their costs of production for short periods of time. Generators competing to serve this market have two strategic weapons at their disposal: (1) the price bid for each generation set and (2) the capacity of each generation set made available to supply the market each half-hour period during the day. The paper argues that because of the rules governing the price determination process in this market, by the strategic use of capacity availability declarations, when conditions exogenous to the behavior of the two major generators favor it, these two generators are able to obtain prices for their output substantially in excess of their marginal costs of generation. The paper closes with a discussion of the lessons that the England and Wales experience can provide for the design of competitive power markets in the US, particularly California, and other countries.

Pauzner, Ady

TI Demand Deposit Contracts and the Probability of Bank Runs. **AU** Goldstein, Itay; Pauzner, Ady.

TI Contagion of Self-Fulfilling Financial Crises Due to Diversification of Investment Portfolios. **AU** Goldstein, Itay; Pauzner, Ady.

Paxson, Christina

TI Economic Status and Health in Childhood: The Origins of the Gradient. **AU** Case, Anne; Lubotsky, Darren; Paxson, Christina.

Peaucelle, Irina

PD 2001. **TI** Economie et sante: Ou en est la Russie? (Economy and Health: Where is Russia At?) **AA** CEPREMAP. **SR** CEPREMAP Discussion Paper: 2001/05; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 34. **PR** between 4 and 5 euros. **JE** I19, P31. **KW** Russia. Life Expectancy. Health Expenditure. Health Insurance. Sanitary Environment.
AB Before the USSR dislocation the Russian Federation was a country of high human development estimated by the index based on three indicators: longevity, education attainment, and standard of living. It experienced reversals since 1990. This paper describes the relations between level of health and economic performance during recent societal transformations in Russia, which are the principal reasons of this devolution. Also, the disparity in mortality and morbidity between the different regions of European Russia is explained by different sanitary and ecological conditions. The inequalities in health service consumption are analyzed as consequences of health insurance reforms and as inadequate comprehension of certain diseases by Russian medicine. This paper is written in French.

PD 2002. **TI** Capital Social et Anthroponomie. **AA** CEPREMAP. **SR** CEPREMAP Discussion Paper: 2002/04; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 23. **PR** between 4 and 5 euros. **JE** B15, Z13. **KW** Health and Welfare. Social Norms. Russian Economic Thought.
AB In this paper the relations between the health component of social capital and enlarge reproduction of the economy are analyzed. We discuss methods which can be used in evaluation of populations' health in order to assess their work potentiality. Finally, by leaning on works in social psychology, I discuss the anthroponomic rhythms of economic evolution. This paper is written in French.

Peitz, Martin

TI Monopoly Pricing Under Demand Uncertainty: Final Sales versus Introductory Offers. **AU** Nocke, Volker; Peitz, Martin.

Pence, Karen M.

PD December 2001. **TI** 401(k)s and Household Saving: New Evidence from the Survey of Consumer Finances. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/06; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 20. **PR** no charge. **JE** E21, G23. **KW** 401K. Household Saving. Firm Saving. Pension Plans.
AB Although households have invested billions in 401(k) accounts, these balances may not be new saving if workers invest money that they would have saved in the program's absence. In this paper, I assess the effect of the 401(k) program on saving by comparing changes in the wealth of 401(k) eligible and ineligible households over the 1989-1998 period using data from the Survey of Consumer Finances (SCF). This comparison may yield misleading estimates of the effect of 401(k)s on saving if eligible households have a higher taste for saving than ineligible households or if they begin, the 1989-1998 period with greater amounts of wealth. I adjust for these potential biases and find that 401(k)s have little to no effect on saving. I examine two plausible margins of substitution to address the question of where 401(k) balances come from? I find weak evidence that households fund their 401(k) accounts, at least in part, by decreasing their holdings of real assets. However, I find no evidence that 401(k) balances

stem from firms replacing traditional defined benefit pensions with 401(k) plans.

Pereira, Alvaro S.

PD March 2002. **TI** Endogenous Structural Breaks and the Two Views of the Industrial Revolution. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/03; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 35. **PR** international. **JE** C22, N13, N63. **KW** Endogenous Structural Breaks. Industrial Revolution. General Purpose Technologies.

AB An endogenous structural breaks procedure tests the hypothesis that growth was "localized" during the Industrial Revolution. The tests show that structural changes occurred in most industries throughout the period, and not merely in the most dynamic. The simultaneous existence of pervasive structural changes and slow aggregate growth can be explained by: 1) the early Industrial Revolution was a Post-Malthusian phase in which income gains were translated into higher population, 2) the arrival of General Purpose Technologies (GPT), and 3) the development of a GPT in organizational technology (i.e. the factory system), which originated an organizational revolution.

Perelman, Sergio

TI Micro-Modeling of Retirement in Belgium. **AU** Dellis, Arnaud; Jousten, Alain; Perelman, Sergio.

Persson, Torsten

PD July 2001. **TI** Political Institutions and Policy Outcomes: What are the Stylized Facts? **AU** Persson, Torsten; Tabellini, Guido. **AA** Persson: Stockholm University and Centre for Economic Policy Research. Tabellini: Universita Bocconi. **SR** CEPR Discussion Paper: 2872; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** H10. **KW** Constitutional Government. Electoral Rule. Government Spending. Politics. Presidentialism.

AB This paper investigates the effect of electoral rules and political regimes on fiscal policy outcomes in a panel of 61 democracies from 1960 onwards. In presidential regimes, the size of government is smaller and less responsive to income shocks, compared to parliamentary regimes. Under majoritarian elections, social transfers are smaller and aggregate spending less responsive to income shocks than under proportional elections. Institutions also shape electoral cycles: only in presidential regimes is fiscal adjustment delayed until after the elections, and only in proportional and parliamentary systems do social transfers expand around elections. Several of these empirical regularities are in line with recent theoretical work; others are still awaiting a theoretical explanation.

Pestieau, Pierre

TI Labour Mobility, Redistribution and Pensions Reform in Europe. **AU** Jousten, Alain; Pestieau, Pierre.

Peters, Stephen R.

TI Protection for Whom? Creditor Conflicts in Bankruptcy. **AU** Longhofer, Stanley D.; Peters, Stephen R.

Petit, Pascal

PD 2001. **TI** Is a Biased Technological Change Fueling Dualism? **AU** Petit, Pascal; Soete, Luc. **AA** Pascal: CEPREMAP. Soete: MERIT. **SR** CEPREMAP Discussion Paper: 2001/03; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 20. **PR** between 4 and 5 euros. **JE** D21, E21, E23, O12, O33. **KW** Technical Change. Economic Growth. Dualism.

AB Analyses of structural transformations of modern developed economies have led in the second half of the 90s to two important debates. One bore on the skill bias nature of technological change, the other underlined the likely overestimation of consumer prices and therefore the underestimation of past rates of real economic growth, following incorrect appreciations of changes in product quality. From the many factual and theoretical points made in these debates, one can select some major feature of contemporary economic growth. On both the supply side and on the demand side characteristics of the learning and adjustment processes to respond to the new environment appear. This paper retains from these debates over the organization of productive processes and the changes in product quality both the differences in behaviors and capabilities (among producers and consumers alike) and the interdependencies between supply and demand processes. Economic growth thus appears as largely conditioned by the capacity of economies to take advantage of these interdependencies while limiting the hampering effects of dualist trends.

PD 2001. **TI** Distribution and Growth: Can the New Left Deal with the Neo- Schumpeterian "Accord"? Some Comments on the French Experience. **AA** CEPREMAP and CNRS. **SR** CEPREMAP Discussion Paper: 2001/07; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 18. **PR** between 4 and 5 euros. **JE** D21, E21, E23, O12, O33. **KW** Third Way. Economic Growth. Distribution. New Left.

AB The full employment commitments of the western governments of the post war period originated in a certain broad accord on what modern capitalism should allow in terms of welfare and employment and what the policy means should be to achieve it. A similar broad vision is necessary to realize the institutional changes which would give to the emerging growth regime its full potential. The widespread and vague notion of a New Economy evokes such representation and draws on some broad new accord that we qualify of neo-schumpeterian. The Third Way can be seen as a political expression of the left of this modernist vision but the structural policies attached to it are often narrow and country specific. The Third Way a la francaise sounds more ambitious than average but is still severely limited in scope and nature by the centralization of the design and implementation of its policies.

TI The Diversity of Social Systems of Innovation and Production during the 1990s. **AU** Amable, Bruno; Petit, Pascal.

Petropoulos, Wendy

TI Creative Destruction or Just Plain Destruction? The U.S. Textile and Apparel Industries since 1972. **AU** Levinsohn, Jim; Petropoulos, Wendy.

Pfann, Gerard A.

PD May 2001. **TI** Two-Sided Learning, Labor Turnover and Worker Displacement. **AU** Pfann, Gerard A.; Hamermesh, Daniel S. **AA** Pfann: University of Maastricht. Hamermesh: University of Texas and NBER. **SR** National Bureau of Economic Research Working Paper: 8273; 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** D83, J23, J63. **KW** Labor Turnover. Worker Displacement. Learning. Layoffs.

AB We construct a general dynamic structural model of two-sided learning between a firm and its workers. We estimate an empirical version of the model using personnel data from Fokker Aircraft that cover the path of layoffs and quits through its bankruptcy. We find that the firm learns about its workers' loyalty (demonstrating the role of information in repeated cooperative principal-agent relationships). There is no evidence that workers learn (consistent with earlier empirical results on American workers). The type of data that we use also generates information on the value of learning and on whether and how the characteristics of workers who remain until the firm's death differ from those of all affected workers. It thus allows us to measure the increases in the firm's value from learning about its workers' behavior and to infer the extent of biases in estimated losses from displacement from samples restricted to displaced workers.

Phelan, Christopher

PD January 2001. **TI** Public Trust and Government Betrayal. **AA** Federal Reserve Bank of Minneapolis. **SR** Federal Reserve Bank of Minneapolis Staff Report: 283; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 19. **PR** no charge. **JE** C73, E61, H21. **KW** Dynamic Policy Games. Credibility. Reputation. Policy Outcomes. Betrayal.

AB This paper presents a simple model of government reputation which captures two characteristics of policy outcomes in less developed countries. The first is that governments which betray public trust do so erratically. The second characteristic is that, after a betrayal, public trust is regained only gradually.

Philipson, Tomas J.

PD February 2001. **TI** Antitrust and the Not-For-Profit Sector. **AU** Philipson, Tomas J.; Posner, Richard A. **AA** Philipson: University of Chicago and NBER. Posner: University of Chicago. **SR** National Bureau of Economic Research Working Paper: 8126; 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** K21, L31, L44. **KW** Antitrust. Non-Profit Sector. Collusion.

AB Although the not-for-profit sector contributes greatly to aggregate output in many industries, there is little explicit analysis of the consequences of applying antitrust policy in this sector. This paper argues that the same incentives to collude exist in the non-profit sector as in the for-profit sector and that therefore, since competition is socially valuable regardless of the particular objectives of producers, the fact that antitrust law does not distinguish between the two sectors is efficient. The similarity in incentives derives from the fact that altruistic firms benefit from exploiting market power even when they would price below cost without regard to competition. Although the legal regulations governing the nonprofit sector limit the degree to which profits can be distributed, and therefore seek to reduce rents in a similar manner to antitrust laws, this nondistribution constraint does not obviate the need for antitrust in that sector. The argument for uniform antitrust doctrine in the two sectors extends to the exemptions from antitrust as well. In particular, patents stimulate innovation in the nonprofit sector only when they enable market power to be exploited, just as in the for-profit sector, and so the patent exemption from antitrust should be as broad in the nonprofit sector.

Piazzesi, Monika

PD April 2001. **TI** An Econometric Model of the Yield Curve with Macroeconomic Jump Effects. **AA** UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 8246; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 54. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E40, E50. **KW** Central Bank. Yield Curve. Jumps. Bond Prices. Monetary Policy.

AB This paper develops an arbitrage-free time-series model of yields in continuous time that incorporates central bank policy. Policy-related events, such as FOMC meetings and releases of macroeconomic news the Fed cares about, are modeled as jumps. The model introduces a class of linear-quadratic jump-diffusions as state variables, which allows for a wide variety of jump types but still leads to tractable solutions for bond prices. This paper estimates a version of this model with U.S. interest rates, the Federal Reserve's target rate, and key macroeconomic aggregates. The estimated model improves bond pricing, especially at short maturities. The "snake-shape" of the volatility curve is linked to monetary policy inertia. A new monetary policy shock series is obtained by assuming that the Fed reacts to information available right before the FOMC meeting. According to the estimated policy rule, the Fed is mainly reacting to information contained in the yield-curve. Surprises in analyst forecasts turn out to be merely temporary components of macro variables, so that the "hump-shaped" yield response to these surprises is not consistent with a Taylor-type policy rule.

TI A No-Arbitrage Vector Autoregression of Term Structure Dynamics with Macroeconomic and Latent Variables. **AU** Ang, Andrew; Piazzesi, Monika.

Piccione, Michele

PD May 2002. **TI** Modeling the Economic Interaction of Agents with Diverse Abilities to Recognize Equilibrium Patterns. **AU** Piccione, Michele; Rubinstein, Ariel. **AA** Piccione: London School of Economics. Rubinstein: Tel Aviv University and Princeton University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2002/10; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 11. **PR** no charge. **JE** C73, D41. **KW** DeBruijn. Price Fluctuations. Sunspots. Bounded Rationality. Bounded Recall.

AB We model differences among agents in their ability to recognize temporal patterns of prices. Using the concept of

DeBruijn sequences in two dynamic models of markets, we demonstrate the existence of equilibria in which prices fluctuate in a pattern that is independent of the fundamentals and that can be recognized only by the more competent agents.

Piketty, Thomas

PD July 2001. **TI** Income Inequality in France 1901-98. **AA** Ecole Normale Superieure, Paris and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2876; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D63, E25, N34. **KW** Capital Accumulation. Income Distribution. Wage Distribution. France.

AB The objective of this research is to document and to explain trends in inequality in 20th century France. Data from income tax returns (1915-98), wage tax returns (1919-98) and inheritance tax returns (1902-94), is used in order to compute fully homogeneous, yearly estimates of income inequality, wage inequality and wealth inequality. The main conclusion is that the decline in income inequality that took place during the first half of the 20th century was mostly accidental. In France and possibly in a number of other developed countries as well wage inequality has actually been extremely stable in the long run, and the secular decline in income inequality is for the most part a capital income phenomenon. Holders of very large fortunes were severely hit by major shocks during the 1914-45 period, and were never able to fully recover from these shocks, probably because of the dynamic effects of progressive taxation on capital accumulation and pre-tax income inequality.

Pistaferri, Luigi

TI Tax Incentives and the Demand for Life Insurance: Evidence from Italy. **AU** Jappelli, Tullio; Pistaferri, Luigi.

TI Insurance Within the Firm. **AU** Guiso, Luigi; Pistaferri, Luigi; Schivardi, Fabiano.

Pita Barros, Pedro

PD December 1999. **TI** Waiting Lists and Patient Selection. **AU** Pita Barros, Pedro; Olivella, Pau. **AA** Pita Barros: Universidade Nova de Lisboa. Olivella: Universitat Autonoma de Barcelona. **SR** Universitat Autonoma de Barcelona DEHA/IAE Working Paper: 444/99; Departament d'Economia i d'Historia Economica, Universitat Autonoma de Barcelona, Campus UAB, 08193 Bellaterra, Barcelona, Spain. Website: www.iae-csic.uab.es. **PG** 33. **PR** papers only available on web page; no hard copies. **JE** H51, I11, I18. **KW** Waiting Lists. Medical Treatment.

AB This paper develops a model of waiting lists for public hospitals, when physicians deliver both private and public treatment. Public treatment is free but rationed, i.e., only cases meeting some medical criteria area admitted for treatment. Private treatment has no waiting time but entails payment of a fee. Both physicians and patients take into account that each patient treated in the private practice schedule reduces the waiting list for public treatment. It is shown that physicians do not necessarily select the mildest cases from the waiting list. The paper provides sufficient conditions on the rationing policy under which cream skimming is always partial. To a large extent, one can bypass the analysis of doctors' behavior in the characterization of patient selection.

Pitt, Mark M.

PD September 1999. **TI** The Effect of Nonagricultural Self-Employment Credit on Contractual Relations and Employment in agriculture: The Case of Microcredit Programs in Bangladesh. **AA** Brown University. **SR** Brown University, Department of Economics Working Paper: 99/32; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 23. **PR** no charge. **JE** I38, O12, O16, Q15. **KW** Microcredit. Sharecropping. Bangladesh. Contractual Relations. Agriculture.

AB This paper examines the effect of group-based credit for the poor in Bangladesh. The group-based micro-credit programs examined provide production credit for nonagricultural activities to essentially landless and assetless rural households. Econometric analysis of a 1991/92 household survey provides strong evidence that participation in these group-based micro-credit programs substantially alters the mix of agricultural contracts chosen by participating households. In particular, both female and male participation induce a significant increase in own-cultivation through sharecropping, coupled with a complementary increase in male hours in field crop self-employment and a reduction in male hours in the wage agricultural labor market, consistent with its presumed effects in diversifying income and smoothing consumption. Female credit effects are larger than male credit effects in increasing sharecropping and in reducing male wage labor and increasing agricultural self-employment.

Polk, Christopher

TI The Value Spread. **AU** Cohen, Randolph B.; Polk, Christopher; Vuolteenaho, Tuomo.

Polo, Michele

TI Are Judges Biased by Labor Market Conditions? The Selection of Firing Litigations for Trial in an Italian Firm. **AU** Ichino, Andrea; Polo, Michele; Rettore, Enrico.

Poon, Ser-Huang

PD April 2001. **TI** New Extreme-Value Dependence Measures and Finance Applications. **AU** Poon, Ser-Huang; Rockinger, Michael; Tawn, Jonathan. **AA** Poon: University of Strathclyde. Rockinger: Hautes Etudes Commerciales, Jouy-en-Josas. Tawn: University of Lancaster. **SR** CEPR Discussion Paper: 2762; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** C13, C22, G11, G15. **KW** Asymptotic Independence. Extreme Value Theory. Hill's Estimator. Tail Index.

