ABSTRACTS OF WORKING PAPERS IN ECONOMICS

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Aasness, Jorgen

PD December 1995. **TI** The Norwegian Microsimulation Model LOTTE: Applications to Personal and Corporate Taxes and Social Security Benefits. **AU** Aasness, Jorgen; Fjaerli, Erik; Gravningsmyhr, Hanne A.; Holmoy, Ann Marit; Lian, Bard. **AA** Statistics Norway. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9533; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 40. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C81, D31, H24. **KW** Tax. Social Security. Simulation. Norway.
AB This paper gives an outline of the Norwegian microsimulation model LOTTE. LOTTE is a system of models used by Statistics Norway for analysis of personal and corporate taxes and social security benefits. The different models are described, and it is explained how they are linked together to give an extensive, detailed model of the Norwegian tax and security system.

Abbring, Jaap H.

PD June 1995. **TI** The Anatomy of Unemployment Dynamics. **AU** Abbring, Jaap H.; van den Berg, Gerard J.; van Ours, Jan C. **AA** Abbring: University of Amsterdam. van den Berg: Free University of Amsterdam. van Ours: Tinbergen Institute. **SR** Centre for Economic Policy Research, Discussion Paper: 1202; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 52. **PR** 4 pounds or $8.00. **JE** C41, E32, J64. **KW** Unemployment. Duration. Business Cycles. Dependence. Seasonality.
AB This paper examines the relation between individual unemployment durations and incidence on the one hand, and the time-varying macroeconomic conditions in the economy on the other. We allow for calendar time effects acting on the exit probabilities for all currently unemployed. We also allow for the composition of the inflow into unemployment to depend on calendar time at the moment of inflow. In both cases we distinguish between business cycle effects and seasonal effects. We apply the model to aggregate unemployment duration data, in which we allow for unobserved heterogeneity and correlated measurement errors. We do not make parametric assumptions on the genuine duration dependence pattern or the unobserved heterogeneity distribution. The results enable us to give a complete decomposition of the dynamics of unemployment over calendar time. This is also used to test the popular ranking model of unemployment.

Abel, Andrew B.

PD August 1995. **TI** Options, the Value of Capital, and Investment. **AU** Abel, Andrew B.; Dixit, Avinash K.; Eberly, Janice C.; Pindyck, Robert. **AA** Abel: University of Pennsylvania and National Bureau of Economic Research. Dixit: Princeton University. Eberly and Pindyck: Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5227; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 34. **PR** $5.00. **JE** D24, L23, E22, D81. **KW** Options. Investment. Q Theory.
AB Capital investment decisions must recognize the limitations on the firm's ability to sell off or expand capacity. This paper shows how opportunities for future expansion or contraction can be valued as options, how this valuation relates to the q-theory of investment, and how these options affect the incentive to invest. Generally, the option to expand reduces the incentive to invest, while the option to disinvest raises it. We show how these options interact to determine the effect of uncertainty on investment, how these options values change in response to shifts of the distribution of future profitability, and how the q-theory and option pricing approaches to investment are related.

Abowd, John

PD September 1995. **TI** Product Quality and Worker Quality. **AU** Abowd, John; Kramarz, Francis; Moreau, Antoine. **AA** Abowd: Cornell University. Kramarz: CREST-INSEE. Moreau: INSEE. **SR** Centre for Economic Policy Research, Discussion Paper: 1233; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 40. **PR** 4 pounds or $8.00. **JE** J30, L15. **KW** Wages. Product Quality. Worker Quality.
AB We study the relation between product quality and worker quality using an economic model that, under certain conditions, provides a direct link between product price, product quality and work-force quality. Our measures of product quality are the evolution in the detailed product price relative to its product group, and the level of the product price relative to this group. Our worker quality measures are the firm's average person effect and personal characteristics effect from individual wage rates. We find a very weak, generally positive, relation between worker quality and product quality using detailed firm-level data from the French Producer Price Index surveys.

Acemoglu, Daron

PD February 1995. **TI** Was Prometheus Unbound by Chance? Risk, Diversification and Growth. **AU** Acemoglu, Daron; Zilibotti, Fabrizio. **AA** Acemoglu: Massachusetts

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Institute of Technology. Zilibotti: Universitat Pompeu Fabra. SR Massachusetts Institute of Technology, Department of Economics Working Paper: 95/12; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. PG 37. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE O16, O41. KW Development. Diversification. Growth. Risk Aversion.
AB This paper offers a theory of development which links the degree of market incompleteness to capital accumulation and growth. At early stages of development, the presence of indivisible projects limits the degree of risk-spreading (diversification) that the economy can achieve. The desire to avoid highly risky investments slows down capital accumulation and the inability to diversify all the idiosyncratic risks introduces high uncertainty in the growth process. As a result of these forces, the typical development pattern of a society will consist of a lengthy period of "primitive accumulation" followed by take-off and financial deepening and finally, steady growth. "Lucky" countries will spend relatively less time in the primitive accumulation stage while with sufficiently risk-averse agents, economies that receive a series of unlucky draws may be locked into underdevelopment. Finally, it is shown that the results generalize to an open economy and that capital flows may increase or reduce the rate of industrialization.

PD February 1996. TI Matching, Heterogeneity and the Evolution of Income Distribution. AA Massachusetts Institute of Technology. SR Centre for Economic Policy Research, Discussion Paper: 1345; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 48. PR 4 pounds or $8.00. JE D31, J41. KW Search. Matching. Mismatch. Human Capital. Wage Inequality.
AB This paper presents a model in which firms and workers must engage in costly search to find a production partner. In this setting the skill, job and wage distributions and their evolutions are endogenized. The presence of search frictions implies that there are two redistributive forces in the labor market. The first is mismatch relative to the Walrasian economy; skilled workers tend to work with lower physical to human capital ratios, thus the gap between skilled and unskilled workers is compressed. The second is the opportunity cost effect; because the opportunity cost of accepting an unskilled worker is higher for firms, and unskilled wages are pushed down. These forces lead to a non-ergodic equilibrium process for wage and income inequality. The model also predicts that increasing wage inequality is more likely to arise in economies with less frictional labor markets, less redistributive taxation and less public schooling. These predictions are in line with the diverse cross-country patterns that we observe. Finally, the paper predicts that, as is largely the case in the US data, between-group and within-group wage inequality should move in the same direction.

Aghion, Philippe
PD June 1994. TI Formal and Real Authority in Organizations. AU Aghion, Philippe; Tirole, Jean. AA Aghion: Oxford University and EBRD, London. Tirole: IDEI, CERAS, and Massachusetts Institute of Technology. SR Massachusetts Institute of Technology, Department of Economics Working Paper: 95/8; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. PG 28. PR $7.00 U.S., Canada, Mexico;

$10.00 other international. JE L21, L22. KW Authority. Initiative. Information. Communication. Integration.
AB The paper develops a theory of the separation between formal authority (the right to decide) and real authority (the effective control over decisions), and illustrates how a formally integrated structure can accommodate various degrees of "real" integration. Real authority is determined by the structure of information, which in turn depends on the allocation of formal authority. An increase in an agent's real authority promotes initiative but results in a loss of control for the principal. After showing that firm boundaries and information structures are intertwined, the paper examines a number of factors that increase the subordinates' real authority in an integrated structure: overload, lenient rules, urgency of decision, reputation, performance measurement, and multiplicity of superiors.

Aiginger, Karl
PD May 1995. TI East European Trade and the Austrian Labour Market. AU Aiginger, Karl; Winter-Ebmer, Rudolf; Zweimuller, Josef. AA University of Linz. SR Centre for Economic Policy Research, Discussion Paper: 1168; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 32. PR 4 pounds or $8.00. JE F14, J23, J31, J64. KW Trade. Unemployment. Wage Growth.
AB Recent years have seen a major structural break in trade relations between West European countries and the former Eastern bloc. Austria experienced a disproportionately large bilateral trade creation with these countries. In this paper we take a closer look at the impact this trade growth has had on the Austrian labor market. To differentiate as far as possible between different segments of the labor market, we concentrate on unemployment experience and wage growth for a panel of individual workers in Austrian industry. The results show rather small employment effects, the impact on wage growth is more pronounced with interesting modifications for mobile and immobile workers.

Aiyagari, S. Rao
PD August 1995. TI Transaction Services, Inflation and Welfare. AU Aiyagari, S. Rao; Braun, Toni; Eckstein, Zvi. AA Eckstein: Boston University and Tel-Aviv University. Aiyagari and Braun: The Federal Reserve Bank of Minneapolis. SR Tel Aviv Sackler Institute of Economic Studies Working Paper: 27/95; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. PG 44. PR no charge. JE E31, E41, E63. KW Credit. Money. Inflation. Transaction Costs. Welfare Cost.
AB In many countries which have experienced very high inflations the relative size of the banking and credit sector has followed the path of inflation - increasing as inflation accelerates and declining once inflation subsides. These variations in the size of the banking and credit sector reflect changes in the flow of transaction services provided by this sector. These services enable people to economize on cash balances and are a waste. We develop a monetary growth model with a banking and credit sector which formalizes this view and show that it is consistent with observations relating to the size of the banking and credit sector and its comovements with inflation and velocity. Our model is remarkably consistent with independent measures of the costs associated with transaction services in the United States which we find to be about 0.5

percent of GNP. Our model is also consistent with observations from countries which have experienced very high inflations that the relative size of the banking and credit sector (and, hence, the misallocation cost of inflation) remains below a few percent of GNP. We then use the model to calculate the welfare cost of inflation. We find that at low to moderate inflation rates the inflation tax component of the welfare cost is two to three times the misallocation cost. At high inflation rates the inflation tax component is about the same size as the misallocation cost, also remains bounded. This has two implications. First, at low to moderate inflation rates Lucas's (1993) analysis, which focuses only on misallocation, will underestimate the overall welfare cost of inflation significantly. Second, at high inflation rates Cooley and Hansen's (1989, 1991) analysis, in which the inflation tax distortion is unbounded, will significantly overestimate the welfare cost of inflation.

Aizenman, Joshua

PD August 1995. **TI** Capital Markets Integration, Volatility and Persistence. **AA** Dartmouth University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5241; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 18. **PR** $5.00. **JE** F21, F32, F41, D61. **KW** Welfare. Global Capital.

AB This paper shows that volatility induces adverse first order welfare effects in countries excluded from the global capital market. This result is illustrated in a model characterized by gains from a greater division of activities, where shocks are persistent. We show that non- linearities attributed to financial autarky explain the adverse welfare effects of volatility. We identify the parameters determining the magnitude of the loss - it is proportional to the autocorrelation of shocks, to volatility (as measured by the standard deviation of shocks), and to the degree of product differentiation (as measured by the substitutability among intermediate products).

Aldrich, John

PD February 1996. **TI** The Course of Marshall's Theorising About Demand. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9606; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 68. **PR** no charge. **JE** B13, B21, B31. **KW** Marshall. Jevons. Hicks. Value. Consumers' Surplus.

AB This paper tries to identify the objectives of Marshall's theorizing about demand and to trace the evolution of his ideas from c.1870 to the end of his career.

Alesina, Alberto

PD August 1995. **TI** Fiscal Expansion and Fiscal Adjustments in OECD Countries. **AU** Alesina, Alberto; Perotti, Roberto. **AA** Alesina: Harvard University and National Bureau of Economic Research. Perotti: Columbia University. **SR** National Bureau of Economic Research Working Paper: 5214; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** Not Available. **PR** $5.00. **JE** E62, D78, E65, O52. **KW** Fiscal Policy. Europe. Political Economy.

AB This paper considers budget expansions and adjustments in OECD countries in the last three decades. Our main results

are: i) on average fiscal expansions are the results of increases in expenditures, particularly of transfer programs, while contractions are typically due to tax increases; ii) however successful (i.e., long lasting), a minority of the total rely primarily on reduction of government wages and employment and cuts in transfer programs; iii) even major successful fiscal adjustments do not seem to have recessionary consequences, on average; iv) different types of governments show different degrees of success at implementing successful fiscal adjustment, with coalition governments showing the worst performance.

Anderlini, Luca

PD March 1996. **TI** Learning on a Torus. **AU** Anderlini, Luca; Ianni, Antonella. **AA** Anderlini: St. John's College. Ianni: University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9611; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 27. **PR** no charge. **JE** C63, C72. **KW** Local Interaction. Aspirations. Learning. Coordination Games. Path Dependence.

AB We investigate the behavior of some locally interactive learning systems for a finite population of players. We assume that each player is matched with high neighboring players to play a Coordination Game. Players adopt boundedly rational rules of behavior and update their strategy choices with inertia. Learning and experimentation are entirely motivated by payoff considerations. We analyze the asymptotic properties of the aggregate system and we prove convergence to absorbing states, which we characterized. We report the results of some simulations carried out a Cellular Automation hardware board that simulates a Torus of size 256 by 256 at a speed of 60 frames per second.

Anderson, Kym

PD March 1995. **TI** The Entwining of Trade Policy with Environmental and Labour Standards. **AA** University of Adelaide. **SR** Centre for Economic Policy Research, Discussion Paper: 1158; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** K33, O19, Q28, Q38. **KW** Environmental Standards. Labor Standards. Trade Policy. Tariffs.

AB While environmental and labor issues are not new to the GATT, nor to other trade policy forums, they are likely to have a more prominent role in trade policy discussions in the years ahead for the newly formed World Trade Organization (WTO). Many developing countries perceive the entwining of these social issues with trade policy as a threat to both their sovereignty and their economies, while significant groups in advanced economies consider it unfair, ecologically unsound, even immoral, to trade with countries adopting much lower standards than their own. This paper examines why these issues are becoming more prominent, whether the WTO is an appropriate forum to discuss them, and how they affect developing and other economies. It concludes that: (a) the direct effect on developing economies is likely to be small and for some may even be positive through improved terms of trade and/or compensatory transfer payments; but (b) there is an important indirect negative effect on them and other economies, namely the potential erosion of the rules-based multilateral

trading system that would result from an over-use of trade measures to pursue environmental or labor market objectives.

Anderson, Patricia M.

AB In this paper we theoretically and empirically examine the common, but previously unexamined, case of a firm-varying tax which is used to finance a fringe benefit. While we use data from the experience-rated unemployment insurance (UI) system, it is important to realize that differential treatment of firms (such as special considerations for small business) under mandated benefits laws leads to costs which vary across firms and are analogous to experience-rated taxes. We present a theoretical model which highlights the importance of considering this variation in taxes or costs both within and across markets. We examine annual changes in either firm average earnings and employment or individual worker earnings at the same firm. This method removes unmeasured firm and worker characteristics, and thus avoids the omitted variable bias that has plagued past work on incidence and compensating differentials. Our results suggest that most of the market level tax is borne by the worker.

Anderson, Simon P.

AB We introduce a framework that has known models of oligopolistic competition with differentiated products (the circle and the constant elasticity of substitution (CES)) as limit cases. This integrative approach incorporates both localized and global competition, as well as price-sensitive individual demands. It is used to consider the qualitative impact of major changes over the last two centuries: reduction in transport costs, increased taste for variety, population growth, and use of technologies with greater returns to scale. We work out the properties of an extended Chamberlinian model that should be useful both in industrial organization and urban economics.

Andrade, I. C.

AB In this paper we test for the existence of stochastic seasonality in the daily stock market returns of the U.S. and UK. We develop tests for seasonal unit roots for daily data by extending the methodology of Hylleberg et al (1990) and Osborn (1990), and apply our tests to UK and U.S. daily stock market returns. We also investigate a suggestion by Franses and Romijn (1993) and create a price series for each day of the week and test for cointegration amongst these series. Finally, we employ Harvey's (1993) basic structural model to test for the presence of stationary stochastic seasonality. Our results suggest that we can reject the existence of seasonal unit roots at the daily frequency in both of these stock market indices, however we do find evidence of stationary stochastic seasonality.

Angrist, Joshua D.

AB This paper offers a first look at micro data from the Labor Force Surveys conducted in the West Bank and the Gaza Strip between 1981 and 1991. The data provide evidence of major changes in the wage distribution of workers from the West Bank and Gaza in the 1980's. One of the most important changes is that between 1981-87 wage differences between schooling groups fell by well over one-half. This sharp reduction in wage differentials by schooling group is associated with large increases in the size of the educated labor force. At the same time, the returns to schooling for Israeli Jews were stable. The decline in returns to schooling for Palestinians is also apparent in panel data. These results are consistent with the notion that the returns to schooling in the territories were determined largely by the forces of supply and demand in a segmented market for skilled labor.

AB Palestinian residents of the West Bank and Gaza Strip have the option of working in Israel. Wages paid residents of the territories who are employed in Israel are generally higher than wages paid in the territories, but the Israel wage premium is highly volatile. Beginning in late 1987 with the Palestinian uprising, changes in wage differentials by work location roughly parallel the pattern of Palestinian absences from work in Israel. This paper discusses aspects of the demand for Palestinian labor and explores the possibility that recent changes in relative wages by work location are explained by movements along an Israeli demand curve for migrant workers.

A model of the labor markets in the West Bank and Gaza Strip is used to estimate elasticities of demand and to evaluate the possible economic impact of changes in policies governing Palestinian access to the Israeli labor market.

PD July 1995. **TI** Using Social Security Data on Military Applicants to Estimate the Effect of Voluntary Military Service on Earnings. **AA** Hebrew University of Jerusalem and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5192; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 37. **PR** $5.00. **JE** J24, J31, J45, J15. **KW** Military Service. Wages. Race.
AB This study uses Social Security data on the earnings of military applicants to the all-volunteer forces to compare the earnings of Armed Forces veterans with the earnings of military applicants who did not enlist. Matching, regression, and Instrumental Variables (IV) estimates are presented. The matching and regression estimates control for most of the characteristics used by the military to select qualified applicants from the military applicant pool. The IV estimates exploit an error in the scoring of exams used by the military to screen applicants between 1976 and 1980. All the estimates suggest that soldiers who served in the early 1980's were paid considerably more than comparable civilians while in the military. Military service also appears to have led to a modest (less than 10 percent) increase in the civilian earnings of nonwhite veterans while actually reducing the civilian earnings of white veterans. Most of the positive effects of military service on civilian earnings appear to be attributable to improved employment prospects for veterans.

Archer, Wayne
PD July 1995. **TI** The Effect of Income and Collateral Constraints on Residential Mortgage Terminations. **AU** Archer, Wayne; Ling, David C.; McGill, Gary A. **AA** University of Florida. **SR** National Bureau of Economic Research Working Paper: 5180; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 26. **PR** $5.00. **JE** G13, R13, R21, D12. **KW** Housing. Options. Collateral. Constraints.
AB The prepayment behavior of home mortgage borrowers has been widely observed to be inconsistent with behavior implied by classical option theory. A substantial literature has emerged examining the problem, focusing on the characteristics of the mortgage and on the historic path of interest rates in attempting to explain the anomaly. This paper offers contributions to the literature in three respects. First, it explores the influence of household level characteristics upon prepayment behavior, using both householder characteristics and collateral (house) value. Second, it empirically recognizes important interactions between the status of the prepayment option and the influence of income and collateral constraints upon prepayment behavior. Third, it uses a major source of data that has not previously been used in examining the prepayment anomaly: the American Housing Survey. Among the findings are the following: when the household is either collateral constrained or income constrained, or the option is likely to be out of the money, the influence of the option value upon prepayment behavior is less by half. When the status of the option and the influence of potential household constraints are more appropriately recognized, these factors account for nearly all explanatory power otherwise attributable to household demographic characteristics.

Armstrong, Mark
PD April 1996. **TI** Network Interconnection. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9625; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 27. **PR** no charge. **JE** D43, L13, L51, L96. **KW** Access Pricing. Interconnection. Networks. Telecommunications. Post.
AB This paper discusses network interconnection for industries such as telecommunications and post. The setting is one in which networks each have their own customers, and must interconnect with other networks to provide a comprehensive service. Two cases are considered: one where networks have their own captive customers and the other where networks compete directly for the same population of customers. In either case, if firms set their own interconnection charges non-cooperatively, equilibrium charges will be too high from both the firms' and customers' points of view. In the case with captive customers, if firms set charges cooperatively (and cross-network traffic is symmetric) then they agree that charges should be set equal to marginal cost. With direct competition, provided there is sufficient product differentiation firms agree to set charges above associated costs in order to obtain the joint profit-maximizing outcome. Finally, the case of a dominant, regulated firm is discussed.

Artis, M. J.
PD August 1995. **TI** International Business Cycles and the ERM: Is there a European Business Cycle? **AU** Artis, M. J.; Zhang, W. **AA** European University Institute. **SR** Centre for Economic Policy Research, Discussion Paper: 1191; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 40. **PR** 4 pounds or $8.00. **JE** E32, F36, F42. **KW** Business Cycles. Foreign Exchange. Mechanism.
AB Successful fixed exchange rate systems impose policy disciplines which are likely to lead to conformity in the business cycles of the participating countries. This conjecture is borne out in the present paper by the evidence adduced in it that the business cycle affiliation of Exchange Rate Mechanism (ERM) member countries has shifted from the United States to Germany since the formation of the ERM. This effect is bolstered by growing links in trade and finance between the European countries. The United Kingdom is conspicuous among these in that its business cycle affiliation did not change.