AB In the finance literature, cross-sectional dependence in extreme returns of risky assets is often modeled implicitly assuming an asymptotically dependent structure. If the true dependence structure is asymptotically independent then existing finance models will lead to over-estimation of the risk of simultaneous extreme events. We provide simple techniques for deciding between these dependence classes and for quantifying the degree of dependence in each class. Examples based on daily stock market returns show that there is strong evidence in favor of asymptotically independent models for dependence in extremal stock market returns, and that most of the extremal dependence is due to heteroskedasticity in stock returns processes.

Posner, Richard A.

TI Antitrust and the Not-For-Profit Sector. **AU** Philipson, Tomas J.; Posner, Richard A.

Posner, Steven E.

TI The Pricing of Event Risks with Parameter Uncertainty. **AU** Froot, Kenneth A.; Posner, Steven E.

Postlewaite, Andrew

TI Social Assets. **AU** Mailath, George J.; Postlewaite, Andrew.

TI Contemporaneous Perfect Epsilon-Equilibria. **AU** Mailath, George J.; Postlewaite, Andrew; Samuelson, Larry.

TI The Incentive Costs of Internalizing Externalities. **AU** Mailath, George J.; Nocke, Volker; Postlewaite, Andrew.

TI Informational Size and Efficient Auctions. **AU** McLean, Richard; Postlewaite, Andrew.

TI Accuracy vs. Simplicity: A Complex Trade-Off. **AU** Aragones, Enriqueta; Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David.

TI Accuracy vs. Simplicity: A Complex Trade-Off. **AU** Aragones, Enriqueta; Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David.

TI The Social Context of Economic Decisions. **AU** Mailath, George J.; Postlewaite, Andrew.

Poterba, James M.

PD June 2001. **TI** Taxation, Risk-Taking, and Household Portfolio Behavior. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8340; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 72. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G11, H20. **KW** Taxation. Household Investment.

AB This paper summarizes the current state of research on how taxation affects household decisions with respect to portfolio structure and asset trading. It discusses long-standing issues, such as the impact of differential taxation of income flows from stocks and hoods on the incentives for households to invest in these assets, and the effect of capital gains taxation on asset sales. It also addresses a range of emerging issues, such as the impact of taxation on the behavior of mutual funds and their investors, and the effect of tax changes and tax uncertainty on investor behavior. It concludes that taxation exerts a systematic influence on the nature of risk-taking and the structure of household portfolios. Research on the effects of taxation on portfolio structure is more advanced than work on the welfare costs of portfolio distortions.

Prat, Andrea

TI Mutual Fund Tournament: Risk Taking Incentives Induced by Ranking Objectives. **AU** Goriaev, Alexei; Palomino..Frederic; Prat, Andrea.

Prescott, Edward C.

PD November 2000. **TI** On the Equilibrium Concept for Overlapping Generations Organizations. **AU** Prescott, Edward C.; Rios-Rull, Jose-Victor. **AA** Prescott: Federal Reserve Bank of Minneapolis and University of Minnesota. Rios-Rull: University of Pennsylvania, CEPR, and NBER. **SR** Federal Reserve Bank of Minneapolis Staff Report: 282; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 19. **PR** no charge. **JE** C73, D23. **KW** Organization Equilibrium. Overlapping Generations.

AB A necessary feature for equilibrium is that beliefs about the behavior of other agents are rational. We argue that in stationary overlapping generations (OLG) environments this implies that any future generation in the same situation as the initial generation must do as well as the initial generation did in that situation. We conclude that the existing equilibrium concepts in the literature do not satisfy this condition. We then propose an alternative equilibrium concept, organizational equilibrium, which satisfies this condition. We show that equilibrium exists, it is unique, and it improves over autarky without achieving optimality. Moreover, the equilibrium can be readily found by solving a maximization program.

TI The Stock Market Crash of 1929: Irving Fisher Was Right! **AU** McGrattan, Ellen R.; Prescott, Edward C.

Puga, Diego

PD April 2001. **TI** European Regional Policies in Light of Recent Location Theories. **AA** University of Toronto and CEPR. **SR** CEPR Discussion Paper: 2767; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** H54, R58. **KW** Europe. Inequalities. Location. Regional Policy. Transport Infrastructure.

AB Despite large regional policy expenditures, regional inequalities in Europe have not narrowed substantially over the last two decades, and by some measures have even widened. Income differences across states have fallen, but inequalities between regions within each state have risen. European states have developed increasingly different production structures and European regions have also become increasingly polarized in terms of their unemployment rates. This paper describes these trends, and discusses how recent location theories can help us to explain them and reconsider the role of regional policies, and especially of transport infrastructure improvements, in such an environment.

TI Diversity and Specialisation in Cities: Why, Where and When Does it Matter? **AU** Duranton, Gilles; Puga, Diego.

Pulina, Manuela

PD July 2002. **TI** Monthly, Annual and Quarterly Frequencies: A Comparison of Models for Tourism in Sardinia. **AU** Pulina, Manuela; O'Brien, Raymond J. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0206; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 21. **PR** no charge. **JE** C50, L83. **KW** Modelling Tourism. General to Specific Modeling. Sassari. Sardinia.

AB This paper constructs and estimates the demand for international tourism for the Italian Province of Sassari. The sample period under estimation is from 1972 to 1995. Three dynamic models are estimated at monthly, annual and quarterly data frequencies. Similarities and differences are explored amongst the three models, using recently developed econometric techniques. A "pre-modeling" data analysis is undertaken for the economic series of interest. By adopting the LSE "general-to-specific" methodology, dynamic estimations are run. A full range of diagnostic tests is provided. Short and long run income elasticities, negativity and substitutability are tested on the light of economic theory. On balance, evidence is found that the monthly and quarterly models present homogenous results in terms of seasonal and long run unit roots. Annual data show different and perhaps misleading results.

Putterman, Louis

TI Reciprocity in a Two Part Dictator Game. **AU** Den-Ner, Avner; Putterman, Louis.

Qiu, Larry D.

PD May 2001. **TI** Keiretsu and Relationship-Specific Investment: Implications for Market-Opening Trade Policy. **AU** Qiu, Larry D.; Spencer, Barbara J. **AA** Qiu: Hong Kong University of Science and Technology. Spencer: University of British Columbia and NBER. **SR** National Bureau of Economic Research Working Paper: 8279; 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** F12, F13, L13, L14, L92. **KW** Relationship-Specific Investment. Trade Policy. Intermediate Goods.

AB This paper considers the implications of relationship-specific investment within keiretsu for policies aimed at opening the Japanese market for intermediate goods, such as auto pans. Both VIEs applied to parts and VERs restricting Japanese exports of autos cause the keiretsu to import a wider range of parts, but of a relatively unimportant type, such as seat covers. Since keiretsu investment and output fall, the total value of U.S. parts exports may actually fall. For a given value of these exports, a VIE is less costly for U.S. consumers and Japanese producers, but a VER is preferred by U.S. automakers.

Quigley, John M.

TI Comparing Wealth Effects: The Stock Market versus the Housing Market. **AU** Case, Karl E.; Quigley, John M.; Shiller, Robert J.

Rajan, Raghuram G.

PD May 2001. **TI** The Influence of the Financial Revolution on the Nature of Firms. **AU** Rajan, Raghuram G.; Zingales, Luigi. **AA** University of Chicago. **SR** CEPR Discussion Paper: 2782; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** L20. **KW** Corporate Governance. Financial Revolution. Theory of the Firm.

AB Major technological, regulatory, and institutional changes have made finance more widely available in recent years, amounting to a bona fide "financial revolution". This article focuses on the impact the financial revolution has had on the way firms are (or should be) organized and managed, and on the policy consequences.

PD May 2001. **TI** The Great Reversals: The Politics of Financial Development in the 20th Century. **AU** Rajan, Raghuram G.; Zingales, Luigi. **AA** University of Chicago. **SR** CEPR Discussion Paper: 2783; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** G30, M20, O16. **KW** Financial Development. History of Equity Market. Political Economy.

AB We show that the development of the financial sector does not change monotonically over time. In particular, we find that by most measures, countries were more financially developed in 1913 than in 1980 and only recently have they surpassed their 1913 levels. This pattern is inconsistent with most recent theories of why cross-country differences in financial development do not track differences in economic development, since these theories are based upon time-invariant factors, such as a country's legal origin. We propose instead an "interest group" theory of financial development. Incumbents oppose financial development because it breeds competition. The theory predicts that incumbents' opposition will be weaker when an economy allows both cross-border trade and capital flows. This theory can go some way towards accounting for the cross-country differences and the time series variation of financial development.

Randl, Otto

TI What Makes Stock Exchanges Succeed? Evidence from Cross-Listing Decisions. **AU** Pagano, Marco; Randl, Otto; Roell, Ailsa A.; Zechner, Josef.

Rappaport, Jordan

PD November 2001. **TI** Convex Adjustment Costs, Complementary Capital, and Neoclassical Transition Dynamics. **AA** Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP01/10; 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** 28. **PR** no charge. **JE** E13, O41. **KW** Aggregative Models. Growth Models. Total Factor Productivity.

AB A convex marginal adjustment cost allows the neoclassical growth model to match estimated transition paths for convergence speed, savings rates, real interest rates, and the shadow value of capital. Such an adjustment cost need only apply to one of two complementary capital types with minimal factor income share. The interplay of complementary capital types results in rich transition dynamics which blur the distinction between the economics of factor accumulation versus the economics of total factor productivity.

PD November 2001. **TI** The U.S. as a Coastal Nation. **AU** Rappaport, Jordan; Sachs, Jeffrey D. **AA** Rappaport: Federal Reserve Bank of Kansas City. Sachs: Harvard University. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP01/11; 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** O51, R11, R12. **KW** Economic Growth. Population Density. Productivity. Quality of Life.

AB U.S. economic activity is overwhelmingly concentrated at its ocean and Great Lakes coasts. Economic theory suggests four possible explanations: a present-day productivity effect, a present-day quality- of-life effect, delayed adjustment following a historical productivity or quality-of-life effect, and an agglomeration effect following a historical productivity or quality-of-life effect. Controlling for correlated natural attributes such as the weather and including proximity measures which a priori do not influence quality-of-life, linear regressions suggest that the high coastal concentration of economic activity is primarily due to a productivity effect. Extensively controlling for historical economic density suggests that such a productivity effect continues to be operative today.

PD November 1999. **TI** How Does Labor Mobility Affect Income Convergence? **AA** Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP99/12; 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** 26. **PR** no charge. **JE** F43, J61, O41. **KW** Economic Growth. Income Convergence. Factor Mobility. Migration.
AB The neoclassical growth model is extended to allow for mobile labor. Following a negative shock to a small economy's capital stock, capital and labor frictions affect an equilibrium transition path during which wages remain below their steady-state level. Outmigration directly contributes to faster income convergence but also creates a disincentive for gross capital formation. The net result is that across a wide range of calibrations, the speed of income convergence is relatively insensitive to the degree of labor mobility.

PD November 1999. **TI** Why Are Population Flows So Persistent? **AA** Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP99/13; 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** 28. **PR** no charge. **JE** F43, J61, O41, R11. **KW** Economic Growth. Factor Mobility. Migration. Spatial Equilibrium. Compensating Differentials.
AB Extending the neoclassical growth model to allow for mobile labor, small shocks to a local economy's productivity or quality of life along with small frictions to capital and labor mobility effect extended equilibrium transition paths. During such transitions local population may be far away from its steady-state level but local wages and housing prices remain relatively close to their stead-state levels. Exogenous technological progress together with a partially elastic local housing supply implies stead-state population flows from high productivity to high quality-of-life economies. In addition, consumption smoothing causes stead-state population density to be history dependent. Empirical evidence suggests that some time around 1930, the Unite States experience a shock which realigned productivity across its localities and which set in motion extended population flows. The data further suggest that some time around 1960, quality-of-life considerations became more important in driving population flows and that a capital shock temporarily drove population flows during the 1970s.

Rebelo, Sergio

TI On the Fiscal Implications of Twin Crises. **AU** Burnside, Craig; Eichenbaum, Martin; Rebelo, Sergio.

Rettore, Enrico

TI Are Judges Biased by Labor Market Conditions? The Selection of Firing Litigations for Trial in an Italian Firm. **AU** Ichino, Andrea; Polo, Michele; Rettore, Enrico.

Reynaud, Benedicte

PD January 2001. **TI** Suivre des Regles: Definition et Implications Pratiques (Rules Following: Routines and Tacit Knowledge in the Coordination). **AA** CEPREMAP. **SR** CEPREMAP Discussion Paper: 2001/02; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 21. **PR** between 4 and 5 euros. **JE** D21, D74. **KW** Rules. Routines. Coordination.
AB This paper is based on different observations done in several years apart, in a RATP workshop where a salary rule was introduced. In a first part, we show that the relevant question is not whether one follows the rule, but how one follows rules. We attempt to explain what "rules following" means in economics. First, we show that rules that govern a specific activity are incomplete. Each of them needs to be interpreted in relation to the information that is contained in other rules. From a practical point of view, according to our observations, a way of following rules consists in using concrete point of reference that are built into routines. The second part is devoted to enlighten the differences between the notion of routine as defined in an evolutionary perspective, and our notion of routine grounded in these observations. This analysis conducts to the last part: We present our conception of the relationship between rules and routines; namely, we analyze the role of routines in the management of the incompleteness of rules. This paper is written in French.

TI Factory Discipline and Externalities in the Reduction of Working Time in the 19th Century in France. **AU** Bourdieu, Jerome; Reynaud, Benedicte.

Rice, Patricia

PD January 2002. **TI** The Great Divide: Regional Differences in Education and Training. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0201; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 42. **PR** no charge. **JE** I21, J24. **KW** Human Capital. Education and Training. Regional Inequality.
AB While regional disparities in the overall rate of participation in further education and training among young people are relatively small, marked differences persist in the pattern of investment across the regions. The proportion of young people continuing in full-time further education in the northern regions continues to lag far behind that in the south. This paper analyzes the sources of this 'north-south' divide and the role played by differences in the educational and socio-economic composition of the regions. The results indicate that differences in schooling and levels of educational attainment play a modest role in determining such regional disparities. Further, eliminating all compositional differences across the regions -- in terms of not only educational attainment, but also social and ethnic background and local labor market factors -- would leave a significant north-south gap in participation in further education. These results point to continuing differences in underlying attitudes to further education and training, and

these appear to be particularly marked among young women.

Riddell, W. Craig

TI Literacy and Earnings: An Investigation of the Interaction of Cognitive and Non-Cognitive Attributes in Earnings Generation. **AU** Green, David A.; Riddell, W. Craig.

TI Unemployment and Non-Employment: Heterogeneities in Labour Market States. **AU** Jones, Stephen R. G.; Riddell, W. Craig.

Ridder, Geert

PD November 2001. **TI** The Singularity of the Efficient Bound of the Mixed Proportional Hazard Model. **AU** Ridder, Geert; Woutersen, Tiemen. **AA** Ridder: University of Southern California. Woutersen: University of Western Ontario. **SR** University of Western Ontario, Department of Economics Research Report: 2001/09; Research Report Coordinator, Economics Reference Center, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/econref/html/RRPaper.html. **PG** 10. **PR** International $10.00 (Canadian) plus $3.00 (Canadian) per order handling fee; pre-paid orders only; make checks payable to the University of Western Ontario. **JE** C21, C41. **KW** Duration. Semi-Parametric Efficiency Bound. Mixed Proportional Hazard.

AB We reconsider the efficiency bound for the semi-parametric Mixed Proportional Hazard (MPH) model with parametric hazard and regression function. This bound was first derived by Hahn (1994). One of his results is that if the baseline hazard is Weibull, the efficiency bound is singular, even if the model is semi-parametrically identified. This implies that neither the Weibull parameter nor the regression coefficients can be estimated at the root N rate. We show that Hahn's results are confined to a class of models that is closed under the power transformation. The Weibull model is the most prominent model of this class. We also present a new nonparametric identification result. This identification result allows for infinite mean of the mixing distribution and ensures that the efficiency bound is nonsingular. This implies that root N estimation is possible.

Riedel, Frank

TI On the Dynamic Foundation of Evolutionary Stability in Continuous Models. **AU** Oechssler, Jorg; Riedel, Frank.

Rigobon, Roberto

PD February 2001. **TI** Contagion: How to Measure It? **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8118; 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** C31, F32, F41, G15. **KW** Contagion. Propagation of Shocks. Financial Markets.

AB The empirical literature on contagion has mainly measured the propagation of shocks across countries using daily stock markets, interest rates, and exchange rates. Several methodologies have been used for this purpose, however, the properties of the data introduces important limitations on the implementation of these procedures, as well as on the interpretation of the results. This paper has three objectives: First, it evaluates some of the techniques that have been used frequently to measure contagion. The paper argues that if the data suffers from heteroskedasticity (conditional or not), omitted variables and simultaneous equation problems, the conclusions drawn from most of the procedures could be biased. Second, the paper summarizes two new procedures that have been developed to cope with these problems. One methodology is aimed to test for the stability of parameters, while the other one estimates consistently the contemporaneous relationship across countries. Finally, the paper estimates (consistently) the contemporaneous transmission mechanism between emerging stock markets, and bond markets. Furthermore, it is found that regional variables, as well as trade linkages, constitute a sizeable explanation of the strength of the propagation of shocks across bond markets, but not as important in stock markets.

PD July 2001. **TI** Measuring the Reaction of Monetary Policy to the Stock Market. **AU** Rigobon, Roberto; Sack, Brian P. **AA** Rigobon: Massachusetts Institute of Technology and National Bureau of Economic Research. Sack: Federal Reserve Board of Governors. **SR** National Bureau of Economic Research Working Paper: 8350; 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** E44, E47, E52. **KW** Monetary Policy. Federal Reserve. Stock Market.

AB Movements in the stock market can have a significant impact on the macroeconomy and are therefore likely to be an important factor in the determination of monetary policy. However, little is known about the magnitude of the Federal Reserve's reaction to the stock market. One reason is the difficulty to estimate the policy reaction because of the simultaneous response of equity prices to interest rate changes. This paper uses an identification technique based on the heteroskedasticity of stock market returns to identify the reaction of monetary policy to the stock market. The results indicate that monetary policy reacts significantly to stock market movements, with a 5% rise (fall) in the S&P 500 index increasing the likelihood of a 25 basis point tightening (easing) by about a half. This reaction is roughly of the magnitude that would be expected from estimates of the impact of stock market movements on aggregate demand. Thus, it appears that the Federal Reserve systematically responds to stock price movements only to the extent warranted by their impact on the macroeconomy.