Atkinson, A. B.
PD November 1995. **TI** Income Distribution in European Countries. **AU** Atkinson, A. B.; Rainwater, L.; Smeeding, T. **AA** Atkinson: Nuffield College. Rainwater: Harvard University. Smeeding: Syracuse University. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9535; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 36. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** D31, O52. **KW** Income Distribution. Europe. Inequality.
AB This paper assembles empirical evidence about the personal distribution of income, and the trends in income inequality over time, in the countries of Europe in the 1980's. It covers fifteen European countries, and the United States is

included as a point of reference. It draws on data both from the Luxembourg Income Study and from national studies. The findings suggest that certain groupings may be made, with Scandinavia, the Benelux countries and West Germany having distinctly less inequality in disposable equivalent income. Evidence about the changes over time show that we can no longer assume that European countries are on the downward part of the Kuznets curve, although there is little uniformity to the observed trends. The rise in inequality has been sharpest in the United Kingdom, the United States and Sweden.

Audretsch, David B.

PD April 1995. **TI** Innovative Clusters and the Industry Life Cycle. **AU** Audretsch, David B.; Feldman, Maryann P. **AA** Audretsch: Wissenschaftzentrum Berlin fur Sozialforschung. Feldman: Carnegie-Mellon University. **SR** Centre for Economic Policy Research, Discussion Paper: 1161; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** L11, L22, O31. **KW** Innovation. Geography. Life Cycle.
AB The purpose of this paper is to link the propensity for innovative activity to cluster spatially to the stage of the industry life cycle. The theory of knowledge spillovers, based on the knowledge production function for innovative activity, suggests that geographic proximity matters most in industries where tacit knowledge plays an important role in the generation of innovative activity. According to the emerging literature on the industry life cycle, tacit knowledge plays the most important role during the early stages of the industry life cycle. Based on a data base that identifies innovative activity for individual states and specific industries in the United States, the empirical evidence suggests that the propensity for innovative activity to concentrate geographically is shaped by the stage of the industry life cycle. The generation of new economic knowledge tends to result in a greater propensity for innovative activity to cluster during the early stages of the industry life cycle, and to be more highly dispersed during the mature and declining stages of the life cycle, particularly after controlling for the extent to which the location of production is geographically concentrated.

PD April 1995. **TI** Sub-Optimal Scale Firms and Compensating Factor Differentials in Dutch Manufacturing. **AU** Audretsch, David B.; Menkveld, Bert J.; Thurik, Roy; van Leeuwen, George. **AA** Audretsch: Wissenschaftzentrum Berlin fur Sozialforschung. Menkveld and Thurik: Erasmus University. van Leeuwen: Statistics Netherlands. **SR** Centre for Economic Policy Research, Discussion Paper: 1162; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** L11. O31., L22. **KW** Firm Size. Wages. Productivity.
AB The purpose of this paper is to shed some light on why so many smaller-scale firms which have traditionally been classified as sub- optimal scale firms can exist. We suggest that by pursuing a strategy of compensating factor differentials, that is by remunerating and deploying factors of production differently to their larger counterparts, small enterprises are able to compensate for size- inherent cost disadvantages. Based on a sample of over 7000 Dutch manufacturing firms, we find considerable evidence that such a strategy of compensating factor differentials is pursued within a European context. When viewed through a static lens, the existence of such a strategy,

while making small and sub-optimal scale enterprises viable, suggests that they impose a net welfare loss on the economy. When viewed through a dynamic lens, however, the findings of a positive relationship between firm age and employee compensation as well as firm age and firm productivity suggest that there may be at least a tendency for the inefficient firm of today to become the efficient firm of tomorrow.

Auerbach, Alan J.

PD July 1995. **TI** Taxation and Corporate Investment: The Impact of the 1991 Swedish Tax Reform. **AU** Auerbach, Alan J.; Hassett, Kevin A.; Sodersten, Jan. **AA** Auerbach: University of California, Berkeley and National Bureau of Economic Research. Hassett: Board of Governors of the Federal Reserve System. Sodersten: Uppsala University. **SR** National Bureau of Economic Research Working Paper: 5189; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 26. **PR** $5.00. **JE** H25, E22, E62. **KW** Sweden. Tax Reform. Investment. Capital.
AB In 1990, the government of Sweden introduced a major tax reform to take effect in 1991. The Swedish system prior to the legislation was so complex that the size and magnitude of the likely effects of the reform on incentives to invest were unknown. In this paper, we draw on Sodersten (1989) and Auerbach and Hassett (1992) derive an expression for the user cost of capital that captures the essential features of the Swedish tax code both before and after the reform. We estimate the model for investment in equipment and find that the responsiveness of Swedish firms to the user cost is quite similar to that found for the U.S. Finally, we employ our model and estimates to assess the effects of the 1991 reform. We find that the impact of the reform on investment is likely to have been minor and had little to do with the contemporaneous sharp drop in investment.

Bai, Jushan

PD August 1995. **TI** Estimating Multiple Breaks One at a Time. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 95/18; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. **PG** 23. **PR** $7.00 U.S., Canada, Mexico; $10.00 other international. **JE** C13, C22. **KW** Multiple Breaks. Sequential Estimation. T Consistency. Limiting Distribution. Repartition Method.
AB Sequential (one by one) rather than simultaneous estimation of multiple breaks is investigated in this paper. The advantage of this method lies in its significant computational savings. The number of least squares required to compute all of the break points is of order T, the sample size. Each estimated break point is shown to be consistent for one of the true ones despite under-specification of the number of breaks. More interestingly and somewhat surprisingly, the estimated break points are shown to be T consistent, the same as the simultaneous estimation, however, the limiting distributions are generally not symmetric, and are influenced by regression parameters of all regimes. A simple method is introduced to obtain break point estimators having the same limiting distributions as those obtained via simultaneous estimation. Finally, a procedure is proposed to consistently estimate the number of breaks.

PD September 1995. **TI** Estimating and Testing Linear

Models with Multiple Structural Changes. **AU** Bai, Jushan; Perron, Pierre. **AA** Bai: Massachusetts Institute of Technology. Perron: Universite de Montreal. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 95/17; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. **PG** 31. **PR** $7.00 U.S., Canada, Mexico; $10.00 other international. **JE** C22, C52. **KW** Asymptotic Distribution. Change Point. Convergence. Model Selection. Dynamic Programming.
AB This paper considers issues related to multiple structural changes, occurring at unknown dates, in the linear regression model estimated by least squares. The main aspects are the properties of the estimators, including the estimates of the break dates, and the construction of tests that allow inference to be made about the presence of structural change and the number of breaks. Considered are the general case of a partial structural change model where not all parameters are subject to shifts. This paper shows convergence at rate T of the estimates of the break fractions. Also discussed is a procedure that allows one to test the null hypothesis of, say, q changes, versus the alternative hypothesis of q+1 changes. This is particularly useful in that is allows a specific to general modeling strategy to consistently determine the appropriate number of changes present. An estimation strategy for which the location of the breaks need not be simultaneously determined is discussed. Instead, our method successively estimates each break point. Empirical applications are presented to illustrate the usefulness of the various procedures.

Baldwin, Richard E.

PD December 1995. **TI** Investment Creation and Investment Diversion: Simulation Analysis of the Single Market Programme. **AU** Baldwin, Richard E.; Forslid, Rikard; Haaland, Jan I. **AA** Baldwin: Graduate Institute of International Studies. Forslid: University of Lund. Haaland: Norwegian School of Economics and Business Administration. **SR** Centre for Economic Policy Research, Discussion Paper: 1308; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 41. **PR** 4 pounds or $8.00. **JE** F12, F15, F17, F43. **KW** Investment Creation. Investment Diversion. Single Market.
AB This paper studies the investment creation and investment diversion effects of the EU's Single Market program (EU92). We find suggestive, but not conclusive, evidence indicating that EU92 may have led to investment diversion in the economies of the European Free Trade Association (EFTA) and investment creation in the EU economies. We argue that a simple mechanism, based on the derived demand for capital, can account for this. Discriminatory liberalization shifts production from excluded countries to the integrating region. Since EU92 focused on tradable sectors and these are capital intensive, the production shifting raises the rental rate in the integrating regions, lowering it elsewhere. This leads to investment creation and diversion. Results from our simulations show that investment diversion does occur for the EFTA6 (namely, the EFTA6 steady-state capital stock drops by two-thirds of a percent) when the EU's liberalization (EU92) involves market integration in addition to real trade cost reduction. When EU92 is extended to include the EFTA6, EFTA6 capital stocks rise by almost 5%. In terms of real income, the difference between the EFTA6-included and

EFTA6- excluded cases is quite large for the EFTA members, amounting to 5.5% of GDP. In all cases, the EU experiences investment creation (equal to approximately one-fifth of a percent of their initial capital stock) and real income gains (equal to 1.75% of GDP). The effects on the United States and Japan are trivially small, but mostly negative in terms of capital stocks and real income.

PD February 1996. **TI** Testing for Trade-Induced Investment-Led Growth. **AU** Baldwin, Richard E.; Seghezza, Elena. **AA** Graduate Institute of International Studies. **SR** Centre for Economic Policy Research, Discussion Paper: 1331; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 40. **PR** 4 pounds or $8.00. **JE** F11, F43. **KW** Trade. Growth. Investment-Led Growth.
AB Many studies have found a positive correlation between trade and growth, but do not attempt to identify the economic mechanisms involved. This paper attempts to identify one of the mechanisms linking trade and growth. In particular, we present a novel theoretical model that establishes a link between trade liberalization and investment-led growth. Estimating equations are derived from the model and estimated with three-stage least squares on a cross-country data sample. We find that domestic protection depresses investment and thereby slows growth. Foreign trade barriers also lower domestic investment, but the anti- investment effect is weaker and is less robust to sample and specification changes.

Ball, Laurence

PD September 1995. **TI** What Do Budgets Deficits Do? **AU** Ball, Laurence; Mankiw, N. Gregory. **AA** Ball: Johns Hopkins University. Mankiw: Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5263; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 34. **PR** $5.00. **JE** H62, H63, E62. **KW** Budget Deficits. Capital. Debt.
AB This paper discusses the effects of budget deficits on the economy in four steps. First, it reviews standard theory about how budget deficits influence saving, investment, the trade balance, interest rates, exchange rates, and long-term growth. Second, it offers a rough estimate of the magnitude of some of the effects. Third, it discusses how budget deficits affect economic welfare. Finally, it considers the possibility that continuing budget deficits in a country could lead to a "hard landing" in which the demand for the country's assets suddenly collapses.

Barker, Kit

PD April 1996. **TI** Contracting in the NHS Legal and Economic Issues. **AU** Barker, Kit; Chalkley, Martin; Malcomson, James; Montgomery, Jonathan. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9622; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 15. **PR** no charge. **JE** I11, I18. **KW** NHS Contracts. Service Quality.
AB A key issue in contracting for health services is how to ensure providers deliver appropriate standards of treatment while keeping costs down. This paper first considers the legal constraints on NHS contracts that arise out of the provisions of the National Health Service and Community Care Act and the

fact that NHS purchasers and providers are public bodies. It then considers how, in the light of these legal constraints, NHS contracts can be structured so as to address that key issue. It considers, in particular, the usefulness of three instruments for maintaining quality standards: cost reimbursement, the response of patients to quality differences (patient demand), and the concern providers may have for patients (provider benevolence).

Barro, Robert J.

PD October 1995. TI Technological Diffusion, Convergence and Growth. AU Barro, Robert J.; Sala-i-Martin, Xavier. AA Barro: Harvard University. Sala-i-Martin: Yale University and Universitat Pompeu Fabra. SR Centre for Economic Policy Research, Discussion Paper: 1255; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 48. PR 4 pounds or $8.00. JE O34, O41. KW Technological Diffusion. Convergence. Growth. Research. Development.

AB We construct a model that combines elements of endogenous growth with the convergence implications of the neoclassical growth model. In the long run the world growth rate is driven by discoveries in those economies that lead in their use of technology. Followers converge towards leaders because copying is cheaper than innovation over some range. A tendency for copying costs to increase reduces followers' growth rates and thereby generates a pattern of conditional convergence. We discuss how countries are selected to be technological leaders, and we assess welfare implications. Poorly-defined intellectual property rights imply that leaders have insufficient incentive to invent and followers have excessive incentive to copy.

Barsky, Robert B.

PD August 1995. TI Preference Parameters and Behavioral Heterogeneity: An Experimental Approach in the Health and Retirement Survey. AU Barsky, Robert B.; Kimball, Miles S.; Juster, F. Thomas; Shapiro, Matthew D. AA University of Michigan and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5213; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG not available. PR $5.00. JE D81, D12, D91. KW Survey. Intertemporal Substitution. Time. Risk.

AB Individuals' preferences underlying most economic behavior are likely to display substantial heterogeneity. This paper reports on direct measures of preference parameters relating to risk tolerance, time preference, and intertemporal substitution. These experimental measures are based on survey respondents' choices in hypothetical situations. The questions are constructed with as little departure from the theorist's concept of the underlying parameter as possible. The individual measures of preference parameters display substantial heterogeneity. The majority of respondents fall into the least risk-tolerant group, but a substantial minority display higher risk tolerance. The individual measures of intertemporal substitution and time preference also display substantial heterogeneity. The mean risk tolerance is 0.25; the mean elasticity of intertemporal substitution is 0.2. Estimated risk tolerance and the elasticity of intertemporal substitution are essentially uncorrelated across individuals. Because the risk tolerance measure is obtained as part of the main questionnaire of a large survey, it can be related to a number of economic behaviors. Measured risk tolerance is positively related to a number of risky behaviors, including smoking, drinking, failing to have insurance, and holding stocks rather than Treasury bills. Although measured risk tolerance explains only a small fraction of the variation of the studied behaviors, these estimates provide evidence about the validity and usefulness of the measures of preference parameters.

Bauer, Thomas

PD August 1995. TI Integrating the East: The Labour Market Effects of Immigration. AU Bauer, Thomas; Zimmermann, Klaus F. AA University of Munich. SR Centre for Economic Policy Research, Discussion Paper: 1235; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 56. PR 4 pounds or $8.00. JE D33, F22, J61. KW Immigration Gains. Selective Migration Policy. Heterogeneous Labor.

AB The paper evaluates the potential gains from labor immigration for the European Union. After a review of the East-West migration problem and recent western migration policies, governmentally controlled labor immigration is studied in a framework with unions, unemployment and heterogeneous workers. The model predicts a decline in wages with unskilled and skilled immigration if both types of workers are complements. Only skilled migration reduces unemployment, however. This disequilibrium framework is calibrated using German data and compared with an equilibrium framework to study migration gains and distributional effects. If labor markets are in equilibrium, unskilled immigration will provide larger gains than skilled immigration, but the gains will be small, and partly at the expense of the group of labor that experiences no competitive threat. In the face of unskilled unemployment, unskilled immigration can result in large migration losses while skilled immigration can provide substantial migration gains.

Baxter, Marianne

PD July 1995. TI Nontraded Goods, Nontraded Factors, and International Non-Diversification. AU Baxter, Marianne; King, Robert G.; Jermann, Urban J. AA Baxter and King: University of Virginia and National Bureau of Economic Research. Jermann: University of Pennsylvania. SR National Bureau of Economic Research Working Paper: 5175; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 19. PR $5.00. JE G11, D11, G15. KW Portfolio Theory. Home Bias. Finance.

AB Can the presence of nontraded consumption goods explain the high degree of "home bias" displayed by investor portfolios? We find that the answer is no, so long as individuals have access to free international trade in financial assets. In particular, it is never optimal to exhibit home bias with respect to domestic traded-good equities. By contrast, an optimal portfolio may exhibit substantial home bias with respect to nontraded-good equities, although this result requires a very low degree of substitution between traded and nontraded goods in the utility function. Further, our analysis uncovers a second puzzle: the composition of investors' portfolios appear to be strongly at variance with the predictions of the model that incorporates nontraded goods.

Bayoumi, Tamim

PD May 1995. **TI** Currency Unions, Economic Fluctuations and Adjustment: Some Empirical Evidence. **AU** Bayoumi, Tamim; Prasad, Eswar. **AA** Bayoumi and Prasad: International Monetary Fund. **SR** Centre for Economic Policy Research, Discussion Paper: 1172; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 40. **PR** 4 pounds or $8.00. **JE** E32, F33, J61. **KW** Currency Unions. Economic Fluctuations. Unemployment. Business Cycles.

AB This paper compares sources of disturbances to output and labor market adjustment in the US currency union compared to a set of EU countries. Comparable datasets comprising 1-digit sectoral data for 8 US regions and 8 European countries are constructed and used to study the relative importance of industry-specific, region-specific, and aggregate shocks to output growth. Both areas are subject to similar overall disturbances although a disaggregated perspective reveals some differences. The major difference, however, is in labor market adjustment. Inter-regional labor mobility appears to be a much more important adjustment mechanism in the United States, which has a more integrated labor market than the EU.

PD May 1995. **TI** Who Needs Bands? Exchange Rate Policy Before EMU. **AA** International Monetary Fund. **SR** Centre for Economic Policy Research, Discussion Paper: 1188; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** F33, F36. **KW** Europe. Monetary Union. Exchange Rates.

AB Two issues are discussed. The first is which countries might benefit from entry into EMU before the millennium. Germany and her immediate neighbors appear the most likely to gain; our knowledge is too uncertain to say whether all, some, or no countries would reap net economic benefits, however. The second issue is how to avoid exchange rate instability in the transition to EMU. Experience from earlier exchange rate regimes suggests that an early announcement of the parities at which different currencies would enter EMU could reduce such instability if governments were willing to accept the required limitations on domestic policies.

PD October 1995. **TI** The Stability of the Gold Standard and the Evolution of the International Monetary System. **AU** Bayoumi, Tamim; Eichengreen, Barry. **AA** Bayoumi: International Monetary Fund. Eichengreen: University of California, Berkeley. **SR** Centre for Economic Policy Research, Discussion Paper: 1248; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 40. **PR** 4 pounds or $8.00. **JE** F33, N10. **KW** Gold Standard. International Monetary System.

AB This paper examines some popular explanations for the smooth operation of the pre-1914 gold standard. We find that the rapid adjustment of economies to underlying disturbances played an important role in stabilizing output and employment under the gold standard system, but no evidence that this success also reflected relatively small underlying disturbances. Finally, the paper also suggests an explanation for the evolution of the international monetary system based on growing nominal inertia over time.

PD November 1995. **TI** Is Regionalism Simply a Diversion? Evidence from the Evolution of the EC and EFTA.

AU Bayoumi, Tamim; Eichengreen, Barry. **AA** Bayoumi: International Monetary Fund. Eichengreen: University of California, Berkeley. **SR** Centre for Economic Policy Research, Discussion Paper: 1294; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 48. **PR** 4 pounds or $8.00. **JE** F13, F15. **KW** Gravity Model. Customs Unions.

AB This paper considers the impact on trade of preferential arrangements in Europe since the 1950s. Using a first difference version of the gravity model, we find that the EEC and EFTA altered the pattern of international trade. We also find evidence of trade diversion in several cases, notably that of the EEC in the 1960s.

PD December 1995. **TI** Explaining Consumption: A Simple Test of Alternative Hypotheses. **AA** International Monetary Fund. **SR** Centre for Economic Policy Research, Discussion Paper: 1289; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** D12, E21. **KW** Consumption. Debt Target. Liquidity Constraints.

AB A method of testing the relative importance for consumption of full insurance behavior and changes in income is proposed and estimated using data across Canadian provinces. The focus of the estimation is less on whether or not the full insurance model can be rejected than on how much each of these hypotheses can contribute to explaining overall variation in consumption. Both types of behavior are found to be statistically significant, but the full insurance model is found to explain considerably more of the growth in consumption than changes in income do.

Beaulieu, J. Joseph

TI What Have Macroeconomists Learned About Business Cycles From the Study of Seasonal Cycles? **AU** Miron, Jeffrey A.; Beaulieu, J. Joseph.

Beetsma, Roel M. W. J.

PD November 1995. **TI** Does Monetary Unification Lead to Excessive Debt Accumulation? **AU** Beetsma, Roel M. W. J.; Bovenberg, A. Lans. **AA** Beetsma: University of Limburg. Bovenberg: Netherlands Central Planning Bureau. **SR** Centre for Economic Policy Research, Discussion Paper: 1299; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 30. **PR** 4 pounds or $8.00. **JE** E52, E58, E61, E62. **KW** Central Banks. Monetary Union. Credibility Effect. Government Myopia. Price Stability.

AB If discretionary monetary policy implies an inflation bias, monetary unification boosts the accumulation of public debt. The additional debt accumulation is welfare reducing only if governments are sufficiently myopic. In the presence of myopic governments, debt ceilings play a useful role in avoiding excessive debt accumulation in a monetary union and allow a conservative, independent central bank to focus on price stability.

PD November 1995. **TI** Designing Fiscal and Monetary Institutions for a European Monetary Union. **AU** Beetsma, Roel M. W. J.; Bovenberg, A. Lans. **AA** Beetsma: University of Limburg. Bovenberg: Netherlands Central Planning Bureau. **SR** Centre for Economic Policy Research, Discussion Paper: 1303; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom.

PG 32. PR 4 pounds or $8.00. JE E52, E58, E61, E62, F42. KW European Union. Central Banks. Inflation Aversion. Convergence. Structural Policies.
AB This paper explores under what conditions a European Monetary Union (EMU) is an optimum currency area. The scope for an EMU increases with convergence of structural and fiscal policies, small money holdings, a conservative European Central Bank, and dependent national central banks. How national policies affect the rest of the Union once the EMU has been formed is also investigated. The case for surveillance of national structural and fiscal policies appears to depend largely on monetary arrangements in the Union.

Beleva, I.
PD October 1995. TI The Labor Market in Bulgaria. AU Beleva, I.; Jackman, R.; Nenova-Amar, M. AA Beleva and Nenova-Amar: Bulgarian Academy of Sciences. Jackman: London School of Economics. SR London School of Economics, Centre for Economic Performance, Discussion Paper: 268; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. PG 63. PR no charge. JE E64, E24, P21, J64. KW Economic Transition. Bulgaria. Labor Market. Unemployment. Incomes Policy.
AB The fall in output and employment, and the rise in unemployment during the transition in Bulgaria have been exceptionally severe. This paper examines possible causes, including the role of the financial stabilization package, collective bargaining and the excess wage tax, the gradual emergence of the private sector, and the unemployment benefit system. The paper concludes that economic activity in Bulgaria has been depressed relative to other transitional economies by weak export growth as a result of its unfortunate geographical location. On the supply side, there has been a continuing vulnerability to wage inflation resulting from the slow privatization of state enterprises and the continuing political strength of the trade unions. A small- scale private sector (some of it "informal") is flourishing, aided in part by the very restrictive unemployment benefit regime, but remains of secondary importance. A sustained recovery will depend both on a return to economic stability in neighboring economies and on more determined domestic policies, in particular on privatization, to complete the transition to a market economy.

Bell, Brian
TI Would Cutting Payroll Taxes on the Unskilled Have a Significant Impact on Unemployment? AU Nickell, Stephen; Bell, Brian.

Ben-David, Dan
PD May 1995. TI Free Trade and Long-Run Growth. AU Ben-David, Dan; Loewy, Michael B. AA University of Houston. SR Centre for Economic Policy Research, Discussion Paper: 1183; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 56. PR 4 pounds or $8.00. JE F11, F43, O31. KW Growth. Trade Liberalization. Knowledge Diffusion.
AB What is the impact of movement towards free trade on output? Can this impact permanently affect output levels, and more importantly, will it have an impact on steady-state growth rates? This paper provides empirical evidence showing how countries have exhibited substantial increases in their growth rates over the past century while concurrently increasing the extent of their trade. The model developed here emphasizes the role that knowledge spillovers emanating from heightened trade can have on long-run growth rates. Among the results of the model, unilateral liberalization by one country will generate a positive impact on the steady-state growth of all its partners while at the same time inducing a level effect on the liberalizing country that reduces the income gap between it and other, wealthier, countries. In some cases, the liberalizing country may even leapfrog over initially wealthier countries.

PD November 1995. TI The Great Wars, the Great Crash and Steady State Growth: Some New Evidence About an Old Stylized Fact. AU Ben-David, Dan; Papell, David H. AA Ben-David: Tel-Aviv University and Centre for Economic Policy Research. Papell: University of Houston. SR Tel Aviv Sackler Institute of Economic Studies Working Paper: 36/95; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. PG 30. PR no charge. JE C22, E13, O11, O57, O47. KW Economic Growth. Unit Root.
AB For decades, the prevailing sentiment among economists was that growth rates remain constant over the long run. Kaldor considered this to be one of the six important "stylized facts" that theory should address, and until the emergence of endogenous growth models, this was a fundamental feature of growth theory. This paper uses recently developed tests for structural change in univariate time series to determine whether, and when, such a break exists for 16 countries, using annual GDP data spanning up to 130 years. Such a determination introduces the possibility of examining the long-run behavior of growth rates. We find that most countries exhibited fairly steady growth for a period lasting several decades. The termination of this period is usually characterized by a significant, and sudden drop in GDP levels. But rather than simply returning to their previous steady state path, as predicted by the standard neoclassical growth model, per capita output in most countries continued to grow at roughly double their prebreak rates for many decades even after their original growth path had been surpassed.

PD November 1995. TI Trade Liberalization and Income Equalization: A Long-Run Perspective. AU Ben-David, Dan; Bohara, Alok K. AA Ben-David: Tel-Aviv University and Centre for Economic Policy Research. Bohara: University of New Mexico. SR Tel Aviv Sackler Institute of Economic Studies Working Paper: 42/95; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. PG 16. PR no charge. JE C22, F43, O11. KW Income Convergence. Trade Liberalization.
AB An examination of the impact of trade reform on the behavior of income differentials among countries provides the setting for the utilization of an income convergence test that differs from the conventional cross-country regressions. The existence, or non-existence, of convergence involves joint estimation of augmented Dickey-Fuller type of equations using seemingly unrelated regression (SUR) techniques. Monte Carlo simulations are used to calculate the critical values which are, in turn, used to determine the significance of convergence. The findings here provide support for a link between trade liberalization and income convergence.

PD February 1996. TI Knowledge Dissemination, Capital Accumulation, Trade and Endogenous Growth. AU Ben-David, Dan; Loewy, Michael B. AA Ben-David: Tel Aviv

University. Loewy: University of Houston. **SR** Centre for Economic Policy Research, Discussion Paper: 1335; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** E06, F01, F43, O33. **KW** Growth. Knowledge Diffusion. Trade.

AB The theoretical framework presented here preserves many of the primary features of the standard neo-classical model, while introducing some modifications that transform it into an open economy endogenous growth model with knowledge accumulation. Knowledge accumulation is determined in part by the extent of knowledge spillovers from abroad and the extent to which each country is exposed to the knowledge stocks of other countries. The degree of this exposure is assumed to be directly related to the level of external trade -- which implies that commercial policy can affect economic growth. In particular, unilateral trade liberalization may increase steady-state income growth in all countries.

PD February 1996. **TI** The Unit Root Hypothesis in Long-Term Output: Evidence from Two Structural Breaks for 16 Countries. **AU** Ben-David, Dan; Lumsdaine, Robin L.; Papell, David H. **AA** Ben-David: Tel Aviv University. Lumsdaine: Princeton University. Papell: University of Houston. **SR** Centre for Economic Policy Research, Discussion Paper: 1336; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 24. **PR** 4 pounds or $8.00. **JE** C22, O11, O47, O57. **KW** Unit Root Hypothesis. Trend Breaks. Growth.

AB Recent literature has documented the sensitivity of unit root tests to failure to account for structural change. This paper reconsiders international evidence on the unit root hypothesis while allowing for two structural breaks. We find evidence of two breaks in three-quarters of the data, rejecting the unit root hypothesis in 50% more cases than models that allow for only one structural break. Most of the trend breaks are associated with a change in output levels. As the neo-classical growth model predicts, the magnitude of these level changes is shown here to be related to changes in growth rates during the period following the break.

PD March 1996. **TI** Slowdowns and Meltdowns: Post-War Growth Evidence from 74 Countries. **AU** Ben-David, Dan; Papell, David H. **AA** Pappell: University of Houston. Ben-David: Tel-Aviv University. **SR** Tel Aviv Sackler Institute of Economic Studies Working Paper: 9/96; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. **PG** 42. **PR** no charge. **JE** C22, O11, O47. **KW** Economic Growth. Slowdowns. Trend Breaks.

AB This paper proposes an explicit test for determining the significance and timing of slowdowns in economic growth during the post-war period. We examine a large sample of countries (both industrialized and developing), and find that a majority -- though not all -- exhibit a significant structural break in their postwar growth rates. In nearly all of these cases, the break was followed by a growth slowdown. The breaks fall into two primary periods which delineate countries by developmental and regional characteristics as well as by the magnitude of the subsequent slowdowns. We find that (a) most industrialized countries experienced postwar growth slowdowns in the early 1970s, though (b) the United States, Canada and United Kingdom did not and (c) developing countries (and in particular, Latin American countries) tended to experience much more severe slowdowns which, in contrast with the more developed countries, began nearly a decade later.

Ben-Shahar, Omri

PD September 1996. **TI** Scientific Information and Products Liability. **AA** Tel-Aviv University. **SR** Tel Aviv Sackler Institute of Economic Studies Working Paper: 30/96; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. **PG** 33. **PR** no charge. **JE** K13, L15. **KW** Products Liability. Scientific Information. Product Safety.

AB In designing and marketing new products, manufacturers face uncertainty regarding the harmful character of their products. If harm occurs due to a defective design, liability is imposed on manufacturers whenever the design of the product is determined to be unreasonably dangerous. In assessing the reasonableness of a design, courts usually admit information which was acquired throughout the actual usage of the product - information that was often not scientifically available at the time of production. This paper demonstrates that the utilization of information that is available ex-post but unavailable ex-ante may lead to adverse incentive effects in the design of new products, i.e., in installing safety devices in products, in developing technologies that reduce the distribution of risks involved in the use of products and in investing in research that can identify the risks in advance. It is shown that hindsight in assessing liability can reduce the utility of consumers and manufacturers alike.

Benacek, Vladimir

PD November 1995. **TI** Adjustment and Performance of the Textile and Clothing Industry in the Czech Republic, Poland and Portugal. **AU** Benacek, Vladimir; Caban, Wieslaw; Corado, Cristina. **AA** Benacek: Charles University. Caban: University of Lodz. Corado: Universidade Nova de Lisboa. **SR** Centre for Economic Policy Research, Discussion Paper: 1260; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 48. **PR** 4 pounds or $8.00. **JE** D24, D43, F13, F14. **KW** Textiles. Clothing. Production. Market Structure. Industry Studies. Trade.

AB We discuss the restructuring of the textile and clothing industry in two East European countries. The paper compares the industry there with that in Portugal. Even though this study is only concerned with one particular industry, it reveals how wide and intensive the problems of transition are. The case studies discussed illustrate many of these difficulties. Former state-owned enterprises are reorienting sales to Western markets under the pressure of competition from a new and expanding private sector that sells imported products. Trade among former Comecon countries remains difficult in spite of the recent free trade agreement between Visegrad countries. The Czech Republic and Poland currently have a more dualistic market structure than Portugal: very large firms alongside a very fragmented private sector. We assess the contribution of the new, private firms in the Czech Republic to find that production and employment in the clothing industry performed quite well, in contrast with the former state-owned sector. The performance of and outlook for former state-owned enterprises are dismal, especially in textiles. In clothing, inward-processing trade has helped large firms. Using a simple analytical framework we show that the former Comecon countries were never as good at buying as the West is now. The changes in domestic demand appear to be the main explanation for the fall

in output in the earlier years of economic transformation. In clothing, however, inward-processing operations are dampening the problems of transition.

Bentolila, Samuel
PD October 1995. TI Regional Unemployment Persistence (Spain, 1976-94). AU Bentolila, Samuel; Jimeno, Juan F. AA Bentolila: CEMFI, Jimeno: FEDEA. SR Centre for Economic Policy Research, Discussion Paper: 1259; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 44. PR 4 pounds or $8.00. JE E24, J61. KW Regional Economies. Labor Adjustment. Unemployment. Persistence.
AB This paper examines the degree of persistence of regional relative unemployment. A theoretical model is built to explain the role of migration, labor-force participation, and real wage flexibility at the regional level, in determining such persistence. The model is used to account for the observed degree of persistence of regional relative unemployment in Spain, as compared to the US and the EU, also providing new estimates on real wage flexibility in Spanish regions.

Berglof, Erik
PD November 1995. TI Bank Restructuring and Soft Budget Constraints in Financial Transition. AU Berglof, Erik; Roland, Gerard. AA Universite Libre de Bruxelles. SR Centre for Economic Policy Research, Discussion Paper: 1250; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 36. PR 4 pounds or $8.00. JE G30, P50. KW Bank Restructuring. Soft Budget Constraints. Financial Transition.
AB This paper analyzes in a formal model the problem of achieving financial discipline in a transitional economy with bank-intermediated finance. Even if banks have no intrinsic interest in refinancing unprofitable firms, they may still exploit the softness of government. By gambling for government bailouts, banks contribute to softening the budget constraints of enterprises. We show that the poor quality of loan portfolios, the absence of collateral and low bank capitalization are key elements explaining soft budget constraints and repeated bank bailouts in transitional economies. We show that the trade-off between hardness and enterprise liquidity is more severe when loan portfolios are of poor quality. A similar trade-off arises if a bank invests in screening or monitoring projects to improve the quality of portfolios. Under certain conditions the government should make capitalization contingent on banks investing in monitoring and screening in order to obtain hard budget constraints rather than to let banks use reserves for such investments. We further show that transfers of all non-performing loans to a separate institution, a hospital agency, is never optimal, whereas partial transfers may serve to harden budget constraints.

Berliant, Marcus
PD November 1995. TI Labour Specialization and City Formation. AU Berliant, Marcus; Zenou, Yves. AA Berliant: Washington University. Zenou: Universite de Paris and Universite Catholique de Louvain. SR Centre for Economic Policy Research, Discussion Paper: 1270; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 32. PR 4

pounds or $8.00. JE D51, J24, R14. KW Labor Specialization. Transportation Networks. General Equilibrium. City Formation.
AB This paper explores the formation of cities through labor specialization, gains to trade, a fixed cost for the transportation network, imperfect competition between firms, and the commuting costs of consumers. The model uses a very general setting, allowing a multidimensional location space and multiple firms using different types of labor to produce different outputs. Locations of all agents are endogenous as are prices and quantities. Firms play a Nash location game among themselves, anticipating the locations of consumers, but taking prices as given. Within this framework, we characterize the spatial configuration of firms in equilibrium. Whether or not equilibrium exists and whether or not it is locally unique depends crucially on the relative numbers of outputs, types of labor and firms. Finally, both welfare theorems fail in this model.

Bernard, Andrew B.
PD December 1994. TI Exporters, Jobs and Wages in U.S. Manufacturing: 1976-1987. AU Bernard, Andrew B.; Jensen, J. Bradford. AA Bernard: Massachusetts Institute of Technology. Jensen: Bureau of the Census. SR Massachusetts Institute of Technology, Department of Economics Working Paper: 95/7; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. PG 21. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE J38, F23. KW Exports. Hysteresis. Productivity. Competitiveness.
AB The issue of international competitiveness is close to the surface in debates regarding trade and industrial policy. Exporters are touted as "winners" in the global competition. While exporters are perceived and reported to be winners, and thus especially important to the domestic economy, few facts are available on the performance or structure of these firms. This paper documents the role of exporters in U.S. manufacturing from 1976-87. Using newly available plant level data for more than 50,000 establishments, the paper describes a variety of characteristics of exporting plants. The paper also examines the performance of exporters, focusing on employment, output, and labor productivity growth. In the cross-section, exporters account for a large share of manufacturing activity and are larger, more productive, and pay higher wages than non-exporters. Additionally, exporters exhibit better short-term growth than non-exporters.

PD January 1995. TI Productivity and Convergence Across U.S. States and Industries. AU Bernard, Andrew B.; Jones, Charles I. AA Bernard: Massachusetts Institute of Technology. Jones: Stanford University. SR Massachusetts Institute of Technology, Department of Economics Working Paper: 95/4; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. PG 29. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE C33, O47, O51. KW Economic Growth. Labor Productivity. Convergence. Industry Composition. Unit Roots.
AB We examine the sources of aggregate labor productivity movements and convergence in the U.S. states from 1963 to 1989. Productivity levels vary widely across sectors and across states, as do sectoral output and employment shares. The main finding is the diverse performance of sectors regarding convergence. Using both cross-section and time series methods,

we find convergence in labor productivity for both manufacturing and mining. However, we find that convergence does not hold for all sectors over the period. Decomposing aggregate convergence into industry productivity gains and changing sectoral shares of output, we find the manufacturing sector to be responsible for the bulk of cross-state convergence.

Berry, Steven

AB In May 1981, a voluntary export restraint (VER) was placed on exports of automobiles from Japan to the United States. As trade policies go, this one was important. At about the same time, though to much less fanfare, international trade theorists were obtaining (then) startling results from models of international trade in imperfectly competitive markets. These models suggested that in imperfectly competitive markets, an activist trade policy might enhance national welfare. In this paper, we provide some empirical evidence on whether these new theoretical possibilities might actually apply to the policy of VER's.

Bertola, Giuseppe

AB The radical liberalization of foreign trade in Central and Eastern Europe since 1989 has been a key part of the economic reform and has been accompanied by a full-scale geographical reorientation of international trade from East to West. Increased trade with the EU has been associated with remarkably little change in the structure of that trade, which suggests that policy should be oriented towards facilitating rather than slowing industrial adjustment. Future trade policy priorities should include continued liberalization, better coordination of trade and exchange rate policy, the attraction of foreign direct investment, resistance to pressures for selective protection, further development of trade relations with the EU and of intra-regional trade relations, and full participation in the WTO.

AB This paper considers an economy where inequality originates from exogenous "talent" or "market luck" shocks and is transmitted over time by the same saving decisions that determine the aggregate rate of accumulation. The resulting interactions between factor- and personal- income distribution are studied in the light of existing analytic results from the precautionary-savings literature, and by numerical solution experiments. Aggregate savings are an increasing function of non-accumulated income variability, as individuals try to self-insure by accumulating wealth. In dynamic general equilibrium, however, non- accumulated income flows ("wages") depend endogenously on aggregate wealth accumulation. The level and/or the anticipated growth rate of wages affect microeconomic saving decisions so as to induce remarkable stability of long-run accumulated wealth distributions across parameter sets.

Bickenbach, Frank

AB In this paper we consider the impact of vertical integration on a retailer's choices of product variety and specific, brand-supporting investment. In an incomplete contract environment, vertical merger encourages investment in integrated supply, and foreclosure of non- integrated manufacturers. Anti-competitive as opposed to efficiency interpretations depend delicately on a trade-off between the benefits of supplier-specific rather than generally applicable retailer investment, and the value of multi-product rather than single product retailing. Where retailers compete, it is shown that vertical integration implements competition reducing, product differentiating investment strategies.

Binder, Michael

AB In this paper, the authors consider multivariate linear rational expectations models under heterogeneous information which arise as the Euler equations of intertemporal optimization problems in the presence of social interactions in an economy. They propose a simple method for the resolution of the "infinite regress in expectations" problem that arises in the solution of these models and compare their solution method with other procedures suggested in the literature by Townsend and Sargent.

Michael; Pesaran, M. Hashem. **AA** Binder: University of Maryland. Pesaran: University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9615; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 55. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C13, E27, O42. **KW** Stochastic Neoclassical Growth Model. Ergodicity.
AB This paper analyses the consequences of introducing stochastic technological progress and stochastic labor input into a Solow-Swan exogenous growth model and an "AK" endogenous growth model with general savings and production functions. The paper derives the conditions under which the capital-output ratio in these models converges to globally attracting, invariant steady state probability distribution functions, and is ergodic. It is shown that these conditions reflect the asymmetric response profile of the capital-output ratio to positive and negative shocks in technology and labor input. Some cross-sectional evidence in support of one of the central predictions of the stochastic Solow-Swan exogenous growth model is provided: ceteris paribus, countries with a higher volatility of the capital-output ratio have a lower mean capital-output ratio.

PD August 1996. **TI** Multivariate Linear Expectations Models: Characterization of the Nature of the Solutions and Their Fully Recursive Computation. **AU** Binder, Michael; Pesaran, M. Hashem. **AA** Binder: University of Maryland. Pesaran: University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9619; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 11. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C32, C63, D84. **KW** Linear Expectations. Quadratic Matrices. Recursive Methods.
AB In this paper, we analyze a general multivariate linear rational expectations model. We first discuss characterization of all possible classes of solutions of this model using the quadratic determinantal equation (QDE) method suggested in Binder and Pesaran (1995). Having characterized the nature of the solutions, we then turn to computational considerations. We list a number of numerical techniques for the implementation of the QDE method which allow reasonably fast determination of the dimension of the solution set of the model under consideration. We then propose a new solution method which to our knowledge is the first fully recursive method for the solution of general multivariate linear rational expectations models involving both lagged dependent variables and future expectations.

Black, Sandra
TI Beyond the Incidence of Training: Evidence From a National Employers Survey. **AU** Lynch, Lisa M.; Black, Sandra.

Blackley, Dixie M.
PD July 1995. **TI** In Search of Empirical Evidence That Links Rent and User Cost. **AU** Blackley, Dixie M.; Follain, James R. **AA** Blackley: Le Moyne College. Follain: Syracuse University. **SR** National Bureau of Economic Research Working Paper: 5177; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 24.

PR $5.00. **JE** R21, C81, D12. **KW** Housing. Rental Markets. User Cost.
AB Most models of the rental housing market assume a close linkage between the level of residential rents and the after-tax user cost of rental housing capital. However, little empirical evidence exists to establish the strength of this linkage or the speed with which rents adjust to changes in user cost or tax policy. This paper develops and estimates an econometric model of the rental housing market in order to shed light on both of these issues. United States annual data for 1964 through 1993 are used to generate two-stage least squares estimates of a four equation structural model. Although the results are generally consistent with expectations and reveal several interesting relationships among the system variables, the estimates fail to identify a strong relationship between rent and user cost. About half of an increase in user cost is ultimately passed along as higher rent. The adjustment process also takes a long time, with only about a third of the long-run effect realized within ten years of a user cost shock. The fundamental reason for this result is that our estimate of the user cost series, based upon widely accepted procedures, is much more volatile than the residential rent series.

Blanchflower, David
PD April 1996. **TI** Youth Labor Markets in Twenty Three Countries: A Comparison Using Micro Data. **AA** London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 284; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 49. **PR** no charge. **JE** J21, J23, J31, J51. **KW** Youth Labor. Wages. Unemployment. Self-Employment. Trade Unions. Government Policy. Happiness.
AB This paper examines the working lives of more than 110,000 individuals across twenty-three countries over an eight year period, 1985-1992. Both quantitative and qualitative data are examined. The data source is the International Social Survey Programme (ISSP). The paper finds that the young are distinguished from older age groups by the following traits: they are less well paid and have a relatively high probability of being unemployed. They also have a low probability of being a member of the force, being self-employed or a member of a trade union. In terms of their attitudes the young are more likely than older age groups to say a)they would like to be self-employed if they had the choice b) to be supportive of the role of trade unions c) to support government intervention in the market d) that they are happy with their lives.