PD January 2002. **TI** The Impact of Monetary Policy on Asset Prices. **AU** Rigobon, Roberto; Sack, Brian P. **AA** Rigobon: MIT and NBER. Sack: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/04; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 21. **PR** no charge. **JE** E44, E47, E52. **KW** Monetary Policy. Stock Market. Yield Curve. Identification. Heteroskedasticity.

AB Estimating the response of asset prices to changes in monetary policy is complicated by the endogeneity of policy decisions and the fact that both interest rates and asset prices react to numerous other variables. This paper develops a new estimator that is based on the heteroskedasticity that exists in high frequency data. We show that the response of asset prices to changes in monetary policy can be identified based on the increase in the variance of policy shocks that occurs on days of F0MC meetings and of the Chairman's semi-annual monetary policy testimony to Congress. The identification approach employed requires a much weaker set of assumptions than needed under the "event-study" approach that is typically used in this context. The results indicate that an increase in short-term interest rates results in a decline in stock prices and in an upward shift in the yield curve that becomes smaller at longer maturities.

Rigotti, Luca

TI Your Morals are Your Moods. **AU** Kirchsteiger, Georg; Rigotti, Luca; Rustichini, Aldo.

PD February 2001. **TI** Entrepreneurial Innovation. **AU** Rigotti, Luca; Ryan, Matthew; Vaithianathan, Rhema. **AA** Rigotti: CentER, Tilburg University, and University of California, Berkeley. Ryan and Vaithianathan: Australian National University. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/296; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720- 1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 24. **PR** $3.50 U.S.; $7.50 International. **JE** D50, D80, L20, M13, O31. **KW** Occupational Choice. Entrepreneurship. Uncertainty. Innovation.
AB This paper constructs an equilibrium model of entrepreneurial innovation where individuals differ in their attitude toward uncertainty. Unlike previous models of innovation, the firm-formation process is endogenous. An entrepreneur, who owns residual profits, utilizes an uncertain technology and hires a worker who may only be partially isolated from uncertainty. While the available production technologies are exogenously specified, the technologies that operate in equilibrium are endogenous, depending on both the entrepreneur's prior beliefs about the profitability of the technology, as well as the worker's willingness to work with the uncertain technology. The general equilibrium setting allows us to explore the impact of innovation on the nature of the firm. The relationship between technological uncertainty and the nature of the firm is able to explain the commonly observed S- shaped diffusion profile. As uncertainty falls, firms evolve from being entrepreneurial to corporate, finally becoming bureaucratic.

PD November 2001. **TI** Uncertainty and Risk in Financial Markets. **AU** Rigotti, Luca; Shannon, Chris. **AA** Rigotti: CentER, Tilburg University and UC Berkeley. Shannon: UC Berkeley. **SR** University of California, Berkeley, Department of Economics Working Papers: E01/310; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720-1922. Website: iber.berkeley.edu/wps/econwp.html. **PG** 43. **PR** $3.50 U.S.; $7.50 International. **JE** D10, D50, D80. **KW** Uncertainty. General Equilibrium Theory. Financial Markets. Incomplete Preferences.
AB This paper considers a general equilibrium model in which the distinction between uncertainty and risk is formalized by assuming agents have incomplete preferences over state-contingent consumption bundles, as in Bewley (1986). Without completeness, individual decision making depends on a set of probability distributions over the state space. A bundle is preferred to another if and only if it has larger expected utility for all probabilities in this set. When preferences are complete this set is a singleton, and the model reduces to standard expected utility. In this setting, the paper characterizes Pareto optima and equilibria, and shows that the presence of uncertainty generates robust indeterminacies in equilibrium prices and allocations for any specification of initial endowments. The paper derives comparative statics results linking the degree of uncertainty with changes in equilibria. Despite the presence of robust indeterminacies, the paper shows that equilibrium prices and allocations vary continuously with underlying fundamentals.

Rillaers, Alexandra

TI Idiosyncratic Risk, Investment in Human Capital, and Growth. **AU** Duran, Jorge; Rillaers, Alexandra.

Rios-Rull, Jose-Victor

TI On the Equilibrium Concept for Overlapping Generations Organizations. **AU** Prescott, Edward C.; Rios-Rull, Jose-Victor.

Rob, Rafael

PD May 2001. **TI** Foreign Direct Investment and Exports with Growing Demand. **AU** Rob, Rafael; Vettas, Nikolaos. **AA** Rob: University of Pennsylvania. Vettas: University of Athens and CEPR. **SR** CEPR Discussion Paper: 2786; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D80, D92, F20. **KW** Entry. Exports. Foreign Direct Investment. Investment Under Uncertainty. New Markets.
AB We explore entry into a foreign market with uncertain demand growth. A multinational can serve the foreign demand in two ways, or by a combination thereof: it can export its product, or it can create productive capacity via Foreign Direct Investment (FDI). The advantage of FDI is that it allows lower marginal cost than exports. The disadvantage is that FDI is irreversible and, hence, entails the risk of creating under-utilized capacity in case the market turns out to be smaller than expected. The presence of demand uncertainty and irreversibility gives rise to an interior solution, whereby the multinational does -- under certain conditions -- both exports and FDI. We argue that this feature is consistent with observed behavior of multinationals, yet it has not arisen in previous theoretical formulations.

TI Consumer Inertia, Firm Growth and Industry Dynamics. **AU** Fishman, Arthur; Rob, Rafael.

TI Product Innovations and Quality-Adjusted Prices. **AU** Fishman, Arthur; Rob, Rafael.

TI Working in Public and Private Firms. **AU** Corneo, Giacomo; Rob, Rafael.

PD 2003. **TI** Foreign Direct Investment and Exports with Growing Demand. **AU** Rob, Rafael; Vettas, Nikolaos. **AA** Rob: University of Pennsylvania. Vettas: University of Athens. **SR** Penn Institute for Economic Research (PIER) Working Paper: 03/001; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 56. **PR** free from website. **JE** D80, D92, F20. **KW** Foreign Direct Investment. Entry. Exports. New Markets. Investment under Uncertainty.
AB See the abstract for Rob, Rafael; Vettas, Nikolaos. May 2001, "Foreign Direct Investment and Exports with Growing

Demand". CEPR Discussion Paper: 2786; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org.

Robb, Alicia

PD March 2002. **TI** Firm, Owner, and Financing Characteristics: Differences Between Female- and Male-Owned Small Businesses. **AU** Robb, Alicia; Wolken, John. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/18; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 16. **PR** no charge. **JE** G32, G34, J71. **KW** Firm Ownership. Firm Financing. Firm Owner's Gender.

AB Differences in financing patterns and financial characteristics between female- and male-owned firms are often attributed to imperfections in credit markets. However, these differences could arise for many reasons, such as differences in the characteristics and preferences of owners and firms. The differences in lending patterns by gender may in fact have little or nothing to do with supply side factors or market imperfections. The goal of our paper is to test the hypothesis that differences in financing patterns between female- and male-owned small businesses can be explained by differences in business, credit history, and owner characteristics other than gender. In what follows, we first describe how owner, business, and financing characteristics of female-owned businesses differ from male-owned businesses. We then conduct a multivariate analysis of indicators of credit use and recent lending experiences, modeling each of these as a function of firm, owner, and credit history characteristics.

Robinson, Peter M.

TI Gaussian Estimation of Parametric Spectral Density with Unknown Pole. **AU** Giraitis, L.; Hidalgo, Javier; Robinson, Peter M.

TI Adapting to Unknown Disturbance Autocorrelation in Regression with Long Memory. **AU** Hidalgo, Javier; Robinson, Peter M.

Robles, Jack

TI Multi-Issue Bargaining and Linked Agendas: Ricardo Revisited or No Pain No Gain. **AU** Horstmann, Ignatius J.; Markusen, James R.; Robles, Jack.

Rockinger, Michael

TI New Extreme-Value Dependence Measures and Finance Applications. **AU** Poon, Ser-Huang; Rockinger, Michael; Tawn, Jonathan.

Roell, Ailsa A.

TI The Geography of Equity Listing: Why Do Companies List Abroad? **AU** Pagano, Marco; Roell, Ailsa A.; Zechner, Josef.

TI What Makes Stock Exchanges Succeed? Evidence from Cross-Listing Decisions. **AU** Pagano, Marco; Randl, Otto; Roell, Ailsa A.; Zechner, Josef.

Rogerson, Richard

PD October 2002. **TI** Search-Theoretic Models of the Labor Market: A Survey. **AU** Rogerson, Richard; Wright, Randall. **AA** University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/041; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 75. **PR** free from website. **JE** C78, D83, J64. **KW** Search. Matching. Labor. Unemployment. Wages.

AB This essay provides a survey of various models that use search theory to analyze labor markets. By search theory, we mean a framework in which trading frictions are modeled explicitly. Search models generate unemployment as an equilibrium outcome, and also allow us to discuss various ways in which wages and other prices are determined by agents in the model. We present the basic single-agent search problem in a variety of different forms. We describe the endogenous determination of the wage distribution. We present some simple equilibrium models of the labor market and discuss some machinery that is common in such models, including the notion of a matching technology, as well as basic bargaining theory. We present a version that is designed explicitly to analyze job creation and destruction.

Roider, Andreas

PD October 2000. **TI** On the Foundations of the Property Rights Theory of the Firm: Cooperative Investments and Message-Dependent Contracts. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/12; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 34. **PR** no charge. **JE** D23, D82, L14, L22. **KW** Incomplete Contracts. Property Rights. Specific Investments.

AB The property-rights theory assumes that trade is non-contractible ex-ante and focuses exclusively on the allocation of property-rights. We derive foundations for this focus on property-rights by identifying scenarios where only one of the simple ownership structures is optimal even though trade is contractible. In these scenarios it is optimal: (1) not to sign a trade contract; (2a) to sign a partially enforced trade contract; (2b) such a combination of asset ownership and a trade contract might even achieve the first-best. For the purpose of identifying the optimal simple ownership structure, trade contracts can be neglected in scenarios (2a) and (2b).

Roley, V. Vance

PD September 1998. **TI** Market Reaction to Monetary Policy Nonannouncements. **AU** Roley, V. Vance; Sellon, Gordon H., Jr.. **AA** Roley: University of Washington. Sellon: Federal Reserve Bank of Kansas City. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP98/06; 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** 18. **PR** no charge. **JE** E43, E52, F31, G12. **KW** Security Yields. Stock Prices. Federal Funds Rate. Monetary Policy. Financial Markets.

AB This paper examines how Treasury security yields, stock prices, and federal funds futures rates respond on Federal Open Market Committee (FOMC) meeting dates when expected policy actions do not occur. The empirical results support the existence of nonannouncement effects on short - and intermediate - term yields. In particular, part of an expected policy action, measured using federal funds futures rates, is unwound when the action does not materialize. This partial unwinding is consistent with markets reacting to the surprise by postponing, but not eliminating, the possibility of a future policy action. We also find that only the response of near-term federal funds futures rates is larger after February 1994, when the Federal Reserve began making virtually all of its nonzero changes in the federal funds rate target at FOMC meetings. As a whole, our results suggest that monetary policy decisions can be informative to financial markets even when these decisions do not involve an overt policy action, and they support the view that market expectations of future policy actions are an important determinant of the behavior of interest rates.

Rolph, Doug

TI Credit Spreads and Interest Rates: A Cointegration Approach. **AU** Morris, Charles; Neal, Robert; Rolph, Doug.

Romer, Christina D.

TI Was the Federal Reserve Fettered? Devaluation Expectations in the 1932 Monetary Expansion. **AU** Hsieh, Chang-Tai; Romer, Christina D.

Rose, Andrew K.

TI Do Monetary Handcuffs Restrain Leviathan? Fiscal Policy in Extreme Exchange Rate Regimes. **AU** Fatas, Antonio; Rose, Andrew K.

Rosen, Richard J.

TI The Effect of Market Size Structure on Competition: The Case of Small Business Lending. **AU** Berger, Allen N.; Rosen, Richard J.; Udell, Gregory F.

Rosenberg, Nathan

PD August 2001. **TI** A General Purpose Technology at Work: The Corliss Steam Engine in the Late 19th Century US. **AU** Rosenberg, Nathan; Trajtenberg, Manuel. **AA** Rosenberg: Stanford University and CIAR. Trajtenberg: Tel Aviv University, NBER, and CIAR. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/27; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 43. **PR** no charge. **JE** N11, N61, O18, O47. **KW** General Purpose Technologies. Steam Engine. Waterpower. Urbanization. Growth.

AB This paper examines the role that a particular innovative design in steam power, the Corliss engine, played in the intertwined processes of industrialization and urbanization that characterized the growth of the US economy in the late 19th century. Waterpower offered abundant and cheap energy, but restricted the location of manufacturing just to areas with propitious topography and climate. Steam engines offered the possibility of relaxing this severe constraint, allowing industry to locate where key considerations such as access to markets for inputs and outputs directed. The enhanced performance of the Corliss engine as well as its fuel efficiency helped tip the balance in favor of steam in the fierce contest with waterpower. With the aid of detailed data on the location of Corliss engines and waterwheels and a two-stage estimation strategy, we show that the deployment of Corliss engines indeed served as a catalyst for the massive relocation of industry away from rural areas and into large urban centers, thus fueling agglomeration economies, and attracting further population growth.

Rosenkranz, Stephanie

PD February 2001. **TI** Joint Ownership and Incomplete Contracts: The Case of Perfectly Substitutable Investments. **AU** Rosenkranz, Stephanie; Schmitz, Patrick W. **AA** University of Bonn and CEPR. **SR** CEPR Discussion Paper: 2679; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D23, L22. **KW** Incomplete Contracts. Joint Ownership.

AB Prominent results of the property rights approach based on incomplete contracts as outlined by Hart (1995) say that all ownership structures lead to underinvestment and that joint ownership cannot be optimal, provided that investments are strategic complements and affect human capital only. We show that in the case of perfectly substitutable investments these conclusions are still true in the static setting, even if investments are in physical capital. However, if the parties can invest and generate a surplus twice, then joint ownership may imply first-best investments in the first stage and can well be the optimal ownership structure.

PD February 2001. **TI** Optimal Allocation of Ownership Rights in Dynamic R&D Alliances. **AU** Rosenkranz, Stephanie; Schmitz, Patrick W. **AA** University of Bonn and CEPR. **SR** CEPR Discussion Paper: 2698; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** L14, L22, O32. **KW** Incomplete Contracts. Partnerships. Property Rights. R&D Alliances.

AB We explore the dynamic evolution of property rights regimes in R&D alliances using the incomplete contract approach pioneered by Grossman, Hart and Moore (Hart and Moore, Journal of Political Economy (1990), and Grossman and Hart, Journal of Political Economy (1986)). In contrast to the standard analysis, the productive asset is an excludable public good such as a patent. Moreover, both firms can decide whether to disclose their know-how and invest effort. Know-how that has once been released cannot be concealed later. We characterize different scenarios in which the optimal ownership structure may change over time due to a trade-off between inducing know-how disclosure and ensuring maximum effort.

Rosenzweig, Mark R.

TI Parental Allocations to Children: New Evidence on Bequest Differences Among Siblings. **AU** Behrman, Jere R.; Rosenzweig, Mark R.

TI Economic Growth and the Rise of Forests. **AU** Foster, Andrew D.; Rosenzweig, Mark R.

Ross, David

TI Improving the Quality Versus Increasing the Quantity of Schooling: Evidence for Rural Pakistan. **AU** Behrman, Jere R.; Ross, David; Sabot, Richard.

Rossini, Gianpaolo

TI The Efficient Assignment of the Exit Option. **AU** Moretto, Michele; Rossini, Gianpaolo.

TI Endogenous Choice of Capacity and Product Innovation in a Differentiated Duopoly. **AU** Lambertini, Luca; Rossini, Gianpaolo.

Rubinfeld, Daniel

TI Merger Simulation: A Simplified Approach with New Applications. **AU** Epstein, Roy J.; Rubinfeld, Daniel.

Rubinstein, Ariel

PD March 2002. **TI** Comments on the Risk and Time Preferences in Economics. **AA** Tel Aviv University and Princeton University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2002/06; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 6. **PR** no charge. **JE** D31, D81. **KW** Risk. Time Preference. Expected Utility. Eden. Time Consistency.

AB The paper comments on an article written by Rabin (2000) and claims that Rabin observation does not question expected utility theory but rather the assumption that consequences are final wealth levels. The treatment of consequences in the literature of decision making under uncertainty is compared to that in the literature of time preferences. A calibration proposition and paradoxical result are presented. The paper concludes that any set of assumptions will produce paradoxical results in some circumstances.

TI Modeling the Economic Interaction of Agents with Diverse Abilities to Recognize Equilibrium Patterns. **AU** Piccione, Michele; Rubinstein, Ariel.

Rubio, Santiago J.

PD September 2002. **TI** Leadership and Self-Enforcing International Environmental Agreements with Non- Negative Emissions. **AU** Rubio, Santiago J.; Ulph, Alistair. **AA** Rubio: University of Valencia. Ulph: University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0211; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 46. **PR** no charge. **JE** C72, D62, F02, Q20. **KW** International Externalities. International Agreements. Cournot Equilibrium. Stackelberg Equilibrium. Non-Negative Emissions Constraints.

AB For the widely-used linear-quadratic model of stable International Environmental Agreements (IEAs) the key results are: (i) if the members of the IEA act in a Cournot fashion with respect to non-signatories, a stable IEA has no more than 2 signatories; (ii) if the signatories act as Stackelberg leaders, a stable IEA can have any number of signatories. These results were derived using numerical simulations and ignored the non-negativity constraint on emissions. Recent papers using analytical approaches and explicitly recognising the non-negativity constraint have suggested that with Stackelberg leadership a stable IEA has at most four signatories. Such papers have introduced non- negativity constraints by restricting parameter values to ensure interior solutions for emissions, which restricts the number of signatories. This paper uses the more appropriate approach of directly imposing the non-negativity constraint on emissions, recognizing that for some parameter values this will entail corner solutions, and show, analytically, that the key results from the literature go through.

Rudd, Jeremy B.

TI Measurement Error in the Consumer Price Index: Where Do We Stand? **AU** Lebow, David E.; Rudd, Jeremy B.

Rustichini, Aldo

TI Your Morals are Your Moods. **AU** Kirchsteiger, Georg; Rigotti, Luca; Rustichini, Aldo.