PD April 1996. **TI** New Technology and Jobs: Comparative Evidence from a Two Country Study. **AU** Blanchflower, David; Burgess, Simon. **AA** Blanchflower: London School of Economics. Burgess: University of Bristol. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 285; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 36. **PR** no charge. **JE** J21, J23, J31. **KW** Britain. Australia. Technology. Unemployment. Job Growth.
AB It is widely recognized that one of the greatest economic problems facing developed countries is unemployment. An example of this recognition is the recent report by the OECD ("The OECD Jobs Study", 1994) on unemployment, its causes and possible policies. One issue that is closely associated with unemployment in many people's minds is competitiveness and

associated with that is the use of new technology. Indeed, the OECD Jobs Study plots out the relative importance of "high-tech" manufacturing in each member country. This paper aims to contribute to the debate on this issue by examining the impact of the introduction of new technology on employment growth and profitability. We use two complementary datasets: two large representative cross-sections of establishments in Britain in 1990 and Australia in 1989/90. We investigate the effectof innovation in each country and then compare the outcomes.

PD April 1996. **TI** Product Market Competition, Wages and Productivity: International Evidence from Establishment-Level Data. **AU** Blanchflower, David; Machin, Stephen. **AA** London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 286; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 16. **PR** no charge. **JE** L11, L13, J31. **KW** Competition. Wages. Prices.
AB That greater product market competition has the potential to affect outcomes in labor and product markets is borne out by one of the key premises of standard economic theory which predicts that, all other things held constant, prices should be lower and efficiency enhanced by more competition. In this paper we test this notion by considering the relationship between product market competition and establishment-level wages and economic performance. We use two microeconomic data sources from Britain and Australia to consider this relationship. Our results find only a limited role for market competition to impact wages and productivity. In British workplaces, labor productivity is not raised by more competition, whilst in Australia we can only find evidence of the conventionally excepted positive impact in manufacturing workplaces. With respect to wages, the results are more consistent with the competition hypothesis, though effects are not that strong, with significant effects only being found for some of the skill groups within our samples of establishments. Hence, there is only limited support for the key hypothesis of interest that we could consider.

PD April 1996. **TI** Job Creation and Job Destruction in Great Britain in the 1980's. **AU** Blanchflower, David; Burgess, Simon. **AA** Blanchflower: London School of Economics. Burgess: University of Bristol and London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 287; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 38. **PR** no charge. **JE** E32, J23, J63. **KW** Job Creation. Job Destruction. Growth of Firms.
AB This paper characterizes the processes of job creation and job destruction (JC&D) in Britain, and provides more "stylized facts" to hold up against models of JC&D. The analysis is based on data from the Workplace Industrial Relations Survey (WIRS) surveys of 1980, 1984 and 1990 each of which are representative cross-sections of approximately 2000 continuing British establishments. They cover all sectors (excluding agriculture and mining), public and private, manufacturing and services. The issues examined include the diversity of employment growth rates and the correspondingly substantial JC&D rates. We show that both JC&D are extremely concentrated: about 50 percent of each of these is accounted for by just 4 percent of continuing establishments.

Blasi, Joseph
TI Employee Ownership, Employee Attitudes, and Firm Performance. **AU** Kruse, Douglas; Blasi, Joseph.

Blomstrom, Magnus
PD November 1995. **TI** Foreign Direct Investment and Politics: The Swedish Model. **AU** Blomstrom, Magnus; Kokko, Albert. **AA** Stockholm School of Economics. **SR** Centre for Economic Policy Research, Discussion Paper: 1266; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** F21, F23, J51. **KW** Direct Investment. Economic Policy. Sweden.
AB Sweden is home to a remarkably large number of prosperous multinationals. We argue that this is partly the result of industrial policies that have been biased in favor of large firms, and partly the result of an institutional setting where regulations and controls have facilitated investment abroad by Swedish firms, while impeding foreign direct investment in Sweden. A particularly important feature of the institutional environment is that Swedish labor unions have supported Swedish investment abroad, but opposed foreign investment in Sweden. This paper outlines the development of Swedish foreign investment policies, describes the traditional Swedish model of industrial policy, and discusses the attitudes of the Swedish labor movement. The implications for long-run growth of Swedish industrial policy are also discussed. We argue that the large multinationals have been supported at the expense of small- and medium-sized firms, and that the non-multinational sector is thus less dynamic in Sweden than in many other countries.

Bloom, David E.
PD July 1995. **TI** Is An Integrated Regional Labor Market Emerging In East and Southeast Asia? **AU** Bloom, David E.; Noor, Waseem. **AA** Bloom: Columbia University and National Bureau of Economic Research. Noor: Columbia University. **SR** National Bureau of Economic Research Working Paper: 5174; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 16. **PR** $5.00. **JE** F21, O53, O14. **KW** Southeast Asia. Labor Mobility.
AB We examine labor market integration in east and southeast Asia (ESEA) during the 1980's, focusing on intraregional labor mobility and on the two other main channels of integration: capital mobility and trade. We find evidence that labor market integration increased sharply among ESEA countries in the 1980's, with 9 percent of ESEA's labor force participating either directly via labor mobility or indirectly via capital mobility or trade in cross-national labor market transactions in 1991, up from just 5.2 percent in 1980. We also find that trade is the dominant mechanism through which regional labor market integration occurred in the 1980's, with labor migration contributing only modestly to the process.

Boeri, Tito
PD November 1995. **TI** Active Labour Market Policies, Job Matching and the Czech Miracle. **AU** Boeri, Tito; Burda, Michael C. **AA** Boeri: OECD and European University Institute. Burda: Humboldt-Universitat Berlin. **SR** Centre for Economic Policy Research, Discussion Paper: 1302; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 19. **PR** 4

pounds or $8.00. **JE** J63, J64, J68. **KW** Labor Market. Policy. Matching Function. Czech Republic.

AB A common explanation of low unemployment rates in the Czech Republic (CR) is the stance of active labor market policies (ALMPs), in particular the extensive use of ALMP instruments and an effective delivery system. Using a large panel of quarterly data from employment office districts, we estimate the effects of ALMPs on the job matching process in the CR. In so doing, we address potential endogeneity in the provision of resources to district labor offices. We continue to find a small, but statistically significant effect of ALMP expenditures, job creation, and program intakes on outflows from unemployment into employment.

Bofinger, Peter

PD August 1995. **TI** The Political Economy of the Eastern Enlargement of the EU. **AA** Universitat Wurzburg. **SR** Centre for Economic Policy Research, Discussion Paper: 1234; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 60. **PR** 4 pounds or $8.00. **JE** F02, F15, F41. **KW** Eastern Europe. EU Integration. Political Economy.

AB The paper analyzes the Eastern enlargement of the EU from a political economy perspective. As the political economy literature has so far mainly discussed the aspects of trade liberalization, the paper develops a broader framework for analyzing the political economy of EU integration. It shows that EU membership entails massive shifts in political power, favoring traditionally weak interest groups (consumers, exporters) at the expense of lobbies that otherwise dominate political processes (import-competing firms). Thus, if the enlargement process is delayed for a longer period of time, there is a risk that producer lobbies in the East might oppose EU membership for their countries. From the perspective of the incumbent members one can show that trade issues have so far played a minor role in the enlargement process. The main impediments relate to the Common Agricultural Policy, the Structural Funds and the unresolved problems of the political reform of the EU. Even an accession of only the V4 countries would considerably increase the EU budget. Thus, it would be vetoed by a coalition of German taxpayers and recipients of EU funds in Southern Europe. In order to overcome the present standstill of the enlargement process the paper proposes a comprehensive accession strategy' (CAS) that should be embedded in the Treaty.

PD October 1995. **TI** Alternative Operating Procedures for Monetary Policy -- A New Look at the Money Supply Process. **AU** Bofinger, Peter; Schachter, Andrea. **AA** Universitat Wurzburg. **SR** Centre for Economic Policy Research, Discussion Paper: 1257; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 40. **PR** 4 pounds or $8.00. **JE** E51, E52. **KW** Money Supply. Operating Procedures. Money Multiplier. Central Banks.

AB This paper develops a new framework for the process of money supply. In contrast to models like McCallum (1989) based on the money multiplier analysis or the credit market models of Brunner and Meltzer (1966, 1973) our model explicitly illustrates the interaction of non-banks, banks and the central bank on the two relevant markets: the market for central bank money and the market for bank credit (which is identical to the macroeconomic money "market"). Special emphasis is placed on the role of the central bank and its alternative control procedures for the supply of base money: targeting the central bank rate or the quantity of high- powered money. It is shown that within the concept of monetary targeting the choice of the optimal control procedure critically depends on the relative strength of different shocks: if disturbances on the credit market dominate, monetary base targeting is to be preferred; conversely, if money multiplier shocks dominate, interest rate targeting should be favored.

Bohara, Alok K.

TI Trade Liberalization and Income Equalization: A Long-Run Perspective. **AU** Ben-David, Dan; Bohara, Alok K.

Bohn, James

PD August 1995. **TI** Property and Casualty Solvency Funds As a Tax and Social Insurance System. **AU** Bohn, James; Hall, Brian J. **AA** Harvard University. **SR** National Bureau of Economic Research Working Paper: 5206; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 32. **PR** $5.00. **JE** G33, H25. **KW** Insurance. Insolvency. Bankruptcy.

AB When a Property and Casualty (P&C) insurance company becomes insolvent, solvent insurance companies are forced to pay assessment (a form of taxation) to sate guarantee funds ("solvency funds") in order to protect the policyholders of the failed companies. We produce estimates of the costs tot he guarantee funds of resolving P&C insurance company insolvencies. We find that the total net costs (payments by the fund less recoveries by the fund) of resolving insolvencies are remarkably high. We estimate that the mean ratio of net costs to assets is approximately one, implying that insolvent companies have liabilities that are roughly twice as large as assets when they fail. Our cost estimate for resolving insurance company insolvencies is roughly three times higher than similar estimates for banks. We also find that the ratio of net costs to assets tends to be higher for small firms, poorly capitalized firms, firms writing significant premiums in long tail lines, and firms that fail because of disasters. Our findings also indicate that the resolution of insolvencies is typically quick. More than 60 percent of all costs to the fund for a given insolvency occur within two years, and more than three-quarters of total costs occur within three years. However, we find that firms with a high proportion of premiums in long tail lines take much longer to resolve.

Boldrin, Michele

PD September 1995. **TI** Asset Pricing Lessons For Modeling Business Cycles. **AU** Boldrin, Michele; Christiano, Lawrence J.; Fisher, Jonas. **AA** Boldrin: Universidad Carlos III. Christiano: Northwestern University and National Bureau of Economic Research. Fisher: University of Western Ontario. **SR** National Bureau of Economic Research Working Paper: 5262; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 32. **PR** $5.00. **JE** G12, E32, D91, C15. **KW** Equity Premium. Habit Persistence. Simulations.

AB We develop a model which accounts for the observed equity premium and average risk free rate, without implying counterfactually high risk aversion. The model also does will in accounting for business cycle phenomena. With respect to the conventional measures of business cycle volatility and comovement with output, the model does roughly as well as the

standard business cycle model. On two other dimensions, the model's business cycle implications are actually improved. Its enhanced internal propagation allows it to account for the fact that there is positive persistence in output growth, and the model also provides a resolution to the "excess sensitivity puzzle" for consumption and income. Key features of the model are habit persistence preferences, and a multisector technology with limited intersectoral mobility of factors of production.

Boltho, Andrea

PD February 1996. TI Will East Germany Become a New Mezzogiorno? AU Boltho, Andrea; Carlin, Wendy; Scaramozzino, Pasquale. AA Boltho: University of Oxford. Carlin: University College London. Scaramozzino: University of London. SR Centre for Economic Policy Research, Discussion Paper: 1256; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 40. PR 4 pounds or $8.00. JE O57, R12, R58. KW Convergence. Regional Development. Regional Growth. Policy.

AB Despite massive regional policy efforts, GDP per capita in Southern Italy has only briefly converged on Northern Italian levels (during the 1960's). Failure since then is associated with a policy switch from investment towards income maintenance, with reduced wage sensitivity to regional labor market conditions and with increases in rent-seeking opportunities and corruption. East Germany's early experience of rapid wage and income, but not productivity, convergence raised fears that a Mezzogiorno scenario could be repeated. Since then, however, investment has been successfully encouraged, wage setting has become more flexible and productivity growth has risen. Given a more favorable non-economic environment as well, the prospects for East German convergence are now more promising.

Bolton, Patrick

PD August 1995. TI The Break up of Nations: A Political Economy Analysis. AU Bolton, Patrick; Roland, Gerard. AA Universite Libre de Bruxelles. SR Centre for Economic Policy Research, Discussion Paper: 1225; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 63. PR 4 pounds or $8.00. JE H10, H30, H70. KW Separation. Political Integration. Income Distribution. Median Voter.

AB This paper analyzes the tendency for nations to break up as a result of a trade-off between the aggregate efficiency losses from separation and the redistributive gains to the majority, which can occur in all regions, even when there are no transfers across these regions. We show that accommodating changes in fiscal policy in the unified nation may not always prevent separation, because differences in income distribution across regions mean some regions prefer more and some less redistribution; fiscal autonomy under a federal constitution may not necessarily prevent separation because of the effects of fiscal competition; linguistic imperialism in the provision of public goods may reduce the incentives to separate; perfect factor mobility eliminates the incentives to separate.

Bond, Eric W.

PD January 1996. TI Deepening of Regional Integration and Multilateral Trade Agreements. AU Bond, Eric W.; Syropoulos, Constantinos; Winters, L Alan. AA Bond and Syropoulos: Pennsylvania State University. Winters: The World Bank. SR Centre for Economic Policy Research, Discussion Paper: 1317; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 52. PR 4 pounds or $8.00. JE F13, F15. KW Regional Integration. Tariff Negotiations. Kemp-Wan. Tariff Adjustments. Europe.

AB We consider a simple three-country, multi-commodity trade model in which two custom union members that have successfully coordinated their external tariff policies are in the process of deepening the integration of their internal markets through the removal of tariffs on intra-union trade. Union and non-union countries cannot sign binding trade agreements. Owing to repeated interactions, however, they can sustain cooperative outcomes with the use of history-dependent strategies. The goal of this paper is to examine how the deepening of integration affects the set of incentive-compatible tariff agreements these parties can support. We derive conditions under which Kemp-Wan (1976) adjustments in the external tariffs of union members are sustainable and we use these adjustments as a frame of reference to evaluate the actual tariff-setting incentives of trading partners. Our analysis reveals that the deepening of integration may enlarge the set of sustainable tariff agreements with the outside country, and that this possibility crucially depends on the degree of substitutability in consumption. We also investigate the effects of integration on sustainable levels of welfare and extend our analysis to consider the effects of political economy factors.

Boone, Peter

PD December 1995. TI Politics and the Effectiveness of Foreign Aid. AA London School of Economics. SR London School of Economics, Centre for Economic Performance, Discussion Paper: 272; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. PG 59. PR no charge. JE E13, F35, O11, O19. KW Foreign Aid. Regimes. Political Economy. Poverty.

AB This paper analyzes the effectiveness of foreign aid programs to gain insights into political regimes in aid recipient countries. The analytical framework shows how three stylized political/economic regimes labeled egalitarian, elitist and laissez-faire would use foreign aid. The paper then tests reduced form equations using data on nonmilitary aid flows to 96 countries, finding that models of elitist political regimes best predict the impact of foreign aid. Aid does not significantly increase investment growth, nor benefit the poor as measured by improvements in human development indicators, but it does increase the size of government. Another finding is that the impact of aid does not vary according to whether recipient governments are liberal democratic or highly repressive. But liberal political regimes and democracies, ceteris paribus, have on average 30 percent lower infant mortality than the least free regimes. An implication is that short term aid targeted to support new liberal regimes may be a more successful means of reducing poverty than current programs.

Boot, Arnoud W. A.

PD August 1995. TI Financial System Architecture. AU Boot, Arnoud W. A.; Thakor, Anjan V. AA Boot: University of Amsterdam. Thakor: Indiana University. SR Centre for Economic Policy Research, Discussion Paper: 1197; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom.

PG 48. PR 4 pounds or $8.00. JE G14, G24. KW Finance. Mechanism Design. Investment. Commercial Banking.
AB The main purpose of this paper is to take a step towards building a theory of financial system architecture. We begin with basic assumptions about the types of primitive agents and the nature of informational asymmetries in the economy, and then provide a theory that explains which agents coalesce to form banks and which agents trade in the capital market. Our theory incorporates a model of financial market equilibrium with sufficient richness to enable market prices to convey decision-relevant information to firms and makes it possible to extract broader implications regarding the configuration of financial systems. The borrower's choice between bank and financial market funding is examined in this framework, and it is shown that borrowers of higher observable qualities directly access the financial market. Moreover, a financial system in its infancy is likely to be bank dominated, and financial innovation causes a decline in the relative importance of banks in lending.

PD September 1995. TI Banking Scope, Financial Innovation, and the Evolution of the Financial System. AU Boot, Arnoud W. A.; Thakor, Anjan V. AA Boot: University of Amsterdam. Thakor: Indiana University. SR Centre for Economic Policy Research, Discussion Paper: 1237; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 40. PR 4 pounds or $8.00. JE G10, G24. KW Banking Scope. Financial Innovation. Financial System Design.
AB This paper explores the implications of financial system design for financial innovation. We begin with assumptions about the investment opportunities of firms, their observable attributes, and the roles of commercial banks, investment banks, and the financial market. We examine the borrower's choice between bank and financial market funding, the commercial bank's choice of monitoring capacity, and the investment bank's choice of whether to invest in financial innovation. Our main result is that financial innovation in a universal banking system is stochastically lower than innovation in a financial system in which commercial and investment banks are functionally separated. This result is accompanied by a host of policy implications regarding the effects of fragmentation and the evolution of financial systems.

Booth, Alison L.
PD March 1996. TI Firing Costs, Unions and Employment. AU Booth, Alison L.; McCulloch, Andrew. AA Booth: University of Essex. McCulloch: University of Cambridge. SR Centre for Economic Policy Research, Discussion Paper: 1347; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 44. PR 4 pounds or $8.00. JE J32, J33, J51, J65. KW Firing Costs. Redundancy Pay. Unions. Employment. Financial Performance.
AB This paper develops a simple model of employment, non-statutory redundancy pay and wage determination. An interesting feature of this model is that the contract curve is vertical. Some of the predictions of the model are confronted with the available British data on non- statutory firing costs, from the 1990 Workplace Industrial Relations Survey. The estimates indicate: first, that bargaining over redundancy pay is more prevalent in plants with a strong union presence; second, that bargaining over redundancy pay has no impact on recent employment variation for plants in the sample; and third, that financial performance is unaffected by manual bargaining, but is positively associated with non-manual bargaining.

Born, Patricia
PD September 1995. TI Organizational Form and Insurance Company Performance: Stocks Versus Mutuals. AU Born, Patricia; Gentry, William M.; Viscusi, W. Kip; Zeckhauser, Richard J. AA Born: Center for Health Policy Research. Gentry: Columbia University and National Bureau of Economic Research. Viscusi: Duke University. Zeckhauser: Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5246; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG not available. PR $5.00. JE G22, D23, L14, L22. KW Insurance. Property-Casualty. Agency Theory.
AB One unusual feature of the U.S. property-casualty insurance industry is the coexistence of stock and mutual companies. This paper explores the performance of these forms in the industry through a dynamic assessment of how mutual and stock insurance companies respond to differences in their underwriting environment. Agency theories suggest that the stock company may be more "opportunistic" and less obligated to their insured than mutuals. This article assesses the responses by stock and mutual firms to changes in the underwriting environment from 1984 to 1991, using measures of individual firms' performance, by state and by line, in eight different lines of insurance. Stock companies are more likely than mutuals to reduce their business in unprofitable situations, and have higher losses than mutuals for a given amount of premiums.

Borooah, Vani K.
PD November 1995. TI Was There a Regional Dimension to Changes in Income Inequality in the UK Over 1982-92? An Analysis Based on a Joint Decomposition of Income Inequality by Region and by Employment Status. AU Borooah, Vani K.; Collins, Grainne. AA Borooah: University of Ulster. Collins: University of Cambridge. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9540; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG 29. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE D31, D63. KW Inequality Change. Decomposition.
AB The aim of this paper is to decompose inequality change of a population between two successive time-periods and two different, each mutually exclusive, subgroups. The paper extends the work of Mookerjee and Shorrocks (1982), who developed the methodology for the decomposition of inequality and the work of Jenkins (1995) who applied their methods to analyzing inequality change in the UK. The novel element of this paper is the extension of inequality decomposition to change by two characteristics, rather than change by a single characteristic.

Bovenberg, A. Lans
TI Does Monetary Unification Lead to Excessive Debt Accumulation? AU Beetsma, Roel M. W. J.; Bovenberg, A. Lans.

TI Designing Fiscal and Monetary Institutions for a European Monetary Union. AU Beetsma, Roel M. W. J.;

Bovenberg, A. Lans.

Braga de Macedo, J.

PD   August 1995. **TI**   Macroeconomic Policy in Central Europe. **AU**   Braga de Macedo, J.; Branson, W. H. **AA**   Braga de Macedo: Nova University of Lisbon. Branson: Princeton University. **SR**   Centre for Economic Policy Research, Discussion Paper: 1195; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 60. **PR** 4 pounds or $8.00. **JE**   E25, F42, F41. **KW** Central Europe. Transition. Evaluation. Institutions.