Ryan, Matthew

TI Entrepreneurial Innovation. **AU** Rigotti, Luca; Ryan, Matthew; Vaithianathan, Rhema.

Rysman, Marc

PD September 2000. **TI** Competition Policy as Strategic Trade. **AA** Boston University. **SR** Boston University, Industry Studies Program Working Paper Series on Economics: 100; Department of Economics, Boston University, 270 Bay State Road, Boston, MA 02215. Website: www.bu.edu/econ/isp/. **PG** 27. **PR** no charge. **JE** C72, F23, L41. **KW** Strategic Trade. Competition Policy. Merger.

AB This paper analyzes how countries use competition policy as a tool for strategic trade. Specifically, the paper studies countries which choose how many domestic exporters exist in addition to choosing subsidy levels. High subsidy levels or a large number of exporters are equally effective ways to commit to high quantity. In a sequential game, the value of choosing a large number of firms is undercut by choosing high subsidies afterwards. In equilibrium, countries choose to have only one firm. However, when subsidies are not allowed, countries want to have more firms than their competitor leading towards welfare- maximizing perfect competition.

PD October 2000. **TI** Competition Between Networks: A Study of the Market for Yellow Pages. **AA** Boston University. **SR** Boston University, Industry Studies Program Working Paper Series on Economics: 104; Department of Economics, Boston University, 270 Bay State Road, Boston, MA 02215. Website: www.bu.edu/econ/isp/. **PG** 43. **PR** no charge. **JE** L12, L13, L41. **KW** Network Effects. Discrete Choice Demand. Antitrust.

AB This paper estimates the importance of network effects in the market for Yellow Pages. This paper estimates three simultaneous equations: consumer demand for usage of a directory, advertiser demand for advertising and a publisher's first-order condition (derived from profit-maximizing behavior). Estimation shows that advertisers value consumer usage and that consumers value advertising, implying a network effect. A finding of this paper is that internalizing network effects would significantly increase surplus. As an application, this paper considers whether the market benefits from monopoly (which takes advantage of network effects) or oligopoly (which reduces market power). It finds that a more competitive market is preferable.

Sabot, Richard

TI Improving the Quality Versus Increasing the Quantity of Schooling: Evidence for Rural Pakistan. **AU** Behrman, Jere

R.; Ross, David; Sabot, Richard.

Sachs, Jeffrey D.

TI Institutions and Geography: Comment on Acemoglu, Johnson and Robinson (2000). **AU** McArthur, John W.; Sachs, Jeffrey D.

PD February 2001. **TI** Tropical Underdevelopment. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8119; 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** O11, O13, O14, O57, R11. **KW** Development. Growth. Tropical Climates. Physical Geography.

AB Most recent cross-country analyses of economic growth have neglected the importance of physical geography. This paper reviews the distinctive development challenges faced by economies situated in tropical climates. Using geographic information system (GIS) mapping, the paper presents evidence that production technology in the tropics has lagged behind temperate zone technology in the two critical areas of agriculture and health, and this in turn opened a substantial income gap between climate zones. The difficulty of mobilizing energy resources in tropical economies is emphasized as another significant contributor to the income gap. These factors have been amplified by geopolitical power imbalances and by the difficulty of applying temperate-zone technological advances in the tropical setting. The income gap has also been amplified because poor public health and weak agricultural technology in the tropics have combines to slow the demographic transition from high fertility and mortality rates to low fertility and mortality rates. The analysis suggests that economic development in tropical ecozones would benefit from a concerted international effort to develop health and agricultural technologies specific to the needs of the tropical economies.

TI The U.S. as a Coastal Nation. **AU** Rappaport, Jordan; Sachs, Jeffrey D.

Sack, Brian P.

TI Measuring the Reaction of Monetary Policy to the Stock Market. **AU** Rigobon, Roberto; Sack, Brian P.

TI The Impact of Monetary Policy on Asset Prices. **AU** Rigobon, Roberto; Sack, Brian P.

TI Interpreting the Significance of the Lagged Interest Rate in Estimated Monetary Policy Rules. **AU** English, William B.; Nelson, William R.; Sack, Brian P.

Sadka, Efraim

TI Estate Taxation. **AU** Blumkin, Tomer; Sadka, Efraim.

Sadrieh, Abdolkarim

TI How to Play 3x3 Games: A Strategy Method Experiment. **AU** Selten, Reinhard; Abbink, Klaus; Buchta, Joachim; Sadrieh, Abdolkarim.

Saggi, Kamal

TI Mode of Foreign Entry, Technology Transfer, and FDI Policy. **AU** Mattoo, Aaditya; Olarreaga, Marcelo; Saggi, Kamal.

Saint-Paul, Gilles

PD April 2001. **TI** Information Technology and the Knowledge Elites. **AA** Universite des Sciences Sociales de Toulouse and CEPR. **SR** CEPR Discussion Paper: 2761; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D30, J24, J30, O30. **KW** Human Capital. Income Distribution. Information Technology. Knowledge.

AB This paper studies a model where Information Technology (IT), while typically increasing overall inequality, is likely to harm some people at intermediate and high levels of the distribution of income but to benefit people at the bottom; where within a given occupation it may harm some workers while benefiting others; and where it may either reduce or increase the proportion of knowledge workers in employment, depending on the response of the overall demand for knowledge to the implied reduction in the cost of acquiring it. In the model presented, knowledge is an input into the production function of human capital, and is also a "quality" good in the sense that one cannot buy it from several low-quality producers instead of one high-quality one. People differ in their exogenous ability and ability is complementary with the quality of the knowledge input in the production of human capital. An improvement in IT is modeled as an increase in the number of people who can buy knowledge from one producer.

Sakovics, Jozsef

TI Delegated Bargaining and Renegotiation. **AU** Bester, Helmut; Sakovics, Jozsef.

Samuelson, Larry

TI Contemporaneous Perfect Epsilon-Equilibria. **AU** Mailath, George J.; Postlewaite, Andrew; Samuelson, Larry.

TI Imperfect Monitoring and Impermanent Reputations. **AU** Cripps, Martin W.; Mailath, George J.; Samuelson, Larry.

Santos, Joao A. C.

TI Banking and Commerce: A Liquidity Approach. **AU** Haubrich, Joseph G.; Santos, Joao A. C.

Sarno, Lucio

PD February 2001. **TI** Official Intervention in the Foreign Exchange Market: Is It Effective, and, If So, How Does It Work? **AU** Sarno, Lucio; Taylor, Mark P. **AA** University of Warwick and CEPR. **SR** CEPR Discussion Paper: 2690; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F31, F41. **KW** Nonlinear Dynamics. Purchasing Power Parity. Real Exchange Rate. Test Power. Official Intervention.

AB In this paper we assess the progress made by the profession in understanding whether and how exchange rate intervention works. To this end, we review the theory and evidence on official intervention, concentrating primarily on work published within the last decade or so. Our reading of the recent literature leads us to conclude that, in contrast with the profession's consensus view of the 1980s, official intervention can be effective, especially through its role as a signal of policy intentions, and especially when it is publicly announced and concerted. We also note, however, an apparent empirical puzzle concerning the secrecy of much intervention and suggest an additional way in which intervention may be effective but which has so far received little attention in the literature, namely through its role in remedying a coordination failure in the foreign exchange market.

Sarte, Pierre-Daniel

TI Growth Effects of Progressive Taxes. **AU** Li, Wenli; Sarte, Pierre-Daniel.

Sauer, Robert M.

TI Immigration, Search and Loss of Skill. **AU** Gotlibovski, Menachem; Sauer, Robert M.; Weiss, Yoram.

Schankerman, Mark

TI Enforcing Intellectual Property Rights. **AU** Lanjouw, Jean O.; Schankerman, Mark.

Schiff, Maurice

TI On "Indirect" Trade-Related R&D Spillovers. **AU** Lumenga-Neso, Olivier; Olarreaga, Marcelo; Schiff, Maurice.

Schipper, Burkhard C.

TI Can You Guess the Game You're Playing? **AU** Oechssler, Jorg; Schipper, Burkhard C.

Schivardi, Fabiano

TI Insurance Within the Firm. **AU** Guiso, Luigi; Pistaferri, Luigi; Schivardi, Fabiano.

Schmalensee, Richard

PD April 2001. **TI** Payment Systems and Interchange Fees. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8256; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-/98. Website: www.nber.org. **PG** 23. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G21. **KW** Interchange Fees. Banks. Imperfect Competition.

AB In a typical bank credit card transaction, the merchant's bank pays an interchange fee, collectively determined by all participating banks, to the cardholder's bank. This paper shows how the interchange fee balances charges between cardholders and merchants under imperfect competition. The privately optimal fee depends mainly on differences between cardholders' and merchants' banks, not their collective market power. In a non-extreme case, the profit-maximizing interchange fee also maximizes total output and producers' plus consumers' surplus. There is no economic basis for favoring proprietary payment systems, which do not need interchange fees to balance charges, over the cooperative bank card systems.

TI Some Economic Aspects of Antitrust Analysis in Dynamically Competitive Industries. **AU** Evans, David S.; Schmalensee, Richard.

Schmeidler, David

TI Subjective Distributions. **AU** Gilboa, Itzhak; Schmeidler, David.

Schmidt, Christoph

TI First- and Second-Generation Migrants in Germany -- What Do We Know and What Do People Think. **AU** Fertig, Michael; Schmidt, Christoph.

Schmidt, Klaus

TI Fairness, Incentives and Contractual Incompleteness. **AU** Fehr, Ernst; Klein, Alexander; Schmidt, Klaus.

Schmitt-Grohe, Stephanie

PD February 2001. **TI** Optimal Fiscal and Monetary Policy under Imperfect Competition. **AU** Schmitt-Grohe, Stephanie; Uribe, Martin. **AA** Schmitt-Grohe: Rutgers University and CEPR. Uribe: not available. **SR** CEPR Discussion Paper: 2688; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E52, E61, E63. **KW** Imperfect Competition. Fiscal policy. Monetary Policy. Ramsey Equilibria.

AB This paper studies optimal fiscal and monetary policy under imperfect competition in a stochastic, flexible-price, production economy without capital. It shows analytically that in this economy the nominal interest rate acts as an indirect tax on monopoly profits. Unless the social planner has access to a direct 100 percent tax on profits, he will always find it optimal to deviate from the Friedman rule by setting a positive and time-varying nominal interest rate. The dynamic properties of the Ramsey allocation are characterized numerically. As in the perfectly competitive case, the labor income tax is remarkably smooth, whereas inflation is highly volatile and serially uncorrelated. An exact numerical solution method to the Ramsey conditions is proposed.

Schmitz, James A., Jr.

PD March 2001. **TI** What Determines Labor Productivity?: Lessons From the Dramatic Recovery of the U.S. and Canadian Iron-Ore Industries. **AA** Federal Reserve Bank of Minneapolis. **SR** Federal Reserve Bank of Minneapolis Staff Report: 286; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 39. **PR** no charge. **JE** J24, J53, L72. **KW** Effort. Work Rules. Labor Productivity. Iron Industry. Steel Market.

AB Labor productivity differences across industries and countries are largely attributed to differences in three factors: production technology (that is, the design of equipment and structures), physical capital and human capital. Perhaps this list should be expanded: this paper shows that the U.S. and Canadian iron-ore industries doubled their labor productivity in the middle 1980s in large part through changes in work rules that (1) increased effort per hour worked and (2) increased the efficiency of effort. These changes were spurred by the crisis facing these industries resulting from a collapsing local steel market and from increased competition by foreign iron-ore producers for this shrinking local steel market.

Schmitz, Patrick W.

TI Optimal Contracting with Verifiable Ex Post Signals. **AU** Kessler, Anke S.; Lulfesmann, Christoph; Schmitz, Patrick W.

TI Joint Ownership and Incomplete Contracts: The Case of Perfectly Substitutable Investments. **AU** Rosenkranz, Stephanie; Schmitz, Patrick W.

TI Optimal Allocation of Ownership Rights in Dynamic R&D Alliances. **AU** Rosenkranz, Stephanie; Schmitz, Patrick W.

Schoeb, Ronnie

PD May 2001. **TI** Public Profit Sharing. **AA** University of Western Ontario and CESifo, Munich. **SR** University of Western Ontario, Department of Economics Research Report: 2001/02; Research Report Coordinator, Economics Reference Center, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/econref/html/RRPaper.html. **PG** 19. **PR** International $10.00 (Canadian) plus $3.00 (Canadian) per order handling fee; prepaid orders only; make checks payable to the University of Western Ontario. **JE** C70, E60, J51. **KW** Public Profit Sharing. Trade Unions. Unemployment. Labor Market Reform.

AB Many countries suffer from persistently high unemployment rates. The scope for labor market reforms is often limited to measures that hurt neither shareholders nor workers. This paper develops a policy proposal, which allows the government to reduce wage costs without changing the income positions as determined in the process of wage negotiations. It is shown that the introduction of public profit sharing, i.e. substituting profit share for social security contributions, can boost employment both in the short run and the long run. Calibrating the model and comparing the results with recent empirical findings about the impact of labor taxation confirm the theoretical findings.

Schorfheide, Frank

TI Priors from General Equilibrium Models for VARs. **AU** Del Negro, Marco; Schorfheide, Frank.

TI Testing for Indeterminacy: An Application to U.S. Monetary Policy. **AU** Lubik, Thomas A.; Schorfheide, Frank.

Schott, Peter K.

PD April 2001. **TI** One Size Fits All? Heckscher-Ohlin Specialization in Global Production. **AA** Yale School of Management and NBER. **SR** National Bureau of Economic Research Working Paper: 8244; 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** C21, F11, F14, F20. **KW** Heckscher-Ohlin Model. International Trade. Aggregation.

AB Many previous tests of Heckscher-Ohlin trade theory have found underwhelming support for the idea that countries' endowments determine their production and trade. This paper demonstrates that those efforts suffer from their focus on the narrower of the model's two potential equilibria, which assumes that all countries produce all goods. This paper introduces a more general technique for testing the model that allows for the possibility that countries with sufficiently disparate endowments specialize in unique subsets of goods. Results using this technique indicate strong support for Heckscher-Ohlin specialization versus one-size-fits-all homogeneity. The results also demonstrate that the empirical evaluation of trade models has been hampered by the coarse aggregation of output inherent in existing datasets. Indeed, this paper shows that traditional categorizations of goods hide a substantial degree of cross-country price and input intensity heterogeneity, violating the assumptions of the factor proportions framework. To overcome this problem, this paper introduces a methodology for aggregating goods that corrects for underlying product variation. Estimation of the model using corrected aggregates reveals even stronger support for Heckscher-Ohlin specialization.

Schreft, Stacey L.

PD October 2001. **TI** The Conduct of Monetary Policy with a Shrinking Stock of Government Debt. **AU** Schreft, Stacey L.; Smith, Bruce D. **AA** Schreft: Federal Reserve Bank of Kansas City. Smith: University of Texas, Austin. **SR** Federal Reserve Bank of Kansas City Research Working Paper: RWP01/09; 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** 39. **PR** no charge. **JE** E52, E62, H62. **KW** Monetary Policy. Fiscal Policy. Government Debt. Discount Window.

AB This article considers the consequences for a central bank of a declining stock of government debt. The model has a treasury that taxes, spends, and issues debt; a central bank that conducts open market operations in treasury debt; and banks that intermediate private savings. It suggests that a sufficiently small stock of debt can put an economy on the Pareto inferior side of the seigniorage Laffer curve, implying unnecessarily high inflation. If there is also a primary budget deficit, equilibrium might not exist. Discount-window lending is a potentially desirable alternative to open market operations, especially if the loans are not subsidized.

TI A Model of Financial Fragility. **AU** Lagunoff, Roger D.; Schreft, Stacey L.

Schweitzer, Mark E.

TI Firms' Wage Adjustments: A Break from the Past? **AU** Groshen, Erica L.; Schweitzer, Mark E.

Schweizer, Urs

PD November 2000. **TI** An Elementary Approach to the Hold-Up Problem with Renegotiation. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/15; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 26. **PR** no charge. **JE** D82, D92. **KW** Hold-Up Problem. Renegotiation. Mechanism Design. Contingent Contracts.

AB So far, the existing literature on the hold-up problem with renegotiation has imposed assumptions such that the post-renegotiation payoffs are absolutely continuous functions. Since payoffs may fail to be differentiable at the investment profile to be sustained, first order conditions for incentives to invest must be handled with care. To avoid these difficulties, the present paper propagates a more elementary approach. A general condition is provided which necessarily must hold for an investment profile to be sustainable by a message contingent contract. If only one of the parties invests or, more generally, if investments can be aggregated into one dimension then the paper introduces assumptions leading to conditions which are necessary and sufficient for an investment profile to be sustainable.

Scotchmer, Suzanne

TI Intellectual Property: When is it the Best Incentive System? **AU** Gallini, Nancy; Scotchmer, Suzanne.

PD August 2001. **TI** The Political Economy of Intellectual Property Treaties. **AA** NBER and University of California, Berkeley. **SR** University of California, Berkeley, Department of Economics Working Paper: E01/305; UC Berkeley, IBER, F502 Haas #1922, Berkeley, CA 94720- 1922. Website: iber.Berkeley.edu/wps/econwp.html. **PG** 28. **PR** $3.50 U.S.; $7.50 International. **JE** F10, L50, O31, O34, O38. **KW** Intellectual Property. Globalization. TRIPS. Treaty.

AB Intellectual property treaties have two main types of provisions: national treatment of foreign inventors, and harmonization of protections. This paper characterizes the circumstances in which countries would want to treat foreign inventors the same as national inventors. It then argues that national treatment of foreign inventors leads to stronger intellectual property protection than is optimal, and that this effect is exacerbated when protections must be harmonized. However, levels of public and private R&D spending will be lower than if each country took account of the uncompensated externalities that its R&D spending confers on other countries. The stronger protection engendered by attempts at harmonization are a partial remedy.

Segev, Ella

TI The Evolutionary Role of Toughness in Bargaining. **AU** Heifetz, Aviad; Segev, Ella.

Sellon, Gordon H., Jr.

TI Market Reaction to Monetary Policy Nonannouncements. **AU** Roley, V. Vance; Sellon, Gordon H., Jr..