AB   Our focus in this paper is macroeconomic policy in the countries of Central Europe: The Czech Republic, Hungary, Poland and Slovakia. All four are committed to joining the European Union. Accordingly, their macroeconomic policies need to put them on a credible path towards meeting the entry criteria at some point in the foreseeable future. We develop a framework for analyzing and evaluating both macroeconomic policy and the development of policy-making institutions to put each of the four national economies on that path and keep them there as they move towards accession. We also seek to design this framework so that it is more generally useful in analyzing developments in the other transition economies. The approach we take to the analysis of macroeconomic policy is to look first for signs of external balance, and then to look to internal balance as the economy is increasingly decontrolled. We recommend that, in their approach to external balance, the economies adopt a Pre-Pegging Exchange Rate Regime, which essentially means no active nominal devaluation (no nominal devaluation aimed at real devaluation) as the country converges towards Union membership. We recommend that, in their approach to internal balance, countries adopt a Multi-Annual Fiscal Adjustment Strategy.

Branco, Fernando

PD   August 1995. **TI**   Multi-Object Auctions: On the Use of Combinational Bids. **AA**   Universidade Catolica Portuguesa. **SR**   Centre for Economic Policy Research, Discussion Paper: 1216; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG**   24. **PR**   4 pounds or $8.00. **JE**   D44, L14. **KW**   Combinational Bids. Mechanism Design. Auctions.

AB   This paper studies multiple object auctions when there are two kinds of bidders: those interested in the bundle being sold (bundle bidders) and those that want one specific object only (unit bidders). The analysis has been motivated by the sale of spectrum rights in the United States. Using a simple model of independent valuations I explore the properties of the optimal auction and its implementation. I show that an optimal mechanism requires combinational bids for the bundle and for each of the units. Moreover, if the optimal mechanism allocates the objects efficiently, a combination of second-price auctions allows the implementation of the optimal mechanism, while a combination of first-price auctions does not.

Branson, W. H.

TI   Macroeconomic Policy in Central Europe. **AU**   Braga de Macedo, J.; Branson, W. H.

Braun, Toni

TI   Transaction Services, Inflation and Welfare. **AU**   Aiyagari, S. Rao; Braun, Toni; Eckstein, Zvi.

Brennan, Michael J.

PD   July 1995. **TI**   Underpricing, Ownership and Control in Initial Public Offerings of Equity Securities in the UK. **AU**   Brennan, Michael J.; Franks, Julian. **AA**   London Business School. **SR**   Centre for Economic Policy Research, Discussion Paper: 1211; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE**   G34. **KW** Underpricing. Rationing. Private Benefits. Initial Public Offering.

AB   In this paper we examine how separation of ownership and control evolves as a result of an initial public offering (IPO) and how the underpricing of the issue can be used by insiders to retain control. Using data from a sample of 69 IPOs in the United Kingdom, we argue that IPO underpricing is used to ensure over-subscription and rationing in the share allocation process so as to allow owners to discriminate between applicants for shares and reduce the block size of new shareholdings. We find that of the pre-IPO shareholders in a firm, directors sell only a small fraction of their shares at the time of the offering and in the seven subsequent years; in contrast, holdings of non-directors are virtually eliminated during the same period. As a result, in less than seven years almost two-thirds of the offering company's shares have been sold to outside shareholders, thereby substantially advancing the process of separation of ownership and control. Additional evidence in the paper suggests that rationing in the IPO discriminates against applicants who apply for large blocks, and that the greater the underpricing, the smaller the size of new blocks assembled after the IPO.

Brewer, Marilynn B.

TI   Collaboration Structure and Information Dilemmas in Biotechnology: Organization Boundaries As Trust Production. **AU**   Zucker, Lynne G.; Brewer, Marilynn B.; Darby, Michael R.; Peng, Yusheng.

Broadberry, S.

PD   May 1996. **TI**   British Economic Policy and Industrial Performance in the Early Postwar Period. **AU**   Broadberry, S.; Crafts, Nicholas F. R. **AA**   London School of Economics. **SR**   London School of Economics, Centre for Economic Performance, Discussion Paper: 292; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 29. **PR** no charge. **JE**   N14, L16, E58. **KW** United Kingdom. Monetary Policy. Industrial Policy. Productivity.

AB   In analyses of British productivity performance in the 1930's, we have argued that the policy framework adopted in response to macroeconomic shocks was understandable and quite effective in ameliorating short-term adjustment problems but harmful in terms of its long-run supply side implications for the growth of productive potential (Broadberry and Crafts, 1990; 1992). In this paper we wish to develop similar themes in the context of the early postwar period. In particular, we suggest that the overriding need to cope with balance of payments problems and a monetary overhang in the context of the postwar settlement precluded desirable supply side reforms in the areas of industrial relations and competition policy. On the other hand, the macropolicy framework was highly successful in terms of its inflation and unemployment outcomes. When detailed analysis of cross sectional productivity performance in British manufacturing is

undertaken, weaknesses are seen particularly in terms of human capital and in the incentive structure which the bargaining environment gave to firms and unions with respect to productivity improvement. Again, these problems are a continuation of the 1930's experience which tend to inhibit catch-up growth.

Bruno, Michael

PD August 1995. TI Inflation Crises and Long-Run Growth. AU Bruno, Michael; Eaterly, William. AA Bruno: The World Bank and National Bureau of Economic Research. Eaterly: The World Bank. SR National Bureau of Economic Research Working Paper: 5209; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 24. PR $5.00. JE O42, E31, E32, C33. KW Inflation. Growth. Panel Data. Hyperinflation.

AB Recent literature suggests that long-run averages of growth and inflation are only weakly correlated and such correlation is not robust to exclusion of extreme inflation observations; inclusion of time series panel data has improved matters, but an aggregate parametric approach remains inconclusive. We propose a nonparametric definition of high inflation crises as periods when inflation is above 40 percent annually. Excluding countries with high inflation crises, we find no evidence of any consistent relationship between growth and inflation at any frequency. However, we find that growth falls sharply during discrete high inflation crises, then recovers surprisingly strongly after inflation falls. The fall in growth during crises and recovery of growth after crisis tend to average out to close to zero (even slightly above zero), hence the lack of a robust cross-section correlation. Our findings could be consistent either with trend stationarity of output, in which inflation crises are purely cyclical phenomena, or with models in which crises have a favorable long-run purgative effect. Our findings do not support the view that reduction of high inflation carries heavy short-to-medium run output costs.

Bryan, Michael F.

PD July 1995. TI The Seasonality of Consumer Prices. AU Bryan, Michael F.; Cecchetti, Stephen G. AA Bryan: Federal Reserve Bank of Cleveland. Cecchetti: Ohio State University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5173; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 12. PR $5.00. JE C43, D12, C81. KW Inflation. Consumer Prices. Aggregation.

AB In this paper, we reevaluate the evidence of seasonality in prices which we find to be substantially greater than previous research has indicated. That is, seasonal price movements have become more prominent in the relatively stable inflation environment that has prevailed since 1982. One main conclusion is drawn from this analysis: The amount of seasonality in prices differs greatly by item, making it difficult to generalize about seasonal movements. A casual reading fails to reveal an easily identifiable origin of the seasonal variation of prices. That is, seasonality in consumer prices is predominantly idiosyncratic in nature, a result that contrasts with studies demonstrating a common seasonal cycle in real economic variables. This finding has an important practical implication: Given the selective, disaggregated approach taken by the Bureau of Labor Statistics to adjust data seasonally, the existence of idiosyncratic seasonality increases the likelihood of allowing noise in the aggregate CPI at a seasonal frequency. This argues in favor of seasonally adjusting the index after aggregation.

Buiter, Willem H.

PD May 1995. TI Capital Mobility, Fiscal Policy and Growth Under Self-Financing of Human Capital Formation. AU Buiter, Willem H.; Kletzer, Kenneth M. AA Buiter: University of Cambridge. Kletzer: University of California, Santa Cruz. SR Centre for Economic Policy Research, Discussion Paper: 1179; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 48. PR 4 pounds or $8.00. JE E62, F21, F43. KW Capital Mobility. Fiscal Policy. Human Capital. Endogenous Growth.

AB This paper considers the effects of fiscal and financial policy on economic growth in open and closed economies, when human capital formation by young households is constrained by the illiquidity of human wealth. Both endogenous and exogenous growth versions of the basic overlapping generations (OLG) model are analyzed. We find that intergenerational redistribution policies that discourage physical capital formation may encourage human capital formation. Despite common technologies and perfect international mobility of financial capital, the non-tradedness of human capital and the illiquidity of human wealth make for persistent differences in productivity growth rates (in the endogenous growth version of the model) or in their levels (in the exogenous growth version). We also consider the productivity growth (or level) effects of public spending on education and of the distortionary taxation of financial asset income.

PD July 1995. TI A Centre-Periphery Model of Monetary Coordination and Exchange Rate Crises. AU Buiter, Willem H.; Corsetti, Giancarlo; Pesenti, Paolo A. AA Buiter: University of Cambridge. Corsetti: University of Rome III. Pesenti: Princeton University. SR Centre for Economic Policy Research, Discussion Paper: 1201; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 48. PR 4 pounds or $8.00. JE F31, F33, F41, F42. KW Foreign Exchange. Crises. Policy Coordination. Center-Periphery.

AB The paper analyzes the modalities and consequences of a breakdown of cooperation between the monetary authorities of inflation-prone periphery countries that use an exchange rate peg as an anti- inflationary device, when the centre is hit by an aggregate demand shock. Cooperation in the periphery is constrained to be symmetric: costs and benefits must be equal for all. Our model suggests that there are at least two ways in which a generalized crisis of the exchange rate system may emerge. The first is when the constrained cooperative response of the periphery is a moderate common devaluation while the non-cooperative equilibrium has large devaluations by a few countries. An exchange rate crisis emerges if periphery countries give in to their individual incentives to renege on the cooperative agreement. In the second case, the centre shock is not large enough to trigger a general devaluation in the constrained cooperative equilibrium; yet some of the periphery countries would devalue in the Nash equilibrium, making the monetary stance in the system more expansionary. In this case, reversion to Nash is collectively rational. We offer this model as a useful parable for interpreting the collapse of the Exchange

Rate Mechanism (ERM) in 1992-3.

AB The main conclusions of this paper are the following. In order to minimize switching costs, the name of the new EU currency should be the Deutschmark. Differential national requirements for seigniorage revenue provide a weak case for retaining national monetary independence. From the point of view of adjustment to asymmetric shocks, nominal exchange rate flexibility is at best a limited blessing and at worst a limited curse. Inter-state labor mobility in the United States does not compensate for the absence of state-level exchange rate flexibility. The absence of significant inter-member fiscal redistribution mechanisms in the EU is not an obstacle to monetary union. Convergence or divergence in real economic performance is irrelevant for monetary union. A common currency is the logical implication of unrestricted international mobility of financial capital. The Maastricht criteria are unlikely to hinder monetary union. There are no convincing economic objections left to monetary union in the EU.

Burda, Michael C.

AB Migration is an investment: it involves fixed, unrecoverable costs and uncertain future returns. If migration can be postponed, the option value of doing so may have positive value. Migration may not occur for a range of individuals who would otherwise migrate on a net present value basis. This paper models the migration decision using ideas developed by Pindyck (1991) and Dixit (1992). The option value of waiting is related to the interest rate, fixed costs, and especially uncertainty governing the evolution of income at home and abroad. The "bad news principle" predicts that only unfavorable states of the world will affect the value of the migration option. In a rational intertemporal equilibrium of two regional labor markets, low migration rates may coexist with large or even increasing current wage differentials.

AB Existing theories of unions emphasize their impact on wage levels relative to the opportunity cost of leisure. This paper explores the possibility that monopoly unions provide income insurance against idiosyncratic wage variability. An optimal union contract is characterized by real wage and other types of flexibility only in response to systematic changes in underlying uncertainty. Under such conditions, there is no presumption that the "union wage premium" relative to the free market wage is positive. The model shows the effect of unemployment benefits, average productivity, and risk on the desirability of union membership, and offers an economic interpretation of equity and solidarity in union policy. It can also explain the negative correlation between inequality and unionism in developed countries.

Burgess, Simon

Burnside, C.

AB This paper studies the implications of procyclical capital utilization rates for inference regarding cyclical movements in labor productivity and the degree of returns to scale. We organize our investigation around five questions that we study using a measure of capital services based on electricity consumption: (1) Is the phenomenon of near or actual short-run increasing returns to labor (SRIRL) an artifact of the failure to accurately measure capital utilization rates? (2) Can we find a significant role for capital services in aggregate and industry level production technologies? (3) Is there evidence against the hypothesis of constant returns to scale? (4) Can we reject the notion that the residuals in our estimated production functions represent technology shocks? (5) How does correcting for cyclical variations in capital services affect the statistical properties of estimated aggregate technology shocks? The answer to the first two questions is: yes. The answer to the third and fourth questions is: no. The answer to the fifth question is: a lot.

Caballero, Ricardo J.

AB We analyze market impediments to the process of structural adjustment. We focus on incomplete-contract inefficiencies in the transactions between workers and firms that render the quasi-rents from "specific" investment appropriable. During adjustment, the result is a depressed rate of creation of

the new productive structure and excessive destruction of the old one, leading to an employment crisis. Moreover, appropriability weakens the incentives for extensive restructuring and results in a "sclerotic" productive structure. An adequate managed-adjustment program combines vigorous creation incentives in the expanding sector with measures to support employment in the contracting one. In contrast, the common prescription of gradualism does not act as an effective "synchronizer" of creation and destruction, for it can only reduce destruction by also reducing an already depressed creation rate.

Caban, Wieslaw

TI Adjustment and Performance of the Textile and Clothing Industry in the Czech Republic, Poland and Portugal. **AU** Benacek, Vladimir; Caban, Wieslaw; Corado, Cristina.

Cabralas, Antonio

PD February 1996. **TI** Country Asymmetries, Endogenous Product Choice and the Speed of Trade Liberalization. **AU** Cabralas, Antonio; Motta, Massimo. **AA** Universitat Pompeu Fabra. **SR** Centre for Economic Policy Research, Discussion Paper: 1326; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 56. **PR** 4 pounds or $8.00. **JE** F12, F15. **KW** Trade Liberalization. Product Differentiation. International Trade. Country Size.
AB We analyze the effects of trade liberalization on firms' decisions and profits, and on consumers' welfare, in a product differentiation model with countries of different size. Firms decide product specifications at the beginning of the game, in which autarky is followed by trade liberalization (whose date is anticipated). Despite the heterogeneity, the highest level of welfare is attained for both countries when trade opens immediately. The impact on firms' profits can differ, however. A small country's firms benefit from larger market size but are disadvantaged when the scale of the home market affects the product choice decision. The opposite is true for the firm located in the large country.

Cameron, Gavin

PD February 1996. **TI** Innovation and Economic Growth. **AA** Nuffield College. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 277; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 48. **PR** no charge. **JE** O41, O31. **KW** Innovation. Economic Growth. Technological Spillovers. Domestic Firms. Productivity.
AB This paper surveys the empirical evidence on the link between innovation and economic growth. It considers a number of different measures of innovation, such as R&D spending, patenting, and innovation counts, as well as the pervasive effect of technological spillovers between firms, and countries. There are three main conclusions. The first is that innovation makes a significant contribution to growth. The second is that there are significant spillovers between countries, firms and industries, and to a lesser extent from government-funded research. Third, that these spillovers tend to be localized, with foreign economies gaining significantly less from domestic innovation than other domestic firms. This suggests that although technological "catch-up" may act to equalize productivity across countries, the process is likely to

be slow and uncertain, and require substantial domestic innovative effort.

Canova, Fabio

PD November 1995. **TI** The Poor Stay Poor: Non-Convergence Across Countries and Regions. **AU** Canova, Fabio; Marcet, Albert. **AA** Universitat Pompeu Fabra. **SR** Centre for Economic Policy Research, Discussion Paper: 1265; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 52. **PR** 4 pounds or $8.00. **JE** C11, C23, D91, O47. **KW** Convergence. Income Inequalities. Persistence. Panel Data. Prior Distribution.
AB We study the issue of income convergence across countries and regions with a Bayesian model which allows us to use information in an efficient and flexible way. We argue that the very slow convergence rates to a common level of per-capita income found, for example, by Barro and Sala-i-Martin, is due to a "fixed effect bias" that their cross-sectional analysis introduces in the results. Our approach permits the estimation of different convergence rates to different steady states for each cross-sectional unit. When this diversity is allowed, we find that convergence of each unit to (its own) steady-state income level is much faster than previously estimated, but that cross-sectional differences persist: inequalities will only be reduced by a small amount by the passage of time. The cross-country distribution of the steady state is largely explained by the cross-sectional distribution of initial conditions.

Capozza, Dennis R.

PD July 1995. **TI** Expectations, Efficiency, and Euphoria in the Housing Market. **AU** Capozza, Dennis R.; Seguin, Paul J. **AA** University of Michigan. **SR** National Bureau of Economic Research Working Paper: 5179; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 19. **PR** $5.00. **JE** C53, R21, D12, D91, D84. **KW** Housing. Expectations. Forecasting. Asset Pricing.
AB This paper studies expectations of capital appreciation in the housing market. We show that expectations impounded in the rent/price ratio at the beginning of the decade successfully predict appreciation rates, but only if we first control for cross-sectional differences in the quality of rental versus owner-occupied housing. We also demonstrate that observed rent/price ratios contain a disequilibrium component that also has power to forecast subsequent appreciation rates. Finally, we provide evidence consistent with euphoria: participants in housing markets appear to overreact to income growth.

Carlin, Wendy

TI Will East Germany Become a New Mezzogiorno? **AU** Boltho, Andrea; Carlin, Wendy; Scaramozzino, Pasquale.

Carliner, Geoffrey

PD August 1995. **TI** The Language Ability of U.S. Immigrants: Assimilation and Cohort Effects. **AA** National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5222; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 60. **PR** $5.00. **JE** F22, J24. **KW** English. Language. Immigration.
AB This paper uses data from the 1980 and 1990 U.S. Census of Population to examine the English language skills of natives

and immigrants. The first main finding is that lack of fluency is spoken English is rare among native-born Americans.. Among native-born children of ethnic groups who have come to the U.S. in large numbers during the past 30 years a substantial fraction were not fluent when they entered grade school. Second, the vast majority of immigrants speak English well. In 1990, only a quarter of immigrants reported speaking English poorly or not at all, though more than half of Mexicans and one third of immigrants from other non-English speaking western hemisphere countries could not speak English well.. Third, since the 1950's there has been a trend decrease in the probability of fluency among new immigrants of about 0.1 percentage points per year, caused by the shift from European immigrants with strong English skills to Latin American and East Asian immigrants who arrive speaking less English. On average, each additional year of residence in the U.S. increases the probability of fluency by 1.1 percentage points. An additional year of schooling increases the probability of fluency by about 5 percentage points.

Carling, Kenneth

PD June 1995. TI Unemployment Duration, Unemployment Benefits, and Labour Market Programmes in Sweden. AU Carling, Kenneth; Edin, Per-Anders; Harkman, Anders; Holmlund, Bertil. AA Carling, Edin and Holmlund: Uppsala University. Harkman: AMS. SR Centre for Economic Policy Research, Discussion Paper: 1200; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 40. PR 4 pounds or $8.00. JE J64, J65. KW Unemployment Benefits. Unemployment Duration.

AB Standard search theory and some empirical evidence suggest that an unemployed individual's probability of entering employment increases as they approach the time when unemployment benefits are due to expire. This pattern may not carry over to countries such as Sweden, where labor market programmes are targeted at the long-term unemployed at risk of benefit exhaustion. This paper examines movements out of unemployment using data on unemployed individuals in Sweden. A semi- parametric competing risks model for transitions to employment, labor market programs and non-participation is estimated. There is some evidence that the exit rate from unemployment to employment increases as benefit exhaustion is approached.

Carr, Roderick

TI State and Local Pension Plans. AU Mitchell, Olivia S.; Carr, Roderick.

Carraro, Carlo

PD April 1995. TI R&D Cooperation and the Stability of International Environmental Agreements. AU Carraro, Carlo; Siniscalco, Domenico. AA Carraro: University of Venice. Siniscalco: Fondaxione Eni Enrico Mattei. SR Centre for Economic Policy Research, Discussion Paper: 1154; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 32. PR 4 pounds or $8.00. JE C72, Q25, Q28, O33. KW Coalition. Environment. Negotiations. Innovation. Global Warming.

AB International agreements to protect the global environment are typically difficult to reach. In principle they should be profitable for all players involved in the negotiation. Even when they are profitable, however, they are often unstable due to the incentive to free-ride (enjoying the clean environment provided by others' emission reduction without paying the cost). One possible way to overcome this problem is to link the unstable environmental agreement to other agreements which are profitable and stable. This paper presents a model where an environmental negotiation, which is profitable but unstable, is "stabilized" by linking it to an agreement on research and development cooperation, which is shown to be profitable and stable. The optimality of this linkage is also discussed.

PD April 1995. TI Environmental Feedbacks and Optimal Taxation in Oligopoly. AU Carraro, Carlo; Soubeyran, Antoine. AA Carraro: University of Venice. Soubeyran: Universite Aix-Marseille II. SR Centre for Economic Policy Research, Discussion Paper: 1156; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 44. PR 4 pounds or $8.00. JE O33, Q28, Q48, L13. KW Environment. Market Structure. Oligopoly. Taxation. Welfare.

AB The paper analyzes the problem of optimal taxation in oligopoly when environmental degradation induced by the industry production process feeds back into market demand. The main assumption is that economic agents and the policy-maker care about the environment only because its degradation affects the industry's economic performance. The environment does not enter directly either into the utility function or into the social welfare function. We consider an industry in which asymmetric firms compete a la Cournot. Asymmetry arises because firms use different technologies (their marginal costs differ). The first part of the paper focuses on the comparative static effects of the environmental tax. We show that market share and profits of some firms can increase when the tax rate is raised if environmental feedbacks are sufficiently high and the industry is not very asymmetric. The second part of the paper faces the problem of optimal taxation. We show that there may exist an optimal tax such that some firms increase their profits and/or their market share. Moreover, the optimal tax rate is inversely related to the industry asymmetry (the variance of firms' marginal costs), and positively related to the perceived environmental damage.

Carroll, Christopher D.

PD July 1995. TI The Nature of Precautionary Wealth. AU Carroll, Christopher D.; Samwick, Andrew A. AA Carroll: Board of Governors of the Federal Reserve System. Samwick: Dartmouth College. SR National Bureau of Economic Research Working Paper: 5193; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 39. PR $5.00. JE D84, D91, E21. KW Consumption. Life Cycle. Buffer Stock.

AB This paper uses the Panel Study of Income Dynamics to provide some of the first direct evidence that wealth is systematically higher for consumers with greater income uncertainty. However, the apparent pattern of precautionary saving is not consistent with a standard parameterization of the life cycle model in which consumers are patient enough to begin saving for retirement early in life: wealth is estimated to be less sensitive to uncertainty in permanent income than implied by that model. Instead, our results suggest that over most of their working lifetime, consumers behave in accordance with the "buffer-stock" models of saving described

in Carroll (1992) or Deaton (1991), in which consumers hold wealth principally to insulate consumption against near term fluctuations in income.

PD July 1995. TI How Important is Precautionary Saving? AU Carroll, Christopher D.; Samwick, Andrew A. AA Carroll: Board of Governors of the Federal Reserve System. Samwick: Dartmouth College and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5194; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 32. PR $5.00. JE D84, D91, E21. KW Consumption. Life Cycle. Precautionary Saving.
AB We estimate the fraction of the wealth of a sample of Panel Study of Income Dynamics respondents that is held because some households face greater income uncertainty than others. We first derive an equation characterizing the theoretical relationship between wealth and uncertainty in a buffer-stock model of saving. Next, we estimate that equation using PSID data; we find strong evidence that households engage in precautionary saving. Finally, we simulate the wealth distribution that would prevail if all households had the same uncertainty as the lowest-uncertainty group. We find that between 39 and 46 percent of wealth in our sample is attributable to uncertainty differentials across groups.

Case, Karl E.
PD July 1995. TI Housing Price Dynamics Within a Metropolitan Area. AU Case, Karl E.; Mayer, Christopher J. AA Case: Wellesley College. Mayer: Federal Reserve Bank of Boston. SR National Bureau of Economic Research Working Paper: 5182; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 25. PR $5.00. JE R31, R21, R11, R53. KW Regional Dynamics. Housing.
AB This paper analyzes the pattern of cross-sectional house price appreciation in the Boston metropolitan area from 1982 to 1994. The empirical results are consistent with many of the predictions of a standard urban model in which towns have a fixed set of locational attributes and amenities. In particular, the evidence suggests that house prices in towns with a large share of residents working in the manufacturing sector in 1980 grew less quickly in the ensuing years when aggregate manufacturing employment fell. As baby boomers moved into middle age, house values appreciated faster in towns with a larger initial percentage of middle-aged residents. Housing values rose more slowly in towns that allowed additional construction, and values rose faster in towns closer to Boston. Finally, as fewer families had children who attended public schools statewide, the price premium associated with housing in towns with good schools fell. All of these findings support the view that town's amenities and public services are not easily replicated or quickly adaptable to shifts in demand, even within a metropolitan area.

Casella, Alessandra
PD July 1995. TI Free Trade and Evolving Standards. AA Columbia University. SR Centre for Economic Policy Research, Discussion Paper: 1204; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 60. PR 4 pounds or $8.00. JE F15, H41, K32. KW Standards. Harmonization. Free Trade. Coalition Formation.
AB Because standards and regulations respond to a society's demand for specific public goods, we expect them to be shaped by preferences, endowments, technologies -- the fundamental determinants of this demand. There is no a priori reason why standards should be equal in different societies. This paper studies the interaction between standards and international trade. It shows that although standards can be used to manipulate trade flows, there is no logical connection between standards harmonization and gains from trade. Moreover, standards themselves will be modified by the opening of trade and under reasonable assumptions harmonization will be one of the outcomes of free trade. The empirical evidence suggests that industry groups are assuming an increasing role in shaping government regulations. In this perspective, standards need not be automatically identified with national policies, and the possibility of international alliances of industry groups must be considered. The result of market integration is then international harmonization together with increased differentiation across industries.

PD January 1996. TI Large Countries, Small Countries and the Enlargement of Trade Blocs. AA Columbia University. SR Centre for Economic Policy Research, Discussion Paper: 1320; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 44. PR 4 pounds or $8.00. JE F12, F13, F15. KW Trade Blocs. Economic Integration. Regionalism.
AB Are there systematic forces such that countries of different sizes participating in a free trade bloc gain differently from the entry of new members? If economies of scale imply that firms located in large countries enjoy lower costs, then the gains from enlarging the bloc will fall disproportionately on small countries, because the entry of new members diminishes the importance of the domestic market and improves the small countries' relative competitiveness. The theoretical prediction is clear, but the empirical analysis of trade flows towards Spain and Portugal after their 1986 entry into the European Community yields mixed results. France and the United Kingdom appear to have lost market shares relative to the small countries in the Community, but the same is not true for Italy nor, to a lesser degree, for Germany.

Cecchetti, Stephen G.
TI The Seasonality of Consumer Prices. AU Bryan, Michael F.; Cecchetti, Stephen G.

Centre for Economic Performance
PD January 1996. TI Review of the Years Work, 1994-95. AA London School of Economics. SR London School of Economics, Centre for Economic Performance, Discussion Paper: 273; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. PG 92. PR no charge. JE not available. KW not available.
AB This report covers the fifth full year of the Centre's work.

Chalkley, Martin
TI Contracting in the NHS Legal and Economic Issues. AU Barker, Kit; Chalkley, Martin; Malcomson, James; Montgomery, Jonathan.

Chaloupka, Frank J.
TI An Empirical Analysis of Alcohol Addiction: Results from the Monitoring the Future Panels. AU Grossman,

Michael; Sirtalan, Ismail; Chaloupka, Frank J.

TI   The Demand for Illicit Drugs. AU   Saffer, Henry; Chaloupka, Frank J.

Chan, Sewin

PD   July 1995. TI   Residential Mobility and Mortgages. AA   Columbia University. SR   National Bureau of Economic Research Working Paper: 5181; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG   36. PR $5.00. JE   C81, D12, R13. KW   Mortgage Applications. Household Data. Survey.

AB   Mortgage applications are a detailed and accurate source of household information that is verified by underwriters, making it a more accurate data source than self-reported survey answers. This paper discusses how mortgage data can be applied to areas of economics outside mortgage finance. As a supplement to variables from the application form, the self-selection of mortgage points is used to infer expected mobility. A duration model of housing spells is estimated, and the points indicator is shown to be highly significant in predicting mobility for low loan-to-value borrowers. The findings demonstrate the potential fruitfulness of using this new data source.

Chari, V. V.

PD   September 1995. TI   Inside Money, Outside Money and Short Term Interest Rates. AU   Chari, V. V.; Christiano, Lawrence J.; Eichenbaum, Martin. AA   Chari: University of Minnesota. Christiano and Eichenbaum: Northwestern University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 5269; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG   38. PR $5.00. JE   E43, E51, E52, C15. KW   Business Cycles. Monetary Policy. Transmission Mechanism.

AB   This paper presents a quantitative general equilibrium model with multiple monetary aggregates. The framework incorporates a banking sector and distinguishes between M1, the monetary base, currency and various measures of reserves: total, excess and non borrowed. We use a variant of the model to analyze two sets of empirical facts. The first set of facts is that different monetary aggregates covary differently with short term nominal interest rates. Broad monetary aggregates like M1 and the monetary base covary positively with current and future values of short term interest rates. In contrast, the non borrowed reserves of banks covary negatively with current and future interest rates. Observations like this "sign switch" lie at the core of recent debates about the effects of monetary policy actions on short term interest rates. According to our model, the sign switch occurs because movements in non borrowed reserves are dominated by exogenous shocks to monetary policy, while movements in the base and M1 are dominated by endogenous responses to non-policy shocks. The second set of facts that we consider is that broad monetary aggregates covary positively with output. We quantify the Friedman and Schwartz hypothesis that this covariation reflects the effects of exogenous shocks to monetary policy, and the hypothesis that they reflect the endogenous response of monetary aggregates to shocks in the private economy.

Chen, Zhaohui

PD   May 1995. TI   Speculative Market Structure and the Collapse of an Exchange Rate Mechanism. AA   London School of Economics. SR   Centre for Economic Policy Research, Discussion Paper: 1164; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   40. PR   4 pounds or $8.00. JE   E58, F31, F33, G15. KW   Foreign Exchange. Mechanism. Target Zone. Speculative Attack. Exchange Rate.

AB   A salient feature of recent currency speculations in the European Exchange Rate Mechanism is that the speculators can be big strategic players in the market, along with the central bank. This paper develops a game-theoretic model that captures this feature of the speculative market. For a regime with a narrow fluctuation band, the analysis identifies the following factors affecting the equilibrium exchange rate movement: the cost and benefit considerations for both the speculator and the central bank, and the credibility of the band. The analysis also provides a framework to evaluate the effectiveness of different anti-speculation policy instruments, including reserves, interest rates, and capital controls. It suggests a potentially useful scheme that penalizes the speculators only on their post-speculation gains (a "windfall tax"). For a wide-band regime, this paper shows the possibility of multiple equilibria, giving rise to a "wall within the wide band". Such a "wall" serves as a barrier to exchange rate movements and therefore helps stabilize exchange rate fluctuations, although it does not eliminate the possibility of the collapse of the system. The model implies a U-shaped unconditional distribution for the narrow band and a W-shaped distribution for the wide band.

Chevalier, Judith A.

PD   August 1995. TI   Risk Taking By Mutual Funds As a Response to Incentives. AU   Chevalier, Judith A.; Ellison, Glenn D. AA   Chevalier: University of Chicago and National Bureau of Economic Research. Ellison: Massachusetts Institute of Technology and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 5234; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG   30. PR $5.00. JE   G23, D82, C14. KW   Mutual Funds. Asymmetric Information. Risk.

AB   This paper examines the agency conflict between mutual fund investors and mutual fund companies. Investors would like the fund company to use its judgment to maximize risk-adjusted fund returns. A fund company, however, in its desire to maximize its value as a concern has an incentive to take actions which increases the inflow of investment. We use a semiparametric model to estimate the shape of the flow-performance relationship for a sample of growth and income funds observed over the 1982-1992 period. The shape of the flow-performance relationship creates incentives for fund managers to increase or decrease the riskiness of the fund which are dependent on the fund's year-to-date return. Using a new dataset of mutual funds portfolios which includes equity portfolio holdings for September and December of the same year, we show that mutual funds do alter their portfolio riskiness between September and December in a manner consistent with these risk incentives.

Chinn, Menzie

PD   September 1995. TI   Asia-Pacific Capital Markets: Integration and Implications for Economic Growth. AU   Chinn, Menzie; Dooley, Michael. AA   Chinn: University of California, Santa Cruz. Dooley: University of California, Santa Cruz and National Bureau of Economic

AB The apparent success of several East Asian countries in sterilizing capital inflows seems to contradict findings of high capital mobility. This paper argues that empirical studies examining money market rates may be misleading, since most lending is mediated through domestic banking systems. In developing countries with repressed domestic financial markets, bank deposit yields might be closely tied to international interest rates but bank loan rates might be more independent. A simple open-economy macro model incorporating bank credit is used to motivate alternative tests of financial market integration. Capital inflows are found to affect bank lending in cases where deposit and loan markets are integrated with world markets and hence sterilization is not effective. In cases where loan rates are more independent sterilization seems to be more effective. Next, we examine the effect of bank lending on economic activity. The data suggest that the link between bank credit and investment is important in countries with isolated bank loan markets.

Christiano, Lawrence J.

TI Asset Pricing Lessons For Modeling Business Cycles.
AU Boldrin, Michele; Christiano, Lawrence J.; Fisher, Jonas.

TI Inside Money, Outside Money and Short Term Interest Rates. **AU** Chari, V. V.; Christiano, Lawrence J.; Eichenbaum, Martin.

Church, Jeffrey

AB In this paper we address the possibility of foreclosure in markets where the final good consists of a system composed of a hardware good and complementary software and the value of the system depends on the availability of software. Foreclosure occurs when a hardware firm merges with a software firm and the integrated firm ceases to supply compatible software for a rival technology or system. We find that foreclosure can be an equilibrium outcome where both the merger and compatibility decisions are part of a multistage game which permits the foreclosed hardware firm to play a number of counter-strategies. Further, foreclosure can be an effective strategy to monopolize the hardware market.

Clare, A. D.

TI Stochastic Seasonality and Daily Financial Time Series.
AU Andrade, I. C.; Clare, A. D.; O'Brien, R. J.; Thomas, S. H.

Coe, Patrick

of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9605; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 22. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** E42, E52, N11, N12. **KW** Long-Run. Monetary Neutrality. Financial Crisis. Great Depression.
AB This paper explores the long-run monetary neutrality using the framework developed by Fisher and Seater (1993). It is shown that their rejection of long-run neutrality in the United States for the 1870-1975 period is not robust to a change in the money aggregate or country. Using M0 instead of M2 we cannot reject long-run neutrality over the same period. The paper suggests that their rejection of long-run neutrality occurred because the financial crisis caused output and M2 to follow similar paths during the 1930's. M0 did not follow this path and therefore long-run neutrality is not rejected. It is shown that in the United Kingdom long-run neutrality holds for both broad and narrow monetary aggregates.

Cohen, Daniel

AB This paper offers new tests of the "convergence hypothesis". It first analyzes the pattern of growth of measured inputs (human and physical capital conventionally measured by an inventory method) and shows that these tests sustain the hypothesis. On the other hand, when the pattern of growth of revealed inputs (physical capital and Solow residual) is analyzed, one is led to reject the convergence theory. In order to understand what lies at the heart of this discrepancy, the paper shows that the poor countries failed to catch up with the rich countries not so much because they failed to raise their school enrollments (or the unconditional convergence of the stock of measured inputs would not hold), but because the law of motion of human capital embodies a 'stock of knowledge' which they failed to raise adequately.

AB The paper examines the behavior of 100 firms interviewed regularly between 1993-4. It reaches the following conclusions: 1) Following the inter-enterprise debt (IED) crisis of 1992, most firms have switched to a "pay-in-advance" system, which pushed firms towards a "hard budget constraint" economy, far away from what they were used to. As a result, the pressure to diversify suppliers, customers and products has been very strong. 2) Wage earners have most often played the role of "residual claimants", unpaid in harsh times, and benefiting from luck or good management of their firms when things go well. This is not related to the shareholder structure of

the firms but to the poor functioning of the labor markets. 3) The structure of bank portfolios is essentially junk, and one must fear that a stabilization of the inflation rate will bring a collapse of many insolvent banks.

PD August 1995. **TI** The Transition in Russia: Successes (Privatization, Low Unemployment...) and Failures (Mafias, Liquidity Constraints...). A Theoretical Analysis. **AA** CEPREMAP. **SR** Centre for Economic Policy Research, Discussion Paper: 1224; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 27. **PR** 4 pounds or $8.00. **JE** P01, P02. **KW** Russia. Transition. Job-to-Job Mobility. Mafias.
AB The paper analyzes the transition in Russia through a theoretical model in which job-to-job mobility plays a crucial role. It shows that job-to-job mobility is a key factor preventing a discontinuous break in unemployment and insulating wages in declining sectors from aggregate disequilibria. In the case where the mafia can impose a tax on entry, it shows that a range of inefficient sectors can be kept indefinitely alive. In this case the spectrum of wages remains wide and will never reach perfect equalization as promised by laissez-faire.

Collins, Grainne
TI Was There a Regional Dimension to Changes in Income Inequality in the UK Over 1982-92? An Analysis Based on a Joint Decomposition of Income Inequality by Region and by Employment Status. **AU** Borooah, Vani K.; Collins, Grainne.

Cook, Steve
PD March 1996. **TI** Econometric Methodology I. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9618; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 31. **PR** no charge. **JE** B23, B41, C51. **KW** Econometric Methodology. Hendry Methodology. Textbook Approach.
AB Using the controversial work of Darnell and Evans (1990) econometric methodology is explored from a new angle. Both Darnell and Evans' critique of applied econometrics and their attempt to re-instate the textbook approach are examined.

PD March 1996. **TI** Econometric Methodology II: The Role of the Philosophy of Science. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9619; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 30. **PR** no charge. **JE** B23, B41, C51. **KW** Econometric Methodology. Philosophy of Science. Falsificationism. Encompassing. Research Strategies.
AB Darnell and Evans (1990) marked a departure in discussion on econometric methodology as their approach is derived explicitly from Popperian sophisticated falsificationism. This attempt to fit econometric modelling to the philosophy of science is critically examined. The discussion is then extended to look at the role of the philosophy of science in econometric modelling more generally.

PD March 1996. **TI** Consumers' Expenditure and the Treasury Model: An Exercise in Econometric Forecasting. **AA** University of Southampton. **SR** University of

Southampton, Discussion Paper in Economics and Econometrics: 9620; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 33. **PR** no charge. **JE** C52, C53, E21. **KW** Macroeconometric Forecasting. Treasury Model. Consumers' Expenditure. Economic Policy. Forecast Evaluation.
AB This paper examines a number of issues of importance in macroeconomic forecasting. The topics discussed include sources of forecasting error; the required features of macroeconometric models; the limits to forecastability; forecast comparison both across models and through time; the trade off between forecasting and economic policy; the effect of forecasting errors on policy implementation; the role of intercept correction; the distinction between volatility and predictability; the role of the economic environment in assessing forecasting performance; testing forecasting bias and rationality; and the influence of methodological work on the model specification. A series of 1, 2 and 3 step ahead forecasts of the growth in consumers' expenditure drawn from Treasury Official Economic Forecasts Vols. I and II is used to highlight these issues. The period used proves to be particularly interesting as it covers several booms and slumps, as well as factors such as the OPEC oil price shocks and the advent of theThatcher Government. From the analysis it appears that the major changes in the growth of consumers' expenditure were missed by the model, with the boom of the late eighties proving particularly problematic. A tendency towards overprediction was found until the late seventies, when it switched to underprediction.

Copeland, Brian R.
PD August 1995. **TI** Trade, Spatial Separation, and the Environment. **AU** Copeland, Brian R.; Taylor, M. Scott. **AA** Copeland: University of British Columbia and National Bureau of Economic Research. Taylor: University of British Columbia. **SR** National Bureau of Economic Research Working Paper: 5242; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 32. **PR** $5.00. **JE** D62, F11, Q21, R13. **KW** Spatial Separation. Trade. Pollution.
AB We develop a simple two-sector dynamic model to examine the effects of international trade in the presence of pollution-created cross- sectoral production externalities. We assume that the production of "Smokestack" manufactures generates pollution, which lowers the productivity of an environmentally sensitive sector ("Farming"). As a result, the long run production set is non-convex. Pollution provides a motive for trade, since trade can spatially separate incompatible industries. Two identical, unregulated countries will gain from trade if the share of world income spent on Smokestack is high. In contrast, when the share of world income spent on the dirty good is low, trade can usher in a negatively reinforcing process of environmental degradation and real income loss for the exporter of Smokestack.

Corado, Cristina
TI Adjustment and Performance of the Textile and Clothing Industry in the Czech Republic, Poland and Portugal. **AU** Benacek, Vladimir; Caban, Wieslaw; Corado, Cristina.

Corbae, P. Dean

AB We examine the effects of endogenously determined realignment expectations in a model of a target zone with sluggish price adjustment. We allow these expectations to be based on a policy rule which attaches differing weights to output and price stability. We find that for realistic parameter values even relatively small misalignments of the band lead to strongly skewed conditional distributions for the nominal exchange rate, thus generating pressures for realignment. We show that the reason for this is that the speed of adjustment in the absence of realignments is rather slow. Further, we find that variable realignment expectations impose tight limits on the width of a sustainable band. If realignment expectations reach quite moderate levels there no longer exists an intervention policy that will support the band. Finally, we show that even relatively infrequent realignments can substantially speed the process of adjustment to misalignment, casting doubt on the desirability of a policy designed to maintain a fully credible band in the face of significant external shocks.

Coricelli, Fabrizio

AB The paper analyzes the pressures on the pace of reform that can arise through fiscal constraints. A simple analytical framework is used to illustrate the relation between the budget deficit and the pace of restructuring, unemployment, and the relative dynamics of state and private firms. It is shown that fiscal pressures become stronger while the transition progresses. Demands on governments to slow down restructuring mount, as well as demands for compensating transfers to groups affected by reforms. Thus governments face an important trade-off between fiscal targets and restructuring objectives. Together with pressures arising from increasing income inequality and lobbying from specific interest groups, such as pensioners, fiscal constraints have probably played a major role in the reform cycle observed in many Central and East European countries. They have been particularly influential in determining the asymmetry between economic and political cycles. An example of the changing speed of reforms is the continuing delay to privatization. More generally, the widespread electoral successes of parties originating from former communist organizations testify to the pressure to change the pace of reforms.

Correia, Isabel H.