Selten, Reinhard

PD December 2000. **TI** Imitation Equilibrium. **AU** Selten, Reinhard; Ostmann, Axel. **AA** Selten: University of Bielefeld and University of Bonn. Ostmann: University of Bielefeld and University of Karlsruhe. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2000/16; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 40. **PR** no charge. **JE** C72, C91, C92, L13. **KW** Imitation Equilibrium. Oligopoly. Normal Form. Experimental Economics.

AB The paper presents the concept of an "imitation equilibrium" and explores it in the context of some simple oligopoly models. The concept applies to normal form games enriched by a "reference structure" specifying a "reference group" for every player. The reference group is a set of other players, whom the player may consider to imitate. Some of these players may not be suitable for imitation for various reasons. Only one of the most successful of the remaining members of the reference group is imitated. Imitation is the adoption of the imitated player's strategy. Imitation equilibrium does not only mean absence of imitation opportunities but also stability against exploratory deviations of "success leaders", i.e. players most successful in their reference groups. Exploration declenches a process of imitation which either leads back to imitation equilibrium directly or by a "return path" after an unsuccessful deviation.

PD November 2001. **TI** How to Play 3x3 Games: A Strategy Method Experiment. **AU** Selten, Reinhard; Abbink, Klaus; Buchta, Joachim; Sadrieh, Abdolkarim. **AA** Selten and Buchta: University of Bonn. Abbink: Universitat Pompeu Fabra. Sadrieh: Tilburg University. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 2001/03; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 28. **PR** no charge. **JE** C78, C91, C92, D82. **KW** 2-Person Games. Experimental Economics. Best Replay. Maximal Average Payoff.

AB We report an experiment that uses the strategy method (Selten 1967) to elicit subjects' general strategy for playing any 2-person 3 by 3- game with integer payoffs between 0 and 99. Each two subjects' strategies play 500000 games in each of the 5 tournaments. For games with pure strategy equilibria (ca. 80%), the frequency of pure strategy equilibrium play increases from 51% in the first to 74% in the last tournament, in which there is equilibrium play in 98% of all games with only one pure equilibrium. In games with more than one pure strategy equilibrium, a tendency towards the selection of the one with the maximum joint payoff is observed. For games without pure equilibria, subjects' strategies do not search for mixed equilibria. The strategy programs are based on much simpler strategic concepts combined in various ways. The simplest one is maximal average payoff (MAP); that is, the strategy which maximizes the sum of the three payoffs obtainable against the possible choices of the other player. The best reply to MAP (BR-MAP) and the best reply to BR-MAP, are also important ingredients of the strategy programs. Together these three form a hierarchy to which we refer to as the best-reply cascade.

Seltzer, Andrew J.

PD January 2001. **TI** A Comparison Between Unit and Branch Banking: Australian Evidence on Portfolio Diversification and Branch Specialization, 1860-1930. **AA** Royal Holloway, University of London. **SR** Royal Holloway, University of London Discussion Paper in Economics: 2001/01; Department of Economics, Royal Holloway, University of London, Egham, Surrey TW20 0EX, United Kingdom. Website: www.rhul.ac.uk/economics/Research/WorkingPapers/. **PG** 36. **PR** no charge. **JE** G20, N27. **KW** Branch Specialization. Banking. Diversification. Australia.

AB This paper examines the consequences of branch banking for the Australian economy. There is little evidence to show that branching increased the stability of Australian banking. In 1893, Australia suffered the worst panic ever in a branch banking country. During the crisis, more extensively branched banks were more likely to suspend payments. However, it is shown that branching increased the provision of banking services to rural areas. This occurred because branch banks could reallocate capital from urban to rural regions at low cost, whereas unit banks typically had to raise all their capital and issue all of their loans locally.

PD December 2001. **TI** Can Incomes Policies Reduce Real Wages? Micro-Evidence from the 1931 Australian Award Wage Cut. **AA** Royal Holloway, University of London. **SR** Royal Holloway, University of London Discussion Paper in Economics: 2001/05; Department of Economics, Royal Holloway, University of London, Egham, Surrey TW20 0EX, United Kingdom. Website: www.rhul.ac.uk/economics/Research/WorkingPapers/. **PG** 27. **PR** no charge. **JE** E64, J38, N37. **KW** Incomes Policy. Internal Labor Markets. Banking. Australia.

AB Wages in Australia have long been set by government tribunals. Although the system may create microeconomic inefficiency, it also may facilitate incomes policies, such as the 10 percent wage cut in 1931. This paper uses records from early to mid-career employees of the Union Bank of Australia to examine the effectiveness of the award wage cut. It is shown that the bank responded to the cut in the minimum wage scale by increasing the frequency of payments over the minimum rates, and that between 1924-34 tenure-adjusted real wages were essentially constant. Finally, it is hypothesized that the bank maintained a policy of real wage shielding as part of its internal labor market.

Sempere, Jaime

TI North-South Environmental Debate: Strategic Price Distortions and Capital Flows. **AU** Burguet, Roberto; Sempere, Jaime.

Shabbir, Tayyeb

TI Markov Chains in Predictive Models of Currency Crises -- With Applications to Southeast Asia. **AU** Abiad, Abdul G.; Gultekin, Bulent; Mariano, Roberto S.; Shabbir, Tayyeb; Tan, Augstine.

TI Markov Chains in Predictive Models of Currency Crises -- With Applications to Southeast Asia. **AU** Abiad, Abdul G.; Gultekin, Bulent; Mariano, Roberto S.; Shabbir, Tayyeb; Tan, Augstine.

Shannon, Chris

TI Uncertainty and Risk in Financial Markets. **AU** Rigotti, Luca; Shannon, Chris.

Shapiro, Jesse

TI Is There a New Urbanism? The Growth of U.S. Cities in the 1990s. **AU** Glaeser, Edward L.; Shapiro, Jesse.

Shapiro, Matthew D.

TI Productivity Growth in the 1990s: Technology, Utilization, or Adjustment? **AU** Basu, Susanto; Fernald, John G.; Shapiro, Matthew D.

Sharpe, Steven A.

PD January 2002. **TI** How Does the Market Interpret Analysts' Long-Term Growth Forecasts? **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/07; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 17. **PR** no charge. **JE** C53, G14, O47. **KW** Long Term Growth. Long Term Forecasts. Forecast Horizons. Price- Earnings Ratio.

AB The long-term growth forecasts of equity analysts do not have well- defined horizons, an ambiguity of substantial import for many applications. I propose an empirical valuation model, derived from the Campbell-Shiller dividend-price ratio model, in which the forecast horizon used by the "market" can be deduced from linear regressions. Specifically, in this model, the horizon can be inferred from the elasticity of the price-earnings ratio with respect to the long-term growth forecast. The model is estimated on industry-and sector-level portfolios of S&P 500 firms over 1983-2001. The estimated coefficients on consensus long-term growth forecasts suggest that the market applies these forecasts to an average horizon in the range of 6 to 9 years.

Shevchenko, Andrei

PD September 2002. **TI** A Simple Search Model of Money with Heterogeneous Agents and Partial Acceptability. **AU** Shevchenko, Andrei; Wright, Randall. **AA** Shevchenko: Michigan State University. Wright: University of Pennsylvania. **SR** Penn Institute for Economic Research (PIER) Working Paper: 02/043; Penn Institute for Economic Research, 3718 Locust Walk, University of Pennsylvania, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/pier. **PG** 18. **PR** free from website. **JE** D83, E40. **KW** Money. Search. Acceptability. Heterogeneity.

AB Simple search models have equilibria where some agents accept money and others do not. We argue such equilibria should not be taken seriously-which is unfortunate if one wants a model with partial acceptability. We introduce heterogeneous agents and show partial acceptability arises naturally. There can be multiple equilibria with different degrees of acceptability. Given the type of heterogeneity we allow, the model is still simple: equilibria reduce to fixed points in [0,1]. We show that with other forms of heterogeneity, equilibria are generally fixed points in set space, and there exists no method to reduce this to a problem in R1.

Shiller, Robert J.

TI Comparing Wealth Effects: The Stock Market versus the Housing Market. **AU** Case, Karl E.; Quigley, John M.; Shiller, Robert J.

Shin, Kwanho

TI The Sources of Fluctuations Within and Across Countries. **AU** Clark, Todd E.; Shin, Kwanho.

TI Risk Sharing of Disaggregate Macroeconomic and Idiosyncratic Shocks. **AU** Hess, Gregory; Shin, Kwanho.

Shintani, Mototsugu

PD March 2002. **TI** Nonparametric Neural Network Estimation of Lyapunov Exponents and a Direct Test for Chaos. **AU** Shintani, Mototsugu; Linton, Oliver. **AA** Shintani: Vanderbilt University. Linton: LSE. **SR** STICERD, LSE Econometrics Discussion Paper: EM/02/434; STICERD. Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. **PG** 40. **PR** no charge. **JE** C14, C22. **KW** Artificial Neural Networks. Nonlinear Dynamics. Nonlinear Time Series. Nonparametric Regression. Sieve Estimation.

AB This paper derives the asymptotic distribution of nonparametric neural network estimator of the Lyapunov exponent in a noisy system proposed by Nychka et al (1992) and others. Positivity of the Lyapunov exponent is an operational definition of chaos. We introduce a statistical operational definition of chaos. We introduce a statistical framework for testing the chaotic hypothesis based on the estimated Lyapunov exponents and a consistent variance estimator. A simulation study to evaluate small sample performance is reported. We also apply our procedures to daily stock return datasets. In most cases we strongly reject the hypothesis of chaos; one mild exception is in some higher power transformed absolute returns, where we still find evidence against the hypothesis but it is somewhat weaker.

Shleifer, Andrei

TI Legal Origins. **AU** Glaeser, Edward L.; Shleifer, Andrei.

Simons, Kenneth, L.

PD August 2001. **TI** Information Technology and the Dynamics of Firm and Industrial Structure: The British IT Consulting Industry as a Contemporary Specimen. **AA** Royal Holloway, University of London. **SR** Royal Holloway, University of London Discussion Paper in Economics: 2001/02; Department of Economics, Royal Holloway, University of London, Egham, Surrey TW20 0EX, United Kingdom. Website: www.rhul.ac.uk/economics/Research/WorkingPapers/. **PG** 21. **PR** no charge. **JE** O32, L10, L86. **KW** Internet. Disruptive Technology. Market Structure. Computers. IT Consultancies.

AB The Internet is often anticipated to have disruptive competitive impacts, causing upstart firms to overthrow incumbent market leaders. This paper uses the UK Information Technology consulting industry as a test case to see whether such competitive impacts of the Internet might already be occurring. Comparable possible impacts of the introduction of personal computers are also considered. Findings regarding the entry, exit, growth, and technology-related areas of business for new entrants and incumbents over a period of three decades suggest that the Internet did not have such a radical effect on market structure by the year 2000.

Sinn, Hans-Werner

PD February 2001. **TI** Two Mezzogiornos. **AU** Sinn, Hans-Werner; Westermann, Frank. **AA** Sinn: University of Munich and NBER. Westermann: University of Munich. **SR** National Bureau of Economic Research Working Paper: 8125; 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, N14, O18, O47. **KW** Mezzogiorno. East Germany. Development. Italy. Productivity.

AB The analogy between the economic problems of the Mezzogiorno region and East Germany has been initially contested by many authors. This paper argues that there are striking similarities in the two regions, in terms of the causes of their economic predicament. With an aggregate labor productivity of 55% relative to the rest of the country, both are true transfer economies, whose consumption exceeds production by far. Beyond geographical disadvantages, the present paper identifies overdrawn wages, high social security spending and the Dutch disease problem as core reasons for the poor economic performance and discusses possible cures.

PD July 2001. **TI** Why Has the Euro Been Falling? An Investigation into the Determinants of the Exchange Rate. **AU** Sinn, Hans-Werner; Westermann, Frank. **AA** Sinn: University of Munich and National Bureau of Economic Research. Westermann: University of Munich. **SR** National Bureau of Economic Research Working Paper: 8352; 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** E41, E58, E65, F31. **KW** Exchange Rates. Euros. Deutschmarks. Dollars.

AB This paper reconsiders the determinants of the exchange rate by studying the historical episode after the fall of the Iron Curtain. Testing a modified portfolio balance model, the strength of the deutschmark in the early nineties and the puzzling decline of the euro during its virtual existence is attributed to changes in the demand for deutschmarks in eastern Europe and to variations in the demand for black money balances in Europe as a whole. The view that the strength of the dollar and the weakness of the euro reflect the prosperity of the US and the weakness of the European economy is rejected on both theoretical and empirical grounds.

PD July 2001. **TI** Social Dumping in the Transformation Process? **AA** CESifo and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 8364; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F15, H50, J30. **KW** Social Dumping.

AB Business representatives and union leaders in highly industrialized countries often accuse the governments of less-developed countries of practicing social dumping in the sense of deliberately neglecting work- place safety legislation, co-determination rights and other fringe benefits which define the quality of workplaces. This paper refutes this view by modeling the transition path of a less-developed small open economy that faces transactions costs when trading capital and labor with the rest of the world. It shows that competitive markets and competitive governments choose Pareto efficient transition strategies which are characterized by a sluggish development of market wages and government-imposed social standards.

Siu, Henry E.

PD July 2002. **TI** Optimal Fiscal and Monetary Policy with Sticky Prices. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/13; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 43. **PR** international. **JE** E52, E63, H21. **KW** Fiscal Policy. Monetary Policy. Ramsey Equilibrium. Sticky Prices. Inflation Volatility. Tax Smoothing.

AB This paper considers the role of state-contingent inflation as a fiscal shock absorber in an economy with nominal rigidities. The Ramsey equilibrium in which a monetary model with distortionary taxation, nominal non-state-contingent debt, and sticky prices is studied. With sticky prices, the Ramsey planner must balance the shock absorbing benefits of state-contingent inflation against the associated resource misallocation costs. For government spending processes resembling post- war experience, introducing sticky prices generates striking departures in optimal policy from the case with flexible prices. For even small degrees of price rigidity, optimal policy displays very little volatility in inflation. Tax rates and real government debt exhibit behavior similar to a random walk. For government spending processes resembling periods of intermittent war and peace, state-contingent inflation remains a valuable policy tool. As the variability in government spending increases, smoothing tax distortions across states of nature becomes increasingly important, and the shock absorber role of inflation is accentuated.

Skinner, Jonathan

TI Saving Puzzles and Saving Policies in the United States. **AU** Lusardi, Annamaria; Skinner, Jonathan; Venti, Steven.

Slade, Margaret E.

PD April 2002. **TI** Real and Financial Aspects of Markets: An Empirical Assessment of Commodity Spot and Futures Trading. **AU** Slade, Margaret E.; Thille, Henry. **AA** Slade: University of British Columbia. Thille: University of Guelph. **SR** University of British Columbia, Department of Economics Discussion Paper: 02/06; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca/econ/dpintro.htm. **PG** 37. **PR** international. **JE** D43, G13, L13, L71. **KW** Commodity Prices. Liquidity. Horizontal Concentration. Spot Markets. Futures Markets.

AB In this paper, real (product market) and financial (futures market) aspects of commodity trading are integrated and the way in which the characteristics of each market affect the distribution of commodity spot and futures prices are assessed. In particular, the paper attempts to explain the level and volatility of the prices of the six commodities that were traded on the London Metal Exchange in the 1990s. The most important aspect of the product market considered is horizontal-market concentration, whereas the most important aspect of the financial market is liquidity (the volume of trade). The data, a monthly panel, enables the examination of the predictions of a number of theoretical models in a unified framework.

Smetters, Kent

TI Finding a Way Out of America's Demographic Dilemma. **AU** Kotlikoff, Laurence J.; Smetters, Kent; Walliser, Jan.

PD April 2001. **TI** The Equivalence of the Social Security's Trust Fund Portfolio Allocation and Capital Income Tax Policy. **AA** Stanford University, University of Pennsylvania, and NBER. **SR** National Bureau of Economic Research Working Paper: 8259; 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** E62, G11, H20, H30. **KW** Portfolio Allocation. Capital Income Tax Policy.

AB This paper proves that the stock-bond portfolio choice of the Social Security trust fund is equivalent in general equilibrium to the tax treatment of capital income by the non-social security pars of government. A larger (smaller) share of social security's portfolio invested in stocks is equivalent to a larger (smaller) symmetric linear tax on risky capital income returns received on assets held by private agents. This general-equilibrium equivalency holds despite the fact that the portfolio choice is not neutral in the presence of several market frictions. To the extent that trust fund investment in equities is used to improve market efficiency in the context of these frictions, the equivalent capital income tax rate can be interpreted as a Lindahl tax. This tax gives a decentralized way of achieving the same outcome that would occur if the government directly controlled pars of the capital stock. General-equilibrium simulation results, using a new overlapping-generations model with aggregate uncertainty, suggest that investing the entire US Social Security trust fund in equities is equivalent to increasing the capital income tax rate by about 4 percentage points.

PD April 2001. **TI** The Exchange Theory of Teenage Smoking and the Counterproductiveness of Moderate Regulation. **AU** Smetters, Kent; Gravelle, Jennifer. **AA** Smetters: Stanford University, University of Pennsylvania, and NBER. Gravelle: Johns Hopkins University. **SR** National Bureau of Economic Research Working Paper: 8262; 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** D11, D62, L10. **KW** Smoking Bans. Regulations.

AB About three-quarters of secondary schools are reluctant to vigorously enforce smoking bans due to various social pressures; ten percent of these schools do not have bans at all. Empirically, school- based smoking regulations appear, at best, ineffective at reducing teenage smoking and, more likely, may actually increase participation. Only schools which vigorously enforce bans have a lower smoking participation. In sum, teenage smoking participation appears to be non- monotonic in the level of enforcement. This paper develops an exchange model that explains this non-monotonic pattern. Smoking bans provide an exchange opportunity to less popular students. Less popular students who begin smoking validate the risk-taking behavior of existing teenage smokers who, in exchange, provide friendship to the newcomers. The enforcement itself becomes the glue which holds the group together. Teenage smoking bans, unless vigorously enforced, increase teenage smoking participation. An increase in self-esteem and other non-smoking related qualities, however, undermines the trading channel, which can help combat teenage smoking. Numerous pieces of empirical evidence, culled from the empirical social psychology literature, are consistent with all of the key predictions of the model.

TI Who Bears the Burden of the Corporate Tax in the Open Economy? **AU** Gravelle, Jane; Smetters, Kent.

Smith, Anthony A., Jr.