AB Efficient measures are often not implemented because of their potentially damaging effects on distribution, yet these distributional effects are scarcely studied in economics because of the idea that they are case specific. In this paper we show that when we can separate the effect on efficiency from the effect on distribution, that is when Gorman aggregation applies, the well-known result that aggregate effects can be computed independently of the distribution can be accompanied by a similar result on distribution; the effect on distribution is also distribution independent and can be computed using only aggregate effects. In a world with no lump-sum transfers and agent heterogeneity, we thus have an expeditious rule for defining a class of measures, which for a significative group of agent characteristics, are social welfare improving without requiring the knowledge of the characteristic distribution or the specific form of the social welfare function.

AB In contrast to the recent literature on the optimal inflation tax, we show that, in models where money reduces transactions costs, it is optimal to set the inflation tax to zero when seigniorage is replaced by revenue from distortionary taxes. The main reasons for this result are that the variable costs of supplying real balances are negligible and the inflation tax is a unit tax. We also show that the intermediate good optimal taxation rules, in the public finance literature, cannot be directly applied both when money is costless and when it requires resources to be produced.

Corsetti, Giancarlo

Crafts, Nicholas F. R.

AB In this paper we examine the persistent effects of past wages of displaced workers on the probability of finding a new job and on wages in the new job. We use a new database looking at the post-displacement experience of a sample of Belgian workers who have lost their jobs because of a sizable reduction in the work-force of their firm. We decompose past

wages into a market return to human capital, a firm- specific component (the "firm effect"), and an individual component. We develop an information model of wages and test its predictions. These predictions are validated by the evidence on subsequent wages. We also find that spells of unemployment are long, but that re-employed workers suffer limited wage losses on re-employment. This suggests that some institutional constraints prevent wages from falling.

PD January 1996. **TI** Endogenous Growth: Lessons for and From Economic History. **AA** London School of Economics. **SR** Centre for Economic Policy Research, Discussion Paper: 1333; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 96. **PR** 4 pounds or $8.00. **JE** N10, O47, O52. **KW** Economic Growth. Endogenous Innovation. Factor Productivity.

AB The paper surveys both the usefulness of endogenous innovation models of growth in economic history and the implications of historical research for new growth theorists. It is suggested that economic historians should take endogenous innovation models seriously and that this will help them to integrate traditional historians' emphasis on the impact of institutions and policy with cliometric research. A review of historical research suggests that growth economists should pay more attention to learning effects and technological shocks. Further research into measurement issues is shown to be seriously needed, notably, into establishing the magnitude and sources of total factor productivity growth.

TI British Economic Policy and Industrial Performance in the Early Postwar Period. **AU** Broadberry, S.; Crafts, Nicholas F. R.

Cummins, Jason G.

PD August 1995. **TI** Tax Reforms and Investment: A Cross-Country Comparison. **AU** Cummins, Jason G.; Hassett, Kevin A.; Hubbard, R. Glenn. **AA** Cummins: New York University. Hassett: Federal Reserve Board. Hubbard: Columbia University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5232; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 20. **PR** $5.00. **JE** E22, G31, H25, O52. **KW** Tax Reform. Fixed Investment. Europe.

AB We use firm-level panel data to explore the extent to which fixed investment responds to tax reforms in 14 OECD countries. Previous studies have often found that investment does not respond to changes in the marginal cost of investment. We identify some of the factors responsible for this finding and employ an estimation procedure that sidesteps the most important of them. In so doing, we find evidence of statistically and economically significant investment responses to tax changes in 12 of the 14 countries.

Currie, Janet

PD August 1995. **TI** Race, Children's Cognitive Achievement and The Bell Curve. **AU** Currie, Janet; Thomas, Duncan. **AA** University of California, Los Angeles. **SR** National Bureau of Economic Research Working Paper: 5240; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 22. **PR** $5.00. **JE** I21, J16, J13. **KW** Intelligence. Race. Children. Bell Curve.

AB In The Bell Curve, Herrnstein and Murray demonstrate that a mother's score on the Armed Forces Qualification Test (AFQT) is a powerful predictor of her child's score on the Peabody Picture Vocabulary Test (PPVT). We replicate this finding for PPVT and two related tests. However, even after controlling for AFQT, there are significant racial gaps in PPVT scores which suggest that AFQT is not all that matters. In fact, both maternal education and income are important determinants of child test scores and their influences differ dramatically with the test, the child's age, and the child's race. These racial gaps in test scores are important because, even within families, children with higher scores are less likely to repeat grades. Moreover, conditional on child test scores and maternal AFQT, maternal education and income affect the probability of grade repetition. We move beyond AFQT and examine the effects of individual Armed Services Vocational Aptitude Battery sub-tests on children's scores. We find that those skills that are rewarded in the labor market are not always the same skills that are associated with improved child outcomes. An understanding of the relationship between different aspects of maternal achievement and child outcomes may help unravel the complex process through which poverty is transmitted across generations.

Darby, Michael R.

TI Collaboration Structure and Information Dilemmas in Biotechnology: Organization Boundaries As Trust Production. **AU** Zucker, Lynne G.; Brewer, Marilynn B.; Darby, Michael R.; Peng, Yusheng.

TI Collaboration Structure and Information Dilemmas in Biotechnology: Organization Boundaries As Trust Production. **AU** Zucker, Lynne G.; Brewer, Marilynn B.; Darby, Michael R.; Peng, Yusheng.

TI Present At the Revolution: Transformation of Technical Identity for a Large Incumbent Pharmaceutical Firm After the Biotechnological Breakthrough. **AU** Zucker, Lynne G.; Darby, Michael R.

Darvas, Zsolt

PD January 1996. **TI** Exchange Rate Premia and the Credibility of the Crawling Target Zone in Hungary. **AA** National Bank of Hungary. **SR** Centre for Economic Policy Research, Discussion Paper: 1307; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** E43, F31. **KW** Credibility. Risk Premia. Interest Parity. Peso Problem. Target Zone.

AB After the introduction of a preannounced crawling peg exchange rate regime in Hungary in March 1995, forward and futures rates of more than six months maturity exceeded the upper edge of the projected target zone of the Forint. This paper examines whether this fact reflects an additional devaluation expectation or whether it might be attributed to other factors, e.g. risk aversion or market inefficiency. Though in recent years the average premium on Forint assets was close to zero, past performance of the interest rate differential, as an indication of exchange rate movements, was poor; there is no real cointegrating relationship to be found. By calculating implicit probabilities of additional devaluations for the present situation, the conditions of risk neutrality and rational expectations can be rejected because the implied probabilities seem to be 'too large'. The main conclusion of the paper is that

uncovered interest parity does not hold for the present Hungarian foreign exchange market; forward rates falling outside the projected band do not necessarily reflect lack of credibility in exchange rate policy.

Davies, Gareth
PD September 1995. **TI** Equilibrium Currency Crises: Are Multiple Equilibria Self-fulfilling or History Dependent? **AU** Davies, Gareth; Vines, David. **AA** Davies: Nuffield College. Vines: Balliol College. **SR** Centre for Economic Policy Research, Discussion Paper: 1239; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** F31, F33. **KW** State-Dependence. Fixed Exchange Rates. Currency Crises. Self- Fulfilling. Hysteresis.
AB The viability of a fixed exchange rate system is shown to be state- or shock-dependent. We show, simply, Obstfeld's claim that there may be multiple equilibria -- multiple shock values for which a regime switch becomes optimal. We distinguish between self-fulfilling and history- dependent crises. In the former, crises may occur due to a jump from one equilibrium to another, even for constant model parameters, including the government's cost of quitting the regime. In the latter, costly expectational adjustment implies that the country's history, embodied in its initial expectations, determines the relevant equilibrium and the likelihood of a crisis.

Davis, Steven J.
PD August 1995. **TI** Industrial Policy, Employer Size, and Economic Performance In Sweden. **AU** Davis, Steven J.; Henrekson, Magnus. **AA** Davis: University of Chicago and National Bureau of Economic Research. Henrekson: Industrial Institute for Economic and Social Research. **SR** National Bureau of Economic Research Working Paper: 5237; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** not available. **PR** $5.00. **JE** K34, H25, O52, L52. **KW** Sweden. Growth. Tax Reform.
AB The pre-1990 Swedish tax system strongly disfavored younger, smaller and less capital-intensive firms and sectors and discouraged entrepreneurship and family ownership of business in favor of institutional ownership. Credit market regulations, the national pension system, employment security laws and centralized wage setting in Sweden reinforced the distortionary impact of the tax system. We describe the relevant Swedish policies and institutional arrangements, and we explain why the attendant distortions are likely to have hampered the efficient allocation of resources, reduced productivity, and retarded economic growth and recovery. We also develop evidence on the consequences of these distortions for the size structure and industrial distribution of employment. Taking the U.S. industrial distribution as a benchmark that reflects a comparatively neutral set of policies and institutions, Sweden's employment distribution is sharply tilted away from lower wage industries, less capital-intensive industries, and industries characterized by greater employment shares for smaller firms and establishments. Compared to other OECD economies, Sweden has the lowest rate of self employment, a dominant role for larger firms, and highly concentrated ownership and control of private- sector economic activity.

de Boissieu, Christian
TI Russian Enterprises in Transition. **AU** Cohen, Daniel; de Boissieu, Christian; de Pontbriand, Gael.

de Brouwer, Gordon
PD May 1996. **TI** Consumption and Liquidity Constraints in Australia and East Asia: Does Financial Integration Matter? **AA** Reserve Bank of Australia. **SR** Reserve Bank of Australia, Research Discussion Paper: 9602; Economic Research Department, Reserve Bank of Australia, GPO Box 3947, Sydney NSW 2001, Australia. **PG** 22. **PR** no charge. **JE** D91, E21, O11, O53, O56. **KW** Consumption. Liquidity Constraints. Financial Integration. Euler Equation. East Asia. Australia.
AB This paper examines whether openness in the domestic and international financial system affects non-durable consumption in Australia and East Asia. Consumption in Hong Kong, Japan, Korea, Singapore, Taiwan and Thailand can be modeled as the outcome of constrained optimization, while that in Australia is liquidity unconstrained, at least from the 1980's. The constraint is weak in Hong Kong and declining in Singapore, consistent with the extent and timing of domestic and international financial reforms in these economies. It appears unchanged for Japan and Korea. In Taiwan and Thailand, financial regulation and control have constrained the intertemporal optimization of consumption, although this may unwind with recent liberalization. The study suggests that the combination of capital account and domestic financial liberalization is necessary to ease liquidity constraints.

De Grauwe, Paul
PD July 1995. **TI** The Economics of Convergence Towards Monetary Union in Europe. **AA** Katholieke Universiteit Leuven. **SR** Centre for Economic Policy Research, Discussion Paper: 1213; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 32. **PR** 4 pounds or $8.00. **JE** F33, F36, F42. **KW** Monetary Integration.
AB This paper surveys the literature on monetary integration to discover the economic rationale of the Maastricht convergence requirements. The traditional theory of optimum currency areas is silent on the need to have Maastricht-type convergence requirements. The new view of monetary integration based on models incorporating credibility concepts can be used to justify the budgetary convergence requirements. It cannot easily be used to justify the nominal convergence requirements. The paper argues that the dynamics of the convergence requirements will almost certainly lead to a "Great Divide" of the European Union which endangers the level of integration achieved today. We therefore conclude that less emphasis should be put on prior convergence conditions and more on strengthening the functioning of the future monetary institutions of the Union.

de la Fuente, Angel
PD November 1995. **TI** Catch-up, Growth and Convergence in the OECD. **AA** Universidad Autonoma de Barcelona. **SR** Centre for Economic Policy Research, Discussion Paper: 1274; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 52. **PR** 4 pounds or $8.00. **JE** O33, O47. **KW** Growth. Convergence. Catch-up.
AB This paper analyzes the sources of post-war growth and

convergence in the OECD using an extension of Mankiw, Romer and Weil's (1992) model in which the rate of technical progress is determined endogenously by the level of Research and Development (R&D) spending and a process of technological catch-up. The results indicate that the impact of R&D investment on growth has been significant. Technological catch-up is found to be very fast and seems to have played an important role in OECD convergence during the first half of the sample period. The exhaustion of this effect, moreover, may help explain the slowdown of growth and convergence after the mid-1970s, and suggests that further convergence will require an important investment effort on the part of poorer countries. Finally, there is evidence that the neoclassical convergence effect is also operative but its contribution to convergence in output per worker has been minor.

PD   November 1995. TI   The Empirics of Growth and Convergence: A   Selective   Review.   AA   Universidad Autonoma de Barcelona. SR   Centre for Economic Policy Research, Discussion Paper: 1275; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United   Kingdom.   PG   64.   PR   4   pounds   or $8.00. JE   C23, O33, O47. KW   Growth. Convergence.
AB   Recent empirical studies tend to confirm the importance of investment in human and technological capital as determinants of growth. Extensions of the neoclassical model that incorporate these factors explain rather well the long-run growth experience of a large sample of countries, and are consistent with the observed level of international inequality and its upward trend. These models do not explain very well the variation of growth rates over time, however, and the lack of robustness of the estimated coefficients to sample selection, specification, and other factors suggests that we are still far from having precise estimates of structural parameters such as the coefficients of the aggregate production function. Finally, the methodology employed in these studies does not allow us to reach clear conclusions regarding the likely evolution of the international income distribution of income, or the policies which may have an impact on growth.

PD   November 1995. TI   Innovation, "Bank" Monitoring and Endogenous Financial Development. AU   de la Fuente, Angel; Marin, Jose Maria. AA   de la Fuente: Universidad Autonoma de Barcelona. Marin: Universitat Pompeu Fabra. SR   Centre for Economic Policy Research, Discussion Paper: 1276; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   48. PR   4 pounds or $8.00. JE   G21, O16, O33, O47. KW   Growth. Financial Development.
AB   This paper analyzes the interaction between capital accumulation,   technological   progress   and   financial development. Growth is sustained by the development of new varieties of intermediate goods. Innovation is risky and the probability of success depends on entrepreneurs' actions, which can only be imperfectly observed by outsiders through the use of a costly monitoring technology. Financial intermediaries emerge to avoid the duplication of monitoring activities and negotiate incentive contracts with innovators. Monitoring intensity is determined endogenously as a function of factor prices and determines the risk premium required by risk-averse researchers. Natural forward and backward links arise between finance and innovation. By allowing for better risk sharing, closer monitoring yields a higher level of innovative activity in equilibrium and faster growth. Under plausible assumptions, the resulting changes in factor prices lower the relative cost of

monitoring, leading to a further increase in the efficiency of the financial sector.

de Melo, Jaime
PD   May 1995. TI   VERs Under Imperfect Competition and Foreign Direct Investment: A Case Study of the US-Japan Auto VER. AU   de Melo, Jaime; Tarr, David G. AA   The World Bank. SR   Centre for Economic Policy Research, Discussion Paper: 1173; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   36. PR   4 pounds or $8.00. JE   F12, F13, F14. KW   Export Restraints. Imperfect Competition. General Equilibrium. Direct Investment.
AB   This paper simulates the costs of the US-Japan auto Volutary Export Restraint (VER). Under a standard constant returns to scale (CRTS) formulation, the costs are estimated at about $10 billion. It then sequentially introduces important features   of   the   auto   VER: endogenous   rent   premium determination, wage distortions in autos, the United States capturing some of the rents of the VER, US monopsony power in autos, increasing returns to scale, pure profits and entry, foreign direct investment, and endogenous conjectures. In the preferred monopolistic competition, initial profit model, the estimated costs are about 10% less than under the assumption of CRTS, but costs remain high at over $200,000 per job protected   in   autos.   Compared   with   exogenous   rent determination,   endogenous   rent   determination   results   in significantly   lower   estimated   costs   of   the   VER   because domestic entry reduces the rent premium. Foreign direct investment with initial profits is shown to lower the costs of the VER if, and only if, the rent premium is endogenous.

PD   August 1995. TI   Trade Liberalization, Employment and Migration. Some Simulations for Morocco. AU   de Melo, Jaime; Faini, Riccardo. AA   de Melo: Universite de Geneve. Faini: Universita di Brescia. SR   Centre for Economic Policy Research, Discussion Paper: 1198; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United   Kingdom.   PG   36.   PR   4   pounds   or $8.00. JE   F02, O55. KW   Migration. Trade Liberalization. Africa. Morocco.
AB   We assess the impact on emigration flows of trade liberalization in a sending country. The paper adopts a case study approach focusing on Morocco, which is well suited for the purpose in hand as it has been a substantial provider of migrants to Europe and has recently undergone a fairly comprehensive trade liberalization. We develop a simple macroeconometric model to assess how trade liberalization affects employment, output and income; the fundamental determinants of migrant supply in the sending countries in the short to medium run. We find that trade liberalization will free pent-up demand for imports and induce a real exchange rate depreciation. In turn, a lower real exchange rate will depress output and employment on the one hand, but boost labor-intensive exports and labor demand on the other. Our simulations suggest that the latter effect dominates so that trade liberalization is found to promote employment creation and through this channel, discourage migrations even in the short run. If trade liberalization is supported from abroad through a foreign grant, however, our results show that the real exchange rate will depreciate less, export expansion will be more limited and migrations may even increase.

de Palma, Andre
TI From Local to Global Competition. AU Anderson, Simon P.; de Palma, Andre.

de Pontbriand, Gael
TI Russian Enterprises in Transition. AU Cohen, Daniel; de Boissieu, Christian; de Pontbriand, Gael.

de Zeeuw, Aart
TI Tradeable Emission in Oligopoly. AU Fershtman, Chaim; de Zeeuw, Aart.

Dearden, Lorraine
PD March 1996. TI Intergenerational Mobility in Britain. AU Dearden, Lorraine; Machin, Stephen; Reed, Howard. AA Dearden and Reed: Institute for Fiscal Policies. Machin: London School of Economics and University College London. SR London School of Economics, Centre for Economic Performance, Discussion Paper: 281; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. PG 42. PR no charge. JE J62, D31. KW Earnings. Education. Intergenerational Mobility.
AB In this paper we use longitudinal data on children and their parents to assess the extent of intergenerational mobility in Britain. Based on data from the National Child Development Survey, a cohort of all individuals born in a week of March 1958, we find that the extent of intergenerational mobility is limited. We report an intergenerational correlation of the order of .40 to .60 for fathers and sons and .45 to 0.70 for fathers and daughters in terms of labor market earnings and years of schooling. An examination of quartile transition matrices between parental and child earnings outcomes reveals a similar pattern. Finally, it seems, on the basis of these transition matrices, that there is an important asymmetry in intergenerational earnings mobility with upward mobility from the bottom of the earnings distribution being more likely than downward mobility from the top.

Demertzis, Maria
PD June 1995. TI On Measuring the Costs of Labour Immobility and Market Heterogeneity in Europe. AU Demertzis, Maria; Hallett, Andrew Hughes. AA University of Strathclyde. SR Centre for Economic Policy Research, Discussion Paper: 1189; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 40. PR 4 pounds or $8.00. JE E24, J31. KW Sacrifice Ratios. Segmentation. Labor. Wage Leadership. Heterogeneity.
AB In this paper we evaluate the deterioration in the European sacrifice ratio implied (both in terms of inflation and unemployment) by the fact that labor markets are structurally different and there is very little labor mobility between the European Union countries. We also consider a wage transfer effect implied by Germany's dominance. We discover that the maldistribution of unemployment rates and Germany's leadership role impose a great cost on the real side. Germany and Spain are the two countries that contribute the largest costs since they represent the two opposite extremes of the unemployment distribution.

Deng, Yongheng
PD July 1995. TI Mortgage Default and Low Downpayment Loans: The Costs of Public Subsidy. AU Deng, Yongheng; Van Order, Robert; Quigley, John M. AA Deng and Quigley: University of California, Berkeley. Van Order: Freddie Mac. SR National Bureau of Economic Research Working Paper: 5184; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 25. PR $5.00. JE E51, R31. KW Mortgage Default. Public Subsidy. Loans.
AB This paper presents a unified model of the default and prepayment behavior of homeowners in a proportional hazard framework. The model uses the option-based approach to analyze default and prepayment and considers these two interdependent hazards as competing risks. The results indicate the sensitivity of default to the initial loan-to-value ratio of the loan and the course of housing equity. The latter is a measure of the extent to which the default option is in the money. The results also indicate the importance of trigger events, namely unemployment and divorce, in affecting prepayment and default behavior. We simulate default probabilities and costs on zero-downpayment loans and compare them to conventional loans with conventional underwriting standards. The results indicated that if zero-downpayment loans were priced as if they were mortgages with ten percent downpayments, then the additional program costs would be two to four percent of funds made available -- when housing prices increase steadily. If housing prices remained constant, the costs of the program would be much larger indeed. Our estimates suggest that additional program costs could be between $74,000 and $87,000 per million dollars of lending. If the expected losses from such a program were not priced at all, the losses from default alone could exceed ten percent of the funds made available for loans.

Diamond, Peter
PD January 1995. TI Managerial Incentives: On the Near Optimality of Linearity. AA Massachusetts Institute of Technology. SR Massachusetts Institute of Technology, Department of Economics Working Paper: 95/6; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. PG 18. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE D23, D82. KW Incentives. Principal. Agent.
AB Managers make efforts and choices. Efficient incentives to induce effort focus on the signal extraction problem of inferring the effort level. Efficient incentives for choices line up the relative payoffs of principal and agent. With choices much more important than the variation in the cost of inducing effort, the optimal payment schedule tends toward proportionality. The argument holds if the control space of the agent has full dimensionality, but not otherwise. If the agent's choices include a complete set of fair gambles and insurance, the proportional payoff schedule is no more expensive than any other schedule that induces effort.