TI Equilibrium Welfare and Government Policy with Quasi-Geometric Discounting. **AU** Krusell, Per; Kuruscu, Burhanettin; Smith, Anthony A., Jr..

Smith, Bruce D.

TI The Conduct of Monetary Policy with a Shrinking Stock of Government Debt. **AU** Schreft, Stacey L.; Smith, Bruce D.

Soete, Luc

TI Is a Biased Technological Change Fueling Dualism? **AU** Petit, Pascal; Soete, Luc.

Soto, Raimundo

TI A Decade Lost and Found: Mexico and Chile in the 1980s. **AU** Bergoeing, Raphael; Kehoe, Patrick J.; Kehoe, Timothy J.; Soto, Raimundo.

Spagat, Michael

TI The Evolution of Modern Educational Systems. **AU** Bertocchi, Graziella; Spagat, Michael.

PD December 2001. **TI** Human Capital and the Future of Transition Economies. **AA** Royal Holloway, University of London, Centre for Economic Policy Research, and Davidson Institute. **SR** Royal Holloway, University of London Discussion Paper in Economics: 2001/03; Department of Economics, Royal Holloway, University of London, Egham, Surrey TW20 0EX, United Kingdom. Website: www.rhul.ac.uk/economics/Research/WorkingPapers/. **PG** 14. **PR** no charge. **JE** D10, I20, J24, O15, P20. **KW** Transition. Development. Human Capital. Education. Growth.

AB Transition economies have an initial condition of high human capital relative to GDP per capita. However, they will not necessarily realize their latent high growth potential. In the model, at a good equilibrium a large number of children of well-educated parents take advantage of their family backgrounds and invest substantially in their own human capital. At a bad equilibrium, past educational achievements are wasted as children fail to build upon their parents' achievements. It is argued that this sort of multiple equilibria provides a basis for distinguishing development economics from transition economics.

Spagnolo, Giancarlo

PD May 2001. **TI** Issue Linkage, Credible Delegation, and Policy Cooperation. **AA** Universitat Mannheim and CEPR. **SR** CEPR Discussion Paper: 2778; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E61, F13, F42, H77. **KW** Cooperation. Cross-Border Spillovers. Delegation. International Agreements. International Institutions.

AB This paper, a thorough revision of Spagnolo (1996), addresses the following questions: What is the optimal design for a set of self- enforcing international policy agreements? How many and which issues should each agreement regulate? Are GATT's constraints on issue linkage (cross-retaliation) welfare-enhancing? To facilitate international cooperation should governments keep policy issues under centralized control, or should they delegate them to independent agencies (e.g. central banks)? In the second case, which issues should be delegated? Finally, are institutions' allowing governments to credibly delegate policy choices (e.g. to "conservative" central bankers) good or bad for international policy cooperation?.

Spector, David

PD June 2002. **TI** Horizontal Mergers, Entry, and Efficiency Defences. **AA** CEPREMAP and CNRS. **SR** CEPREMAP Discussion Paper: 2002/06; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 22. **PR** between 4 and 5 euros. **JE** D43, K21, L13, L41. **KW** Oligopoly. Pricing. Competition Policy.

AB This paper addresses the effect of horizontal mergers on prices. It is shown that if firms compete in quantities and marginal costs are nondecreasing, any profitable merger failing to generate technological synergies must harm consumers through higher prices, irrespective of entry conditions in the industry. However this result does not hold if products are differentiated and firms compete in prices. The implications for merger policy are discussed.

PD June 2002. **TI** Competition and the Capital-Labor Conflict. **AA** CEPREMAP and CNRS. **SR** CEPREMAP Discussion Paper: 2002/07; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 31. **PR** between 4 and 5 euros. **JE** E24, E25. **KW** Imperfect Competition. Wage Bargaining. Deregulation.

AB This paper analyzes the macroeconomic effects of changes in the intensity of product market competition. The focus is on the interaction between imperfect competition in product markets and bargaining in the labor market. The main result is that, while a uniform intensification of product market competition increases employment, it may cause real wages to fall, in the short run as well as in the long run. This is especially likely if labor market regulations are favorable to workers. Therefore, product market and labor market regulations tend to reinforce each other politically, and compensatory fiscal transfers may be needed in order to enact employment-enhancing deregulation policies.

Spencer, Barbara J.

TI Keiretsu and Relationship-Specific Investment: Implications for Market-Opening Trade Policy. **AU** Qiu, Larry D.; Spencer, Barbara J.

Spiegler, Ran

PD September 2001. **TI** Testing Threats in Repeated Games. **AA** Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/28; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 24. **PR** no charge. **JE** C72. **KW** Repeated Games. Credible Threats. Experimentation. Equilibrium Concepts. Cooperation. Justifiability.

AB This paper considers a solution concept for infinite-horizon games, called "Experimental Equilibrium", in which players systematically test threats that affect their optimal response. Both the tests and the optimal response are part of equilibrium behavior. The concept is applied to repeated 2x2 games and yields the following results: Sustained cooperation in games such as the Prisoner's Dilemma is preceded by a "build up" phase, whose comparative statics are characterized. Sustainability of long-run cooperation by means of familiar self-enforcement conventions depends on the underlying payoff structure. For example, the convention of reciprocity is inconsistent with long-run cooperation in repeated Chicken, but it achieves cooperation in minimal time in repeated Prisoner's Dilemma. Nevertheless, an "Experimental Equilibrium folk theorem" holds for this class of games.

PD November 2001. **TI** Argumentation and Decision Biases in Multi-Issue Debates. **AA** Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2001/30; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 15. **PR** no charge. **JE** C79, D79. **KW** Debates.

Argumentation. Rhetoric. Status Quo Bias. Independence of Irrelevant Alternatives.
AB This paper suggests a choice-theoretic approach to debates. Two parties disagree over multiple issues. Resolution is based on the sets of arguments that are available to each party. Under two axioms, "free disposal" and "procedure invariance," the resolution is shown to display a "status quo bias". The exact form of the bias depends on the kind of argument involved-"pro" or "con" arguments. Using an extended model, I show that when parties use both pro and con arguments, only the latter type affects the debate's resolution.

PD January 2002. **TI** Justifiability and Delay Tactics in a Concession Game. **AA** Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2002/03; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 10. **PR** no charge. **JE** C72, C78. **KW** Justifiability. Delegation. Bargaining. Delay. Complexity Consideration. Finite Automata.
AB Delegated bargainers may deliberately adopt delay tactics, in order to be able to justify their concessions before their principals. We explore this intuition by applying a simple version of "Equilibrium in Justifiable Strategies" (Spiegler 2001) to a bilateral concession game. In equilibrium, s sub j is a best-reply to s sub i, as well as a simplest consistent belief of player j's strategy. Simplicity of strategies is measured by the number of states in their finite automata representation. I show that the pressure to justify concessions can prevent players from reaching an interior agreement.

Springael, Linda
TI Import Diversion Under European Antidumping Policy. **AU** Konings, Jozef; Springael, Linda; Vandenbussche, Hylke.

Stacchetti, Ennio
TI Technology (and Policy) Shocks in Models of Endogenous Growth. **AU** Jones, Larry E.; Manuelli, Rudolfo E.; Stacchetti, Ennio.

Stein, Jeremy C.
PD June 2001. **TI** Agency, Information and Corporate Investment. **AA** Harvard University. **SR** National Bureau of Economic Research Working Paper: 8342; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 70. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** D21, D23, G31. **KW** Firm Behavior. Corporate Investment.
AB This essay surveys the body of research that asks how the efficiency of corporate investment is influenced by problems of asymmetric information and agency. The material is organized around two basic questions. First, does the external capital market channel the right amount of money to each firm? That is, does the market get across-firm allocations right, so that the marginal return to investment in firm i is the same as the marginal return to investment in firm j? Second, do internal capital markets channel the right amount of money to individual projects within firms? That is, does the internal capital budgeting process get within-firm allocations right, so that the marginal return to investment in firm i's division A is the same as the marginal return to investment in firm i's division B? In addition to discussing the theoretical and empirical work that bears most directly on these questions, the essay also briefly sketches some of the implications of this work for broader issues in both macroeconomics and the theory of the firm.

TI Social Interaction and Stock-Market Participation. **AU** Hong, Harrison; Kubik, Jeffrey D.; Stein, Jeremy C.

Stein, Jerome L.
TI A Stochastic Optimal Control Approach to International Finance and Foreign Debt. **AU** Fleming, Wendell H.; Stein, Jerome L.

Stennek, Johan
TI Bilateral Oligopoly. **AU** Bjornerstedt, Jonas; Stennek, Johan.

Stephens, Melvin, Jr.
PD April 2001. **TI** Worker Displacement and the Added Worker Effect. **AA** Carnegie Mellon University and NBER. **SR** National Bureau of Economic Research Working Paper: 8260; 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** J22, J63, J64. **KW** Added Worker Effect. Job Displacement.
AB This paper examines the effect of a husband's job loss on the labor supply of his wife, an effect known as the "added worker" effect. Unlike past added worker effect studies which focus on the effect of the husband's current unemployment status, this paper analyzes the wife's labor supply response in the periods before and after her husband's job displacement in order to examine the short-and long-run adjustments to an earnings shock. Using the Panel Study of Income Dynamics, small pre-displacement effects are found along with larger and persistent post-displacement effects. The timing of the wives' responses differs by the type of displacement (plant closing vs. permanent layoff), possibly due to differences in the information wives acquire prior to the displacement. In addition, the response is found to increase with the magnitude of the husband's wage loss, to have changed over time (70's vs. 80's) and to vary by the husband's pre- displacement earnings. The long-run increases in the wife's labor supply account for over 25% of the husband's lost income.

Stevens, John J.
TI Geographic Concentration and Establishment Size: Analysis in an alternative Economic Geography Model. **AU** Holmes, Thomas J.; Stevens, John J.

TI The Home Market and the Pattern of Trade: Round Three. **AU** Holmes, Thomas J.; Stevens, John J.

Stillman, Steven
PD November 2000. **TI** The Determinants of Private and Government Sector Earnings in Russia. **AA** RAND. **SR** RAND Corporation Report: DRU/ 2422; Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. **PG** 40. **PR** not available. **JE** J30, J45. **KW** Civil Service. Salaries. Russia. Labor Market. Labor Policy.
AB So far little is known about how private sector earnings in Russia compare to those in the still strong government

sector. This paper estimates sectoral earnings equations for rural and urban men and women which control for: 1) Self-selection into the workforce; and 2) Self- selection into either the private or government sector, while allowing for simultaneity in the selection decisions. The selection controls are found to have a considerable effect on the estimated sectoral earnings differentials for all four sample groups. Earnings differentials are examined by age, education, and unobserved skill. Expected earnings are found to be higher in the private sector for most groups.

Stock, James

TI Searching for Prosperity. **AU** Kremer, Michael; Onatski, Alexei; Stock, James.

Stockman, Alan C.

TI Current Accounts and Exchange Rates: A New Look at the Evidence. **AU** Leonard, Greg; Stockman, Alan C.

TI Rational Speculation and Exchange Rates. **AU** Duarte, Margarida; Stockman, Alan C.

Sturm, Daniel

PD July 2002. **TI** Environment, Trade, Political Economy and Imperfect Information - A Survey. **AU** Sturm, Daniel; Ulph, Alistair. **AA** Sturm: University of Munich. Ulph: University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0204; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 39. **PR** no charge. **JE** F02, F18, F42. **KW** Trade and Environment. Environmental Dumping. Green Protectionism. Asymmetric Information. Environmental Policy Coordination.

AB The last ten years have seen an upsurge in interest in the nexus of trade and environmental policies. In part, this reflects the need to deal with major global pollution problems, and also a concern that globalization may have adverse impacts on the environment. Environmentalists worry that globalization may trigger a race-to-the bottom in environmental standards. Industrialists raise concerns about the need for a "level playing field" in environmental regulations because of fears about the impact of environmental regulations on competitiveness. Finally, developing countries question whether disputes over differences in environmental regulations simply reflect a covert form of "green protectionism". This paper reviews what light recent developments in economic analysis (conceptual and empirical) can shed on these concerns. After a brief review of conventional trade models, it focuses on issues of political economy and imperfect information.

Sumner, Steven

TI The Comovements Between Real Activity and Prices in the G7. **AU** Den Haan, Wouter; Sumner, Steven.

Sutton, John

PD September 2001. **TI** The Variance of Firm Growth Rates: The "Scaling" Puzzle. **AA** LSE. **SR** STICERD, LSE Economics of Industry Group Discussion Paper: EI/27; STICERD, Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. **PG** 25. **PR** no charge. **JE** L11, L16. **KW** Firm Growth. Power Law. Scaling Relationships.

AB Certain recently reported statistical regularities relating to the dispersion of firms' growth rates have begun to attract attention among IO economists. These relationships take the form of power law or scaling relationships and this has led to suggestions that the underlying mechanisms which drive these relationships may have some interesting analogies with the mechanisms which drive scaling relationships in other fields. In particular, it has led to suggestions that there may be some subtle correlations among the growth rates of the different constituent businesses that comprise the firm.

PD September 2001. **TI** Rich Trades, Scarce Capabilities: Industrial Development Revisited. **AA** LSE. **SR** STICERD, LSE Economics of Industry Group Discussion Paper: EI/28; STICERD, Room Q280, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom. Website: sticerd.lse.ac.uk. **PG** 38. **PR** no charge. **JE** O12, O19. **KW** Globalization. Scarce Capabilities. Geography and Trade.

AB In this paper, I bring together two recent economic literatures which have developed independently of each other over the past decade. The first is the "Geography and Trade" literature, which has cast new light on how the division between "rich" and "poor" countries evolves. The second is the modern "market structure" literature, which examines how global industries may of necessity be dominated by relatively small number of leading producers. At the heart of this discussion is what I shall label "scarce capabilities": just as the Golden Age of the Dutch republic was founded on the establishment of its dominance of the "rich trades" (the maritime sea-routes to the Indies and Caribbean), so the wealth of modern industrialized economies rests on the network of firms that enjoy "scarce capabilities", the rent from which manifests itself primarily in the form of high real wages in their domestic labor markets. How this comes about, and how it persists, is my central theme.

Svensson, Lars E. O.

PD April 2001. **TI** Indicator Variables for Optimal Policy under Asymmetric Information. **AU** Svensson, Lars E. O.; Woodford, Michael. **AA** Svensson: Stockholm University, NBER, and CEPR. Woodford: Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 8255; 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** E37, E47, E52, E58. **KW** Asymmetric Information. Optimal Policy. Indicator Variables. Monetary Policy.

AB The optimal weights on indicators in models with partial information about the state of the economy and forward-looking variables are derived and interpreted, both for equilibria under discretion and under commitment. The private sector is assumed to have information about the state of the economy that the policymaker does not possess. Certainty-equivalence is shown to apply, in the sense that optimal policy reactions to optimally estimated states of the economy are independent of the degree of uncertainty. The usual separation principle does not hold, since the estimation of the state of the economy is not independent of optimization and is in general quite complex. We present a general characterization of optimal filtering and control in settings of this kind, and discuss an application of our methods to the problem of the optimal use of "real-time" macroeconomic data in the conduct of monetary policy.

Tabellini, Guido

TI Political Institutions and Policy Outcomes: What are the Stylized Facts? **AU** Persson, Torsten; Tabellini, Guido.

Tallon, Jean-Marc

TI Bargaining Over an Uncertain Outcome: The Role of Beliefs. **AU** Billot, Antoine; Chateauneuf, Alain; Gilboa, Itzhak; Tallon, Jean-Marc.

Tao, Zhigang

TI A Multi-Task Theory of the State Enterprise Reform. **AU** Bai, Chong-En; Li, David; Tao, Zhigang; Wang, Yijiang.

Tawn, Jonathan

TI New Extreme-Value Dependence Measures and Finance Applications. **AU** Poon, Ser-Huang; Rockinger, Michael; Tawn, Jonathan.

Taylor, Mark P.

TI Official Intervention in the Foreign Exchange Market: Is It Effective, and, If So, How Does It Work? **AU** Sarno, Lucio; Taylor, Mark P.

Tellis, Ashley J.

TI Military Expenditures and Economic Growth. **AU** Castillo, Jasen; Lowell, Julia; Tellis, Ashley J.; Munoz, Jorge; Zycher, Benjamin.

Temple, Jonathan

PD June 2001. **TI** Structural Change and Europe's Golden Age. **AA** Temple: University of Bristol and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2861; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** O52. **KW** Growth Accounting. Labor Reallocation. Structural Change.

AB Most of the countries of Western Europe grew at unprecedented rates from the late 1940s until the early 1970s. Another feature of this period was dramatic structural change, as employment shifted from agriculture to manufacturing and services. This paper uses growth accounting to measure the direct contribution of structural change to aggregate productivity growth. The conventional accounting framework is extended and then applied to Western Europe and the USA for the period 1950-90. The paper quantifies the importance of structural change in explaining the Golden Age, the productivity slowdown, and the cross- country variation in post-war growth rates.

PD July 2001. **TI** Growth Effects of Education and Social Capital in the OECD Countries. **AA** University of Bristol and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2875; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** I20, O40. **KW** Economic Growth. Education. Human Capital. Social Capital.

AB This paper surveys the empirical literature on the growth effects of education and social capital. The main focus is on the cross-country evidence for the Organisation For Economic Co-Operation And Development (OECD) countries, but the paper also briefly reviews evidence from labor economics, to clarify where empirical work on education using macro data may be relatively useful. It is argued that on balance, the recent cross-country evidence points to productivity benefits of education that are at least as large as those identified by labor economists. The paper also discusses the implications of this finding. Finally, the paper reviews the emerging literature on the benefits of social capital. Since this literature is still in its early days, policy conclusions are accordingly harder to find.

Tesar, Linda L.

TI A Re-Examination of Exchange Rate Exposure. **AU** Dominguez, Kathryn M. E.; Tesar, Linda L.

TI Trade and Exposure. **AU** Dominguez, Kathryn M. E.; Tesar, Linda L.

Testa, Cecilia

PD December 2001. **TI** Reform, Lobbies and Welfare: A Common Agency Approach. **AA** Suntory and Toyota International Centres for Economics and Related Disciplines, London School of Economics. **SR** Royal Holloway, University of London Discussion Paper in Economics: 2001/06; Department of Economics, Royal Holloway, University of London, Egham, Surrey TW20 0EX, United Kingdom. Website: www.rhul.ac.uk/economics/ Research/ WorkingPapers/. **PG** 31. **PR** no charge. **JE** D45, D72, D75, P26. **KW** Reform. Lobbying. Redistribution. Economic Welfare.