Dixit, Avinash K.
TI Options, the Value of Capital, and Investment. AU Abel, Andrew B.; Dixit, Avinash K.; Eberly, Janice C.; Pindyck, Robert.

Djankov, Simeon
PD November 1995. TI Catching Up With Eastern Europe? The European Union's Mediterranean Free Trade Initiative. AU Djankov, Simeon; Hoekman, Bernard.

AA Djankov: University of Michigan. Hoekman: World Bank. SR Centre for Economic Policy Research, Discussion Paper: 1300; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 40. PR 4 pounds or $8.00. JE F14, O12. KW Trade Liberalization. Restructuring. Economic Adjustment.

AB This paper discusses the potential role of a Euro-Mediterranean Agreement (EMA) in helping Middle East and North African governments implement structural economic reforms. The arguments for and against preferential liberalization are summarized, identifying a number of necessary conditions for an EMA to benefit a Mediterranean country. The recently negotiated EMA between Tunisia and the EU is evaluated, using these conditions as criteria. Some doubts are expressed whether an EMA, by itself, will be enough to help countries in the region "catch up". Significant supporting and complementary actions are likely to be needed. Key issues in this connection are the regulatory regimes applying to inward foreign direct investment (FDI) and the service sector; a reduction in tariffs applied to the rest of the world; and the imposition of hard budget constraints on state-owned enterprises. These aspects are not subject to disciplines under the EMA.

PD November 1995. TI Trade Liberalization and Enterprise Restructuring in Bulgaria, 1992- 4. AU Djankov, Simeon; Hoekman, Bernard. AA Djankov: University of Michigan. Hoekman: World Bank. SR Centre for Economic Policy Research, Discussion Paper: 1301; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 28. PR 4 pounds or $8.00. JE F14, O12. KW Trade Liberalization. Restructuring. Economic Adjustment.

AB This paper empirically tests the link between trade openness and enterprise restructuring in Bulgaria. It belongs to a recent line of work in the empirical trade literature that investigates the effects of trade policy on firm behavior. The trade liberalization following the 1991 economic reforms is found to have a strong impact on firm-level restructuring and industry concentration. Between 1992 and 1994, the impact of export opportunities on restructuring was particularly important.

Dolado, Juan J.

PD May 1995. TI Why is Spanish Unemployment so High? AU Dolado, Juan J.; Jimeno, Juan F. AA Dolado: CEMFI. Jimeno: FEDEA. SR Centre for Economic Policy Research, Discussion Paper: 1184; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 40. PR 4 pounds or $8.00. JE E63, J31, J64. KW Unemployment. Shocks. Persistence. Spain.

AB In this paper we analyze the underlying causes behind Spanish unemployment which is now at 24%. We interpret this unfortunate outcome as the result of a series of adverse shocks, compounded by disinflationary policies and by a flawed system of labor market institutions. Our aim is to explain the main sources of shocks to unemployment, and the most relevant features of their transmission mechanism. To do so we use a structural vector autoregression (VAR) approach in modeling the Spanish labor market.

PD February 1996. TI Hysteresis and Economic Fluctuations (Spain, 1970-94). AU Dolado, Juan J.; Lopez-Salido, J. David. AA Banco de Espana. SR Centre for Economic Policy Research, Discussion Paper: 1334; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 44. PR 4 pounds or $8.00. JE C32, E32, J23. KW Vector Autoregression. Hysteresis. Shocks. Recessions.

AB This paper uses long-run restrictions on a three-variable structural VAR containing output growth, real wage growth and the differenced unemployment rate, to isolate three "structural" shocks which drove business cycle fluctuations in Spain during 1970-94. These shocks are interpreted as aggregate demand, labor demand and labor supply disturbances in a framework where there is unit-root persistence in the unemployment rate. Our basic finding is that disinflationary policies in an economy suffering from high persistence can become very costly in terms of unemployment, unless supply-side reforms, aimed at eliminating the sources of persistence, are implemented.

Dooley, Michael

TI Asia-Pacific Capital Markets: Integration and Implications for Economic Growth. AU Chinn, Menzie; Dooley, Michael.

Dore, Ronald

PD March 1996. TI The End of Jobs for Life? Corporate Employment Systems: Japan and Elsewhere. AA London School of Economics. SR London School of Economics, Centre for Economic Performance Occasional Paper: 11; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. PG 32. PR no charge. JE J41, O53. KW Japan. Job Tenures. Lifetime Employment.

AB Japanese firms, being more insulated from the short-term demands of shareholders than firms in Anglo-Saxon economies, have hitherto been able to afford more "rigid" employment systems from which they gain the advantage of employee commitment and cooperative and flexible attitudes to work. But today the competitiveness/flexibility concern grows in Japan too. The lifetime employment/seniority-constrained pay and promotion system is under attack. Advocacy of change is common; assertions that wholesale change has already taken place almost equally common. The reasons are to be found partly in the objective situations of many firms after four years of recession, partly in a loss of self- confidence and a "resurgence of the American model". Actual change seems in fact to be marginal, but there are a number of grounds for expecting change in the future: value change -- greater affluence, diminished work ethic, and diminished egalitarianism; the possible resurgence of shareholder power; the declining influence of unions; the declining "intellectual quality" of blue-collar and routine white-collar workers; increased inter-firm competition and the reduction of industry cartel understandings; slower growth; low-wage competition, particularly in future from China, and the "hollowing-out" response thereto.

Dougherty, C.

PD March 1996. TI Putting Training in Perspective: A Longitudinal Case-Study Approach. AA London School of Economics. SR London School of Economics, Centre for Economic Performance, Discussion Paper: 283; Centre for Economic Performance, London School of Economics,

Houghton Street, London WC2A 2AE, England. **PG** 31. **PR** no charge. **JE** J62, I28, J24. **KW** Training. Occupational Mobility.
AB Detailed education, employment and training histories have been constructed for a cohort of 440 male respondents from the National Longitudinal Survey of Youth. The data show that most respondents without college degrees have experienced at least one occupational break, defined as a change from one occupation to another sufficiently different in character that it does not make significant use of occupational skills acquired previously. The data also show that most of those in employment in 1992 had had no formal training for their current occupations and moreover thought that none was necessary. These findings imply that the comprehensive provision of entry-level training for those not college-bound, as advocated by those promoting vocational education in high schools or as practiced in those countries with comprehensive apprenticeship systems, is unlikely to have a direct impact on the performance of the economy or even on employment. Instead training priorities should be directed towards the provision of training as the demand arises and to improving access to college-level vocational education for those who can benefit from it.

PD March 1996. **TI** Observing Labor Market Adjustment: Employment in the US Construction Industry. **AA** London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 291; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 19. **PR** no charge. **JE** L74, J62. **KW** Labor Market. Construction Industry.
AB Average annual employment of males in the U.S. construction industry increased by 34 percent from 1983 to 1986. The paper takes the cohort of 440 male National Longitudinal Survey of Youth respondents born between October 1, 1961 and September 30, 1962 and evaluates the labor market experience of the 149 who worked in the construction sector during the period January 1983 to December 1990, examining the circumstances of entry and exit, training and changes in real wages and status. A comparison of the respondents' experience in the surge period 1983-1986 and the period of stability 1987-1990 reveals little difference, the construction sector exhibiting flexibility in its recruitment of labor and generation of skills. If labor market models form a spectrum with the manpower requirements model at one extreme, the neoclassical model in the center, and a pure quantity adjustment model at the other extreme, a compromise between the last two would appear to be an adequate characterization for the construction industry.

Dow, James
PD August 1995. **TI** Stock Market Efficiency and Economic Efficiency: Is there a Connection? **AU** Dow, James; Gorton, Gary. **AA** Dow: London Business School. Gorton: University of Pennsylvania and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5233; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 31. **PR** $5.00. **JE** G14, G12, D51, G31. **KW** Investment. Stock Market. Efficiency. Management.
AB In a capitalist economy prices serve to equilibrate supply and demand for goods and services, continually changing to reallocate resources to their most efficient uses. However, secondary stock market prices, often viewed as the most "informationally efficient" prices in the economy, have no direct role in the allocation of equity capital since managers have discretion in determining the level of investment. What is the link between stock price informational efficiency and economic efficiency? We present a model of the stock market in which: (i) managers have discretion in making investments and must be given the right incentives; and (ii) stock market traders may have important information that managers do not have about the value of prospective investment opportunities. In equilibrium, information in stock prices will guide investment decisions because managers will be compensated based on informative stock prices in the future. The stock market indirectly guides investment by transferring two kinds of information: information about investment opportunities and information about managers' past decisions. The fact that stock prices only have an indirect role suggests that the stock market may not be a necessary institution for the efficient allocation of equity. We emphasize this by providing an example of a banking system that performs as well.

PD November 1995. **TI** Stock Market Efficiency and Economic Efficiency: Is There a Connection? **AU** Dow, James; Gorton, Gary. **AA** Dow: European University Institute. Gorton: University of Pennsylvania. **SR** Centre for Economic Policy Research, Discussion Paper: 1261; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** G14, D61, G12. **KW** Efficient Markets. Managerial Incentives. Stock Prices.
AB See James Dow and Gary Gorton. "Stock Market Efficiency and Economic Efficiency: Is there a Connection?", National Bureau of Economic Research Working Paper: 5233; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138.

Dow, William H.
PD August 1995. **TI** Disease Complementarities and the Evaluation of Public Health Interventions. **AU** Dow, William H.; Holmes, Jessica; Philipson, Tomas; Sala-i-Martin, Xavier. **AA** Dow and Holmes: Yale University. Philipson: University of Chicago. Sala-i-Martin: Yale University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5216; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** not available. **PR** $5.00. **JE** I12, D62. **KW** Disease. Public Health.
AB This paper provides a theoretical and empirical investigation of the positive complementarities between disease-specific policies introduced by competing risks of mortality. The incentive to invest in prevention against one cause of death depends positively on the level of survival from other causes. This means that a specific public health intervention has benefits other than the direct medical reduction in mortality: it affects the incentives to fight other diseases so the overall reduction in mortality will, in general, be larger than that predicted by the direct medical effects. We discuss evidence of these cross-disease effects by using data on neonatal tetanus vaccination through the Expanded Programme on Immunization of the World Health Organization.

PD November 1995. **TI** Death, Tetanus and Aerobics: The Evaluation of Disease-Specific Health Interventions. **AU** Dow, William H.; Holmes, Jessica; Philipson, Tomas;

Sala-i-Martin, Xavier. **AA** Dow, Holmes and Sala-i-Martin: Yale University. Philipson: University of Chicago. **SR** Centre for Economic Policy Research, Discussion Paper: 1283; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** I12, I18. **KW** Complementarities. Public Health. Tetanus Programs. Endogenous Mortality. Disease.

AB This paper provides a theoretical and empirical investigation of the positive complementarities between disease-specific policies introduced by competing risks of mortality. The incentive to invest in prevention against one cause of death depends positively on the level of survival from other causes. This means that a specific public health intervention has benefits other than the direct medical reduction in mortality: It affects the incentives to fight other diseases so the overall reduction in mortality will, in general, be larger than that predicted by the direct medical effects. We discuss evidence of these cross-disease effects by using data on neonatal tetanus vaccination through the Expanded Program on Immunization of the World Health Organization.

Drabek, Zdenek

PD May 1995. **TI** Trade Performance and Trade Policy in Central and Eastern Europe. **AU** Drabek, Zdenek; Smith, Alasdair. **AA** Drabek: World Trade Organization. Smith: University of Sussex. **SR** Centre for Economic Policy Research, Discussion Paper: 1182; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** F13, F14, F15. **KW** Central Europe. Eastern Europe. Reform. Trade Liberalization. Direct Investment.

AB The radical liberalization of foreign trade in Central and Eastern Europe since 1989 has been a key part of the economic reform and has been accompanied by a full-scale geographical reorientation of international trade from East to West. Increased trade with the EU has been associated with remarkably little change in the structure of that trade, which suggests that policy should be oriented towards facilitating rather than slowing industrial adjustment. Future trade policy priorities should include continued liberalization, better coordination of trade and exchange rate policy, the attraction of foreign direct investment, resistance to pressures for selective protection, further development of trade relations with the EU and of intra-regional trade relations, and full participation in the WTO.

Eaterly, William

TI Inflation Crises and Long-Run Growth. **AU** Bruno, Michael; Eaterly, William.

Eaton, Jonathan

PD August 1995. **TI** Engines of Growth: Domestic and Foreign Sources of Innovation. **AU** Eaton, Jonathan; Kortum, Samuel. **AA** Boston University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5207; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 30. **PR** $5.00. **JE** O31, O41, F43. **KW** Growth. Research. Innovation. Capital Deepening.

AB We examine productivity growth since World War II in the five leading research economies: West Germany, France, the United Kingdom, Japan, and the United States. Available data on the capital-output ratio suggest that these countries grew as they did because of their ability to adopt more productive technologies, not because of capital deepening per se. We present a multicountry model of technological innovation and diffusion which has the implication that, for a wide range of parameter values, countries converge to a common growth rate, with relative productivities depending on the speed with which countries adopt technologies developed at home and abroad. Using parameter values that fit a cross section of data on productivity, research, and patenting, we simulate the growth of the five countries, given initial productivity levels in 1950 and research efforts in the subsequent four decades. Based on plausible assumptions about "technology gaps" that existed among these countries in 1950 we can explain their growth experiences quite successfully. Specifically, the simulations capture the magnitude of the slowdown in German, French, and Japanese productivity growth and the relative constancy of U.K. and U.S. growth.

Eberly, Janice C.

TI Options, the Value of Capital, and Investment. **AU** Abel, Andrew B.; Dixit, Avinash K.; Eberly, Janice C.; Pindyck, Robert.

Eckstein, Zvi

PD August 1995. **TI** Estimating the Effect of Labor Market Discrimination on Black-White Differences in Wage Offers Using a Search-Matching Bargaining Model. **AU** Eckstein, Zvi; Wolpin, Kenneth I. **AA** Wolpin: University of Pennsylvania. Eckstein: Boston University and Tel-Aviv University. **SR** Tel Aviv Sackler Institute of Economic Studies Working Paper: 24/95; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. **PG** 44. **PR** no charge. **JE** J64, J71. **KW** Discrimination. Search. Matching. Bargaining. Unemployment.

AB In this paper we develop and implement a test for the existence of labor market discrimination based on a search-matching-bargaining model that embeds in it distinct parameters that have interpretations as measuring skill levels and firm discrimination. Workers who are subject to discrimination have less bargaining power, and thus, get a smaller share of output from the match. We consider data, obtained from the 1979 youth cohort of the National Longitudinal Surveys of Labor Market Experience, on the duration to the first full-time job after the completion of school and the wage at that job. Schooling levels are categorized into three levels: high school non-completion, high school graduation, and college non-completion. For each schooling/race group we find that there are three different types of individuals. Each type represents another bundle of unobserved background characteristics. We find that for black and white high school dropouts the wage gap would be closed if the characteristics that account for the different types could be made the same across the races. Thus, there is no evidence for discrimination embedded in bargaining power. For high school graduates, we find that both discrimination and differences in average productivity are responsible for the racial wage (offer) gap. In particular, we estimate the mean wage offer for a black high school graduate to be 63 percent of that of a white high school graduate of the same productivity type

because of discrimination. For college non-completers the observed 16 percent black-white wage gap is due entirely to the higher proportion of lower productivity blacks at that school completion level and we find reverse discrimination.

TI Transaction Services, Inflation and Welfare. **AU** Aiyagari, S. Rao; Braun, Toni; Eckstein, Zvi.

Economides, Nicholas
PD August 1995. **TI** The Political Economy of Branching Restrictions and Deposit Insurance: A Model of Monopolistic Competition Among Small and Large Banks. **AU** Economides, Nicholas; Hubbard, R. Glenn; Palia, Darius. **AA** Economides: Stern School of Management. Hubbard: Columbia University and National Bureau of Economic Research. Palia: Columbia University. **SR** National Bureau of Economic Research Working Paper: 5210; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 27. **PR** $5.00. **JE** D78, D72, G21, D43. **KW** Banking. Branch Restrictions. Oligopoly. Political Economy.
AB This paper suggests that the introduction of bank branching restrictions and federal deposit insurance in the United States likely was motivated by political considerations. Specifically, we argue that these restrictions were instituted for the benefit of the small, unit banks that were unable to compete effectively with large, multi-unit banks. We analyze this "political hypothesis" in two steps. First, we use a model of monopolistic competition between small and large banks to examine gains to the former group from the introduction of branching restrictions and government-sponsored deposit insurance. We then find strong evidence for the political hypothesis by examining the voting record of Congress.

Edin, Per-Anders
TI Unemployment Duration, Unemployment Benefits, and Labour Market Programmes in Sweden. **AU** Carling, Kenneth; Edin, Per-Anders; Harkman, Anders; Holmlund, Bertil.

Edwards, Jeremy S.
PD May 1995. **TI** Universal Banks and German Industrialization: A Reappraisal. **AU** Edwards, Jeremy S.; Ogilvie, Sheilagh. **AA** Edwards: Cambridge University. Ogilvie: Trinity College. **SR** Centre for Economic Policy Research, Discussion Paper: 1171; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 40. **PR** 4 pounds or $8.00. **JE** G21, G32, N23. **KW** Universal Banking. Germany. Investment. Finance. Growth.
AB This paper argues that the role of universal banks in German industrialization has been over-emphasized. The contribution of universal banks to the financing of railway investment was overshadowed by that of the German states. The distinctive features of the relationship between universal banks and industrial firms apply only to industrial joint-stock companies, but the vast majority of the industrial capital stock in Germany before 1914 was accounted for by firms which were not joint-stock companies. Even for industrial joint- stock companies, careful analysis of the relationship between these companies and universal banks casts serious doubt on the conventional view of this relationship.

Eichenbaum, Martin
TI Capital Utilization and Returns to Scale. **AU** Burnside, C.; Eichenbaum, Martin; Rebelo, Sergio.

TI Inside Money, Outside Money and Short Term Interest Rates. **AU** Chari, V. V.; Christiano, Lawrence J.; Eichenbaum, Martin.

Eichengreen, Barry
PD July 1995. **TI** European Monetary Unification: The Challenges Ahead. **AU** Eichengreen, Barry; Ghironi, Fabio. **AA** University of California, Berkeley. **SR** Centre for Economic Policy Research, Discussion Paper: 1217; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 52. **PR** 4 pounds or $8.00. **JE** F00, F03, F04. **KW** Exchange Rates. Monetary Unification.
AB This paper reviews the problems that must be resolved at the Intergovernmental Conference in 1996 to clear the way for European Monetary Union: locking in Germany's commitment to the project, and reconciling EMU with variable geometry. It reviews what we know about the costs and benefits of EMU for the interest groups concerned. We conclude, however, that it is not by the cost-benefit calculus of monetary economics that the viability of the monetary union project will be determined. Rather, it is the symbiosis between the Single Market and EMU that is likely to drag the latter, kicking and screaming, into life.

PD September 1995. **TI** Fiscal Policy and Monetary Union: Federalism, Fiscal Restrictions and the No-Bailout Rule. **AU** Eichengreen, Barry; von Hagen, Jurgen. **AA** Eichengreen: University of California, Berkeley, von Hagen: University of Mannheim. **SR** Centre for Economic Policy Research, Discussion Paper: 1247; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 35. **PR** 4 pounds or $8.00. **JE** F33, H62, H63, H74, H77. **KW** Monetary Union. Fiscal Restraints. Fiscal Federalism.
AB Advocates of formal fiscal restraints on the member states of the European Monetary Union often argue that US experience proves that a monetary union needs such constraints to guarantee the stability of the common currency. We show, first, that the origin of formal fiscal restraints on US state governments is unrelated to monetary questions. Second, we show that the same is true for similar constraints in Australia. Third, we show that the incidence of fiscal restraints is strongly correlated with the central government's ownership of the national tax base. The implication for Europe is that fiscal restraints are unnecessary as long as the EU retains a high degree of fiscal decentralization.

TI The Stability of the Gold Standard and the Evolution of the International Monetary System. **AU** Bayoumi, Tamim; Eichengreen, Barry.

TI Is Regionalism Simply a Diversion? Evidence from the Evolution of the EC and EFTA. **AU** Bayoumi, Tamim; Eichengreen, Barry.

Elliott, Graham
PD November 1995. **TI** International Business Cycles and the Dynamics of the Current Account. **AU** Elliott, Graham; Fatas, Antonio. **AA** Elliott: University of California San Diego. Fatas: INSEAD. **SR** Centre for Economic Policy Research, Discussion Paper: 1280; Centre for Economic Policy

Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** E32, F32, F41. **KW** International Business. Current Account.

AB This paper analyzes the transmission of productivity shocks across countries and how the responses of investment and the current account differ depending on the degree of propagation of the shocks. We explore both issues by estimating a structural model for Japan, the United States and Europe. We postulate, as an identifying assumption, that the propagation of shocks is proportional to trade. We find that there is a strong asymmetry in that shocks to the United States propagate quickly to the other two economies, while European and Japanese shocks have little impact on other countries' productivity. We find that productivity increases lead to domestic investment booms and current account deficits. Investment in other countries tends to react positively to productivity shocks, even when the shock is purely national. This second result contradicts the predictions of a standard open-economy model with perfect capital mobility where, in response to country-specific shocks, domestic and foreign investment should move in opposite directions. We also find quantitative differences among the three countries in the response of the current account. These differences are not related to the global or idiosyncratic nature of the shocks.

Ellison, Glenn D.

TI Risk Taking By Mutual Funds As a Response to Incentives. **AU** Chevalier, Judith A.; Ellison, Glenn