AB The traditional explanation for government intervention in the economy is the existence of market failure. Nevertheless, despite public policy interventions, the economy may fail to reach the efficient frontier. The objective of this paper is to verify if policy- makers' preferences for monetary transfers generate inefficiency. It analyzes a price reform that creates gainers and losers. Redistributive taxation can be used to compensate losers. The relationship between the citizens and the policy maker is modeled as a common agency game, where the citizens, organized in lobby groups, are the principals and the policy maker is the agent. The model only considers truthful equilibria. It is found that, with the possibility for at most two lobbies, one-lobby equilibrium is inefficient and the two-lobbies equilibrium is efficient. However, non-lobby and one-lobby are not Nash equilibria. Two-lobbies is the unique Nash equilibrium and it is robust to the introduction of a political constraint on tax parameters.

Tetlow, Robert

PD December 2001. **TI** Avoiding Nash Inflation: Bayesian and Robust Responses to Model Uncertainty. **AU** Tetlow, Robert; von zur Muehlen, Peter. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/09; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 25. **PR** no charge. **JE** C63, C82, E31. **KW** Uncertainty. Robust Control. Learning. Mathematical Programs.

AB In his 1999 monograph The Conquest of American Inflation Thomas Sargent describes how a policymaker, who applies a constant-gain algorithm in estimating the Phillips curve, can fall into the grip of an induction problem: concluding on the basis of reduced-form evidence that the trade-off between inflation and output is more favorable than it actually is. The problem arises in part because the policymaker does not take possible misspecification into consideration when designing policy. In this paper, we relax this assumption. We derive five policy rules which treat possible misspecification in three different ways. First, the linear-quadratic Gaussian (LQG) rule exhibits the familiar pattern of escape dynamics described by Sargent. We consider three rules that are robust in the sense of Knight. The robust rules do a worse job than the LQG approach, and sometimes a lot worse. This is so even though the induction problem faced by the policymaker provides a prima facie case for being robust. We conclude that there appears to be no obvious tool that can be applied mechanically to alleviate the induction problem.

Thille, Henry

TI Real and Financial Aspects of Markets: An Empirical Assessment of Commodity Spot and Futures Trading. **AU** Slade, Margaret E.; Thille, Henry.

Tinsley, P. A.

TI Dynamic Specifications in Optimizing Trend-Deviation Macro Models. **AU** Kozicki, Sharon; Tinsley, P. A.

TI Vector Rational Error Correction. **AU** Kozicki, Sharon; Tinsley, P. A.

TI Term Structure Views of Monetary Policy. **AU** Kozicki, Sharon; Tinsley, P. A.

Tirole, Jean

TI Essential Facility Financing and Market Structure. **AU** Caillaud, Bernard; Tirole, Jean.

Tom, Willard K.

TI Is Innovation King at the Antitrust Agencies? The Intellectual Property Guidelines Five Years Later. **AU** Gilbert, Richard J.; Tom, Willard K.

Tong, Daochi

TI Economic Openness: Many Facets, Many Metrics. **AU** Wolf, Charles, Jr..; Levaux, Hugh; Tong, Daochi.

Tracy, Joseph

TI The Impact of Employee Stock Options on the Evolution of Compensation in the 1990s. **AU** Mehran, Hamid; Tracy, Joseph.

Trajtenberg, Manuel

TI A General Purpose Technology at Work: The Corliss Steam Engine in the Late 19th Century US. **AU** Rosenberg, Nathan; Trajtenberg, Manuel.

TI Market Value and Patent Citations: A First Look. **AU** Hall, Bronwyn H.; Jaffe, Adam B.; Trajtenberg, Manuel.

TI The NBER Patent Citations Data File: Lessons, Insights and Methodological Tools. **AU** Hall, Bronwyn H.; Jaffe, Adam B.; Trajtenberg, Manuel.

Trau, Fabrizio

PD March 2001. **TI** The Macroeconomic Environment and the Size Pattern of Business Firms. **AA** Centro Studi Confindustria, Roma, Italy. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP192; Publications Secretary, ESRC Centre for Business Research, University of Cambridge, Austin Robinson Building, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 30. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D21, D23, L11, L22, L25. **KW** Golden Age. Uncertainty. Competition. Downsizing. Vertical Integration.

AB Empirical evidence shows that the second half of the 20th century has been characterized by a dramatic change in the evolutionary pattern of firms' size structure: the general tendency towards a growing importance of big business which marked the first phase of post-war development came to a halt in the early '70s, making way to a gradual decrease of the average size of firms and an employment shift towards smaller sized units. This paper argues that such a phenomenon is closely related to the major changes which have affected the macroeconomic environment over the same period, bringing to an end the so-called Golden Age. Particular emphasis is given to the role played, in this connection, by both the increase in the strength of global competition and structurally higher market uncertainty.

Trionfetti, Federico

TI A Test of Trade Theories when Expenditure is Home Biased. **AU** Brulhart, Marius; Trionfetti, Federico.

Troger, Thomas

TI Existence of Linear Equilibria in the Kyle Model with Multiple Informed Traders. **AU** Noldeke, Georg; Troger, Thomas.

Tsui, Albert K. C.

TI Ownership and Use Taxes as Congestion Correcting Instruments. **AU** Chia, Ngee-Choon; Tsui, Albert K. C.; Whalley, John.

Tsyvinski, Aleh

TI Optimal Indirect and Capital Taxation. **AU** Golosov, Mikhail; Kocherlakota, Narayana R.; Tsyvinski, Aleh.

Turrini, Alessandro

PD April 2001. **TI** For Whom is MAI? A Theoretical Perspective on Multilateral Agreements on Investment. **AU** Turrini, Alessandro; Urban, Dieter M. **AA** Turrini: UNCTAD and Universita di Bergamo and CEPR. Urban: Hamburg Institute of International Economics. **SR** CEPR Discussion Paper: 2774; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F13, F23, O19. **KW** Adverse Selection. Foreign Direct Investment. Incomplete Contracts. International Agreements. Multiple Equilibria.

AB Why do we observe some LDCs objecting to the prospect of a Multilateral Agreement on Investment (MAI), although they have been keen to liberalize investment in preferential agreements in recent years? This paper analyzes the issue of MAI implementation and assess the welfare consequences of such kind of agreement. In the model, participation in MAI involves a trade-off between less rent extraction from multinational firms (MNEs) and more abundant FDI inflows. At equilibrium, either all countries enter MAI, or all countries stay out, or only some of them enter. Coordination problems may induce multiple equilibria: the three types of equilibria may coexist. So, the implementation of MAI may depend not only on structural factors but also on the general "political climate". When all countries join MAI, world welfare is maximized because this minimizes the hold-up problem faced by MNEs and stimulates investment. However, in an asymmetric world, welfare gains for all countries are not guaranteed.

Udell, Gregory F.

TI The Effect of Market Size Structure on Competition: The Case of Small Business Lending. **AU** Berger, Allen N.; Rosen, Richard J.; Udell, Gregory F.

Ulph, Alistair

TI Environment, Trade, Political Economy and Imperfect Information - A Survey. **AU** Sturm, Daniel; Ulph, Alistair.

PD August 2002. **TI** International Environmental Agreements with a Stock Pollutant, Uncertainty and Learning. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0207; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 37. **PR** no charge. **JE** F02, F18, Q40. **KW** International Agreements. Environment. Uncertainty. Learning. Membership.

AB This paper analyzes the ways in which the possibility of future resolution of uncertainty about damage costs affects incentives to join a self-enforcing international environmental agreement. Unlike earlier literature, the model allows many countries, uses a solution concept which does not restrict the size of a stable international environmental agreement, and, since it is dynamic, analyzes different membership rules: fixed (countries commit) or variable (countries decide each period whether to join). With fixed membership, learning yields at least as high membership and global welfare as no learning, unless both expected damage costs and uncertainty are high. With variable membership, learning leads to higher future membership but lower global welfare than no learning. Fixed membership leads to higher global welfare than variable membership if there are at least as many signatories who abate pollution in each period and state of the world as variable membership. This occurs for only 20% of parameter values with no learning and 2% with learning.

PD August 2002. **TI** International Environmental Agreements, Uncertainty and Learning -- The Case of Stock Dependent Unit Damage Costs. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0208; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, United Kingdom. Website: www.soton.ac.uk. **PG** 44. **PR** no charge. **JE** F02, F18, Q40. **KW** International Agreements. Environment. Uncertainty. Learning. Membership.

AB Ulph (2002) analyzed how the possibility of future resolution of uncertainty about damage costs affected the incentives and timing for countries to join a self-enforcing international environmental agreement (IEA). It analyzed two membership rules -- fixed (countries commit whether to join an IEA for all periods) and variable (countries decide each period whether to join). While total damage costs depended on the stock of pollution, average damage costs did not. One consequence was that, in the variable membership model, the number of countries who joined in the current period could not be affected by future learning. This paper allows unit damage costs to depend on the stock of pollution. It shows that while this complicates the analysis, all the results of the previous paper are essentially unaffected. In particular, with variable membership future learning has almost no affect on current membership.

TI Limiting Political Discretion and International Environmental Policy Coordination with Active Lobbying. **AU** Johal, Surjinder; Ulph, Alistair.

TI Leadership and Self-Enforcing International Environmental Agreements with Non- Negative Emissions. **AU** Rubio, Santiago J.; Ulph, Alistair.

Urban, Dieter M.

TI For Whom is MAI? A Theoretical Perspective on Multilateral Agreements on Investment. **AU** Turrini, Alessandro; Urban, Dieter M.

Uribe, Martin

TI Optimal Fiscal and Monetary Policy under Imperfect Competition. **AU** Schmitt-Grohe, Stephanie; Uribe, Martin.

Vaithianathan, Rhema

TI Entrepreneurial Innovation. **AU** Rigotti, Luca; Ryan, Matthew; Vaithianathan, Rhema.

Valdes, Rodrigo

TI Lending Booms: Latin America and the World. **AU** Gourinchas, Pierre-Olivier; Landerretche, Oscar; Valdes, Rodrigo.

Valence, Arnaud

PD November 2001. **TI** Dynamique Salariale et Norme Sociale: Une Approche a Posteriori par la Theorie de la Viabilite (Wage Dynamic and Social Norm: An A Posteriori Approach by the Viability Theory). **AA** CEPREMAP. **SR** CEPREMAP Discussion Paper: 2002/01; Library of CEPREMAP, 140-142 rue du Chevaleret, 75013-Paris, France. Website: www.cepremap.cnrs.fr. **PG** 40. **PR** between 4 and 5 euros. **JE** A14, C69, C78. **KW** Wage Curve. Negotiations. Fairness. Regulation. Wage Labor Nexus.

AB This paper presents a model of wage setting by decentralized negotiations under a double constraint of fairness and profitability. This model confronts us with a viability problem whose result is an a posteriori characterization of the wage's convention. This approach allows us to go beyond the controversy norm vs. rationality. The result is that we can deal with both historicity and sociality of the long term wage labor nexus; the historicity because the a posteriori approach inclines us to reject the notion of steady state for the notion of ponctued equilibrium; the sociality because the convention fundamentally resist to the change although being endogenous-a posteriori. Furthermore this approach allows us to modulate the regulation of wages according to the level of social representation, through his decomposability in decentralized or centralized regulation. This paper is written in French.

Valletta, Robert G.

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

van Wincoop, Eric

TI A Theory of the Currency Denomination of International Trade. **AU** Bacchetta, Philippe; van Wincoop, Eric.

Van Zandt, Timothy

TI Robustness of Adaptive Expectations as an Equilibrium Selection Device. **AU** Lettau, Martin; Van Zandt, Timothy.

Vandenbussche, Hylke

TI Trade, FDI and Unions. **AU** Collie, David R.; Vandenbussche, Hylke.

TI Import Diversion Under European Antidumping Policy. **AU** Konings, Jozef; Springael, Linda; Vandenbussche, Hylke.

Vega, Clara

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

Venti, Steven

TI Saving Puzzles and Saving Policies in the United States. **AU** Lusardi, Annamaria; Skinner, Jonathan; Venti, Steven.

Ventura, Jaume

TI Comparative Advantage and the Cross-Section of Business Cycles. **AU** Kraay, Aart; Ventura, Jaume.

Verboven, Frank

TI Quantifying the Effects from Horizontal Mergers in European Competition Policy. **AU** Ivaldi, Marc; Verboven, Frank.

TI Discrimination and Nepotism: The Efficiency of the Anonymity Rule. **AU** Fershtman, Chaim; Gneezy, Uri; Verboven, Frank.

Vettas, Nikolaos

TI Foreign Direct Investment and Exports with Growing Demand. **AU** Rob, Rafael; Vettas, Nikolaos.

TI Foreign Direct Investment and Exports with Growing Demand. **AU** Rob, Rafael; Vettas, Nikolaos.

Viaene, Jean-Marie

PD March 2002. **TI** Human Capital and Cross-Country Comparison of Inequality. **AU** Viaene, Jean-Marie; Zilcha, Itzhak. **AA** Viaene: Erasmus University and Tinbergen Institute Rotterdam. Zilcha: Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2002/07; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 24. **PR** no charge. **JE** D91, E25, H52. **KW** Human Capital. Income Inequality. Endogenous Growth. Overlapping Generations.

AB The paper studies the effects of cross-country differences in the production process of human capital on income distribution and growth. Our overlapping generations economy has the following features: (1) consumers are heterogeneous with respect to parental human capital and wealth; (2) intergenerational transfers take place via parental education and, public investments in education financed by taxes (possibly, with a level determined by majority voting); (3) due to investment in human capital, which is a factor of production, we have endogenous growth. We explore several types of cross-country variations in the production of human capital, some attributed to 'home-education' and others related to 'public-education', and their effect upon intergenerational income inequality and growth along the equilibrium path. We also indicate how the level of public education affects human capital formation and the conditions leading to poverty traps.

Violante, Giovanni L.

TI Deunionization, Technical Change and Inequality. **AU** Acemoglu, Daron; Aghion, Philippe; Violante, Giovanni L.

PD May 2001. **TI** Technological Acceleration, Skill Transferability and the Rise in Residual Inequality. **AA** University College London and CEPR. **SR** CEPR Discussion Paper: 2765; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E24, J31, O30. **KW** Earnings Instability. Skill Transferability. Technological Acceleration. Wage Inequality. Wage Loss Upon Displacement.

AB This paper provides an interpretation for the recent rise in residual wage inequality which is consistent with the empirical observation that a sizeable part of this increase has a transitory nature, a feature that eludes standard models based on ex-ante heterogeneity in ability. In the model an acceleration in the rate of quality-improvement of equipment, like the one observed from the early 70's, reduces workers' capacity to transfer skills from old to new machines. This force generates a rise in the cross-sectional variance of skills, and therefore of wages. Through calibration, the paper shows that this mechanism can account for 30 percent of the surge in residual inequality in the US economy (or for most of its transitory component). Two key implications of the theory -- faster within job wage growth and larger wage losses upon displacement - - find empirical support in the data.

TI Investment-Specific Technical Change in the US (1947-2000): Measurement and Macroeconomic Consequences. **AU** Cummins, Jason G.; Violante, Giovanni L.

Vives, Xavier

TI Allocative and Productive Efficiency in REE with Asymmetric Information. **AU** Messner, Simon; Vives, Xavier.

Vohra, Rajiv

TI Intersecting Balanced Families of Sets. **AU** Idzik, Adam; Katona, Gyula O. H.; Vohra, Rajiv.

Volij, Oscar

PD September 1999. **TI** In Defense or Defect or Cooperation Does Not Justify the Solution Concept. **AA** Brown University. **SR** Brown University, Department of Economics Working Paper: 99/26; Working Papers Coordinator, Department of Economics, Box B, Brown University, Providence, RI 02912. **PG** 11. **PR** no charge. **JE** C72, C73. **KW** Automata. Complexity. Prisoners' Dilemma.

AB The one-state machine that always defects is the only evolutionarily stable strategy in the machine game that is derived from the prisoners' dilemma, when preferences are lexicographic in the complexity. This machine is the only stochastically stable strategy of the machine game when players are restricted to choosing machines with a uniformly bounded complexity.

Volpin, Paolo

TI The Political Economy of Corporate Governance. **AU** Pagano, Marco; Volpin, Paolo.

von Thadden, Ernst-Ludwig

PD January 2002. **TI** Liquidity. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/01; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 13. **PR** no charge. **JE** G21. **KW** Liquidity. Banks. Markets.

AB This is a survey of the literature on liquidity provision through banks. The paper first formulates the basic model underlying the modern literature on liquidity provision for households and then introduces the more recent literature on liquidity provision through banks and markets. Then it turns to liquidity provision on the asset side of banks' balance sheets and concludes with a brief discussion of how the two sides of the balance sheet interact.

von Ungern-Sternberg, Thomas

PD May 2002. **TI** Uberlegungen zur Gewinnausschuttung der Schweizerischen Nationalbank (The Profit Distribution of the Swiss National Bank). **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/12; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 19. **PR** no charge. **JE** E58. **KW** Swiss National Bank. Profit Distribution. Portfolio Strategy.

AB (*This paper is available in German only*). The Swiss National Bank (SNB) currently holds reserves of more than 40 billion CHF. In the future, she wishes to increase her reserves by about 1 billion CHF per year. The new law on the SNB must be used to make the SNB behave according to the same standards as other national banks. Her reserves should be limited to 30 billion CHF, which would still make her the richest central bank in the world. Almost all her future profits should be distributed. To improve her incentives to pursue a responsible investment strategy, her profits should be calculated using only her flow income and expenditures. She should cover capital losses from her reserves.

PD May 2002. **TI** Reflexions sur la repartition des benefices de la Banque Nationale Suisse (The Profit Distribution of the Swiss National Bank). **AA** Ecole des HEC and University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 02/13; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 18. **PR** no charge. **JE** E58. **KW** Swiss National Bank. Profit Distribution. Portfolio Strategy.

AB (This paper is available in French only). The Swiss National Bank (SNB) currently holds reserves of more than 40 billion CHF. In the future, she wishes to increase her reserves by about 1 billion CHF per year. The new law on the SNB must be used to make the SNB behave according to the same standards as other national banks. Her reserves should be limited to 30 billion CHF, which would still make her the richest central bank in the world. Almost all her future profits should be distributed. To improve her incentives to pursue a responsible investment strategy, her profits should be calculated using only her flow income and expenditures. She should cover capital losses from her reserves.

von zur Muehlen, Peter

TI Avoiding Nash Inflation: Bayesian and Robust Responses to Model Uncertainty. **AU** Tetlow, Robert; von zur Muehlen, Peter.

Vuolteenaho, Tuomo

PD April 2001. **TI** What Drives Firm-Level Stock Returns? **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8240; 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** G12, G14. **KW** Vector Autoregression. Stock Returns. Expected Returns.

AB This paper uses a vector autoregressive model (VAR) to decompose an individual firm's stock return into two components: changes in cash-flow expectations (i.e., cash-flow news) and changes in discount rates (i.e., expected-return news). The VAR yields three main results. First, firm- level stock returns are mainly driven by cash-flow news. For a typical stock, the variance of cash-flow news is more than twice that of expected-return news. Second, shocks to expected returns and cash flows are positively correlated for a typical small stock. Third, expected- return-news series are highly correlated across firms, while cash-flow news can largely be diversified away in aggregate portfolios.

TI The Value Spread. **AU** Cohen, Randolph B.; Polk, Christopher; Vuolteenaho, Tuomo.

Wagner, Wolf

TI The Feasible Gains from International Risk Sharing. **AU** Eijffinger, Sylvester C. W.; Wagner, Wolf.

Waldfogel, Joel

TI Electoral Acceleration: The Effect of Minority Population on Minority Voter Turnout. **AU** Oberholzer-Gee, Felix; Waldfogel, Joel.

Walliser, Jan

TI Finding a Way Out of America's Demographic Dilemma.
AU Kotlikoff, Laurence J.; Smetters, Kent; Walliser, Jan.

Wang, Yijiang

TI A Multi-Task Theory of the State Enterprise Reform.
AU Bai, Chong-En; Li, David; Tao, Zhigang; Wang, Yijiang.

Warburton, William P.

TI Tightening a Welfare System: The Effects of Benefit Denial on Future Welfare Receipt. **AU** Green, David A.; Warburton, William P.

Wasmer, Etienne

PD May 2001. **TI** Between-Group Competition in the Labor Market and the Rising Returns to Skill: US and France 1964-2000. **AA** Wasmer: ECARES, Universite Libre de Bruxelles and CEPR. **SR** CEPR Discussion Paper: 2798; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E24, J21, J31. **KW** Education. Experience. Labor Supply. Wage Inequality.
AB This paper describes the changes in the composition of the labor force in the last 35 years and quantifies the substitution of low education/high experience workers by low experience/high education workers by using US and French microdata. The consequences of this substitution on the wage structure are then investigated. In the US, labor supply changes can explain the changes in returns to experience. It also accounts for a part of the increase in returns to education between 1980 and 2000, between 8% and 20% depending on the specification. These results rely on panel estimates of a useful concept: the elasticity of substitution between experience and education, which is found to be less than half. In France, the covariations of prices and the supply of skills are consistent with a pure labor supply explanation. Methodologically, the paper shows that the use of a stock measure of efficient units of skills is better than flow measures (e.g., cohort size). It also allows analysis of the consequences of rising female labor participation.

Watkins, Susan Cotts

TI Social Networks, Family Planning and Worrying About AIDS: What Are the Network Effects if Network Partners are Not Determined Randomly? **AU** Behrman, Jere R.; Kohler, Hans-Peter; Watkins, Susan Cotts.

Weiss, Yoram

TI Immigration, Search and Loss of Skill.
AU Gotlibovski, Menachem; Sauer, Robert M.; Weiss, Yoram.

TI Marriage Contracts and Divorce: An Equilibrium Analysis. **AU** Chiappori, Pierre Andre; Weiss, Yoram.

Wesche, Katrin

TI Non-Linear Effects of Fiscal Policy in Germany: A Markov-Switching Approach. **AU** Hoppner, Florian; Wesche, Katrin.

Westermann, Frank

TI Two Mezzogiornos. **AU** Sinn, Hans-Werner; Westermann, Frank.

TI Why Has the Euro Been Falling? An Investigation into the Determinants of the Exchange Rate. **AU** Sinn, Hans-Werner; Westermann, Frank.

Whalley, John

TI Ownership and Use Taxes as Congestion Correcting Instruments. **AU** Chia, Ngee-Choon; Tsui, Albert K. C.; Whalley, John.

Whang, Yoon-Jae

TI Consistent Testing for Stochastic Dominance: A Subsampling Approach. **AU** Linton, Oliver; Maasoumi, Esfandiar; Whang, Yoon-Jae.

Whittaker, Hugh

PD March 2001. **TI** Crisis and Innovation in Japan: A New Future Through Techno- Entrepreneurship? **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP193; Publications Secretary, ESRC Centre for Business Research, University of Cambridge, Austin Robinson Building, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 40. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** O32, O53, P16. **KW** Asian Crisis. Japan. Political Economy. Transition.
AB This paper looks at the profound transitions Japan is currently experiencing, focusing on "techno-entrepreneurship" and ideological currents of nationalism and internationalism. After a brief examination of Japan's financial crisis, it focuses on manufacturing, both in large firms -- with a case study of electric-electronics giant Hitachi -- and small firms. It then looks at policy attempts to strengthen the science and technology base, and reforms to the bureaucracy itself. While rejecting some of the more simplistic "systemic failure" explanations of Japan's "lost decade", it argues that past success made incremental reform problematic, and conversely that multiple transitions have complicated subsequent attempts at reform. A reversion to learning from abroad (notably the US) and openness to inward investment mark a modification of "techno-nationalism", though not its disappearance.

Wieland, Volker

TI Data Uncertainty and the Role of Money as an Information Variable for Monetary Policy. **AU** Coenen, Gunter; Levin, Andrew; Wieland, Volker.

Williams, John C.

TI Measuring the Natural Rate of Interest. **AU** Laubach, Thomas; Williams, John C.

Williamson, Jeffrey G.

TI Demographic and Economic Pressure on Emigration Out of Africa. **AU** Hatton, Timothy J.; Williamson, Jeffrey G.

Willis, Jonathan L.

TI The Economics of Labor Adjustment: Mind the Gap.
AU Cooper, Russell; Willis, Jonathan L.

Winklemann, Rainer

TI Why Do Firms Train? Empirical Evidence on the First

Labor Market Outcomes of Graduate Apprentices. **AU** Euwals, Rob; Winklemann, Rainer.

Winter-Ebmer, Rudolf

PD April 2001. **TI** Evaluating an Innovative Redundancy-Retraining Project: The Austrian Steel Foundation. **AA** University of Linz and CEPR. **SR** CEPR Discussion Paper: 2776; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** I21, J53, J58, J65. **KW** Cost-Benefit Analysis. Evaluation. Instrumental Variables. Labor Market Programs.

AB This paper evaluates an Austrian manpower training program, which is highly innovative in its content and financing -- and could therefore serve as a role model for other programs. In the late 1980s privatization and downsizing of nationalized steel firms have led to large-scale redundancies. A special Steel Foundation was created as part of a social plan. This Foundation acted like an independent training center, where displaced workers would spend relatively long training periods (sometimes several years), obtaining personality and orientation training, as well as formal education. The last step of the integrative program was placement assistance as well as assistance for creating one's own business. In evaluating post-foundation economic performance this paper uses days worked and wage growth. As a control group the paper takes all other displaced workers from the firms who formed the Foundation, using instrumental variables to solve the selection problem. The results show considerable wage gains as well as improved employment prospects. Finally, a cost-benefit analysis is performed to assess the long-term success of the Foundation.

Wintrobe, Ronald

PD June 2001. **TI** Tax Evasion and Trust. **AA** University of Western Ontario. **SR** University of Western Ontario, Department of Economics Research Report: 2001/11; Research Report Coordinator, Economics Reference Center, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/econref/html/RRPaper.html. **PG** 17. **PR** International $10.00 (Canadian) plus $3.00 (Canadian) per order handling fee; pre-paid orders only; make checks payable to the University of Western Ontario. **JE** H26. **KW** Tax Evasion. Tax Compliance. Public Choice.

AB This paper takes a "public choice" approach to the problem of tax evasion. It assumes that people will be more willing to pay their taxes when they trust the government more. So tax evasion would be lower, ceteris paribus, the more responsive governments are to their citizens' wishes. Finally, since the level of tax evasion depends on the trust of citizens that other citizens pay their taxes, it follows that there are multiple equilibria, which can be broadly classified into two: 1) People assume that others are paying and so most of them also pay; 2) The opposite is true. This paper proposes four problems: 1) As long as people do not believe the government is responsive to their wishes, they will attempt to evade their taxes; 2) As long as people do not trust the government, they will be unwilling to pay their taxes; 3) If people believe the tax code is fair, they will be more willing to pay their taxes; 4) If people assume other people are trying to evade taxes, they will attempt to evade themselves.

Wolak, Frank A.

TI The Impact of Market Rules and Market Structure on the Price Determination Process in the England and Wales Electricity Market. **AU** Patrick, Robert H.; Wolak, Frank A.

Wolf, Charles, Jr.

PD 2000. **TI** Asian Economic Trends and Their Security Implications. **AU** Wolf, Charles, Jr..; Bamezai, Anil; Yeh, K. C.; Zycher, Benjamin. **AA** RAND Corporation. **SR** RAND Corporation Report: MR/1143/OSD/A; Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. **PG** 91. PR$15.00. **PR** Not Given. **JE** H56, O40, O53. **KW** Forecasting. National Security. Asia. Armed Forces. Appropriations and Expenditures.

AB This report considers the sharp economic reversals suffered in the Asian region in 1997 and 1998 and the marked but widely varying evidence of significant recovery among the different countries of the region. The report turns to the medium- and longer-term trends with respect to economic growth, military spending, and military investment in five countries in the greater Asian area: namely, Japan, China, India, South Korea, and Indonesia. Following the analysis of the longer-term economic and military trends, this report considers the security implications of these trends with respect to alternative security environments in the region, changes in the intraregional balance of military and economic power, and such other issues as prospects for multilateral security cooperation, support for forward-based U.S. Forces in the region, and alliance burden sharing. While acknowledging the major uncertainties inherent in these as well as other forecasts, this report uses the GDPs and accumulated stocks of military capital as rough proxies for the respective economic and political power of each of the five countries, thereby drawing several inferences from the estimates.

PD 2001. **TI** European Military Prospects, Economic Constraints, and the Rapid Reaction Force. **AU** Wolf, Charles, Jr..; Zycher, Benjamin. **AA** RAND Corporation. **SR** RAND Corporation Report: MR/1416/OSD/SRF; Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. **PG** 49. **PR** $15.00. **JE** H56, H61, O52. **KW** European Union. Economic Forecasting. National Security. Military Policy. Defenses.

AB This report analyzes the recent record of economic growth, military spending, and military investments in Germany, France, the United Kingdom, and Italy. The analysis provides a basis for estimating these countries' capacity to generate sufficient resources to enhance the military capabilities sought for the European Security and Defense Policy (ESDP) and its instrument, the Rapid Reaction Force (RRF). The study uses economic and military trends in these four countries over the 1985-1999 period to make corresponding forecasts for 2001 to 2010. It then compares these estimates with four independently derived estimates of the investment costs of the proposed ESDP/RRF force. The study formulates several options that would enable these countries, in conjunction with other non-NATO members of the European Union, to finance the investment costs associated with the ESDP/RRF. The authors conclude that the European Union, while it has the economic capacity to finance these costs, albeit with some delay in the original timetable, is less likely to acquire genuinely enhanced capabilities for the ESDP force than to continue to produce descriptive rhetoric about it.

TI China, the United States, and the Global Economy. AU Chen, Shuxun; Wolf, Charles, Jr..

PD October 1998. TI Economic Openness: Many Facets, Many Metrics. AU Wolf, Charles, Jr..; Levaux, Hugh; Tong, Daochi. AA RAND Corporation. SR RAND Corporation Report: DRU/1970/SRF; Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. PG 127. PR not available. JE F10, F13. KW International Economic Relations. Commercial Policy. International Trade. Econometrics.
AB The aim of this study is to develop and apply improved ways of analyzing and measuring economic "openness" in various countries and regional entities, with particular emphasis on non-tariff rather than tariff barriers to openness. The study assesses economic openness employing three different methods: 1) A microeconomic; 2) A micropolitical; 3) A macroeconomic method. Due to the character of the data, the study's statistical analysis focuses on means and medians, and non-parametric testing of their significance.

Wolff, Eric

TI Prices and Price Dispersion on the Web: Evidence from the Online Book Industry. AU Clay, Karen; Krishnan, Ramayya; Wolff, Eric.

Wolken, John

TI Firm, Owner, and Financing Characteristics: Differences Between Female- and Male-Owned Small Businesses. AU Robb, Alicia; Wolken, John.

Woodford, Michael

TI Indicator Variables for Optimal Policy under Asymmetric Information. AU Svensson, Lars E. O.; Woodford, Michael.

Woutersen, Tiemen

TI The Singularity of the Efficient Bound of the Mixed Proportional Hazard Model. AU Ridder, Geert; Woutersen, Tiemen.

PD December 2001. TI Robustness Against Incidental Parameters and Mixing Distributions. AA University of Western Ontario. SR University of Western Ontario, Department of Economics Research Report: 2001/10; Research Report Coordinator, Economics Reference Center, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/econref/html/RRPaper.html. PG 29. PR International $10.00 (Canadian) plus $3.00 (Canadian) per order handling fee; pre-paid orders only; make checks payable to the University of Western Ontario. JE C23, C25, C35. KW Incidental Parameters. Predetermined Variables. Panel Data.
AB Neyman and Scott (1948) define the incidental parameter problem (IPP). In panel data with T observations per individual and unobservable individual-specific effects, the inconsistency of the MLE of the common parameters is in general of the order 1/T. This paper considers the integrated likelihood estimator (ILE) and develops the integrated moment estimator. It shows that the inconsistency of the ILE reduces from 1/T to 1/T2 if an information orthogonal parametrization is used. It derives information orthogonal moment functions for the general linear model and the index model with weakly exogenous regressors and thereby offers an approximate solution for the IPP for a wide range of models. It argues that reparametrizations are easier in a Bayesian framework and shows how to use the 1/T2-result to increase the robustness against the choice of mixing distribution. The ILE is consistent and adaptive for asymptotics in which T proportional to N to the power alpha where alpha is larger than 1/3. The paper also shows that likelihood methods that use sufficient statistics for the individual-specific effects can be viewed as a special case of the ILE.

Wright, Randall

TI Crime, Inequality, and Unemployment. AU Burdett, Kenneth; Lagos, Ricardo; Wright, Randall.

TI Price Setting, Price Dispersion, and the Value of Money -- or, the Law of Two Prices. AU Curtis, Elisabeth; Wright, Randall.

TI Unstable Relationships. AU Burdett, Kenneth; Imai, Ryoichi; Wright, Randall.

TI Search, Money and Capital: A Neoclassical Dichotomy. AU Aruoba, S. Boragan; Wright, Randall.

TI A Unified Framework for Monetary Theory and Policy Analysis. AU Lagos, Ricardo; Wright, Randall.

TI Dynamics, Cycles and Sunspot Equilibria in "Genuinely Dynamic, Fundamentally Disaggregative" Models of Money. AU Lagos, Ricardo; Wright, Randall.

TI A Simple Search Model of Money with Heterogeneous Agents and Partial Acceptability. AU Shevchenko, Andrei; Wright, Randall.

TI Search-Theoretic Models of the Labor Market: A Survey. AU Rogerson, Richard; Wright, Randall.

Yeh, K. C.

TI Asian Economic Trends and Their Security Implications. AU Wolf, Charles, Jr..; Bamezai, Anil; Yeh, K. C.; Zycher, Benjamin.

Yosha, Oved

TI Monetary Policy in an Open Economy: The Differential Impact on Exporting and Non-Exporting Firms. AU Ber, Hedva; Blass, Asher; Yosha, Oved.

Zechner, Josef

TI The Geography of Equity Listing: Why Do Companies List Abroad? AU Pagano, Marco; Roell, Ailsa A.; Zechner, Josef.

TI What Makes Stock Exchanges Succeed? Evidence from Cross-Listing Decisions. AU Pagano, Marco; Randl, Otto; Roell, Ailsa A.; Zechner, Josef.

Zenou, Yves

TI Job Matching, Social Network and Word-of-Mouth Communication. AU Calvo Armengol, Antoni; Zenou, Yves.

Ziegler, Alexandre

PD March 2002. TI When are Retail Stores Preferable to Auctions? AA University of Lausanne. SR Universite de Lausanne, Cahiers de Recherches Economiques: 02/03; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/deep/publications/cahiers.htm. **PG** 22. **PR** no charge. **JE** D40, D44. **KW** Retail Stores. Auctions. Optimal Selling Institution.

AB Although auctions have many desirable properties, they have two undesirable features from buyers' perspective: Auctions impose waiting costs on buyers, which lead to "false trading". Sometimes, buyers pass up other valuable opportunities while waiting for the results of the auction. Other times, buyers make undesired duplicate purchases. As a result, the seller will prefer running a retail store, where the seller commits to sell at a given price, to running an auction. We show that stores are optimal if the good is perishable and/or becomes obsolete quickly. Stores are also preferred when the market is thin and when alternatives for the good being sold are easy to find. Auctions are preferred when the good is storable, when it does not become obsolete too quickly, when the market is thick and when no substitutes are available for the good being sold. These predictions are consistent with a number of observed phenomena.

Zilcha, Itzhak

TI Human Capital and Cross-Country Comparison of Inequality. **AU** Viaene, Jean-Marie; Zilcha, Itzhak.

Zingales, Luigi

TI The Influence of the Financial Revolution on the Nature of Firms. **AU** Rajan, Raghuram G.; Zingales, Luigi.

TI The Great Reversals: The Politics of Financial Development in the 20th Century. **AU** Rajan, Raghuram G.; Zingales, Luigi.

Zycher, Benjamin

TI Asian Economic Trends and Their Security Implications. **AU** Wolf, Charles, Jr..; Bamezai, Anil; Yeh, K. C.; Zycher, Benjamin.

TI European Military Prospects, Economic Constraints, and the Rapid Reaction Force. **AU** Wolf, Charles, Jr..; Zycher, Benjamin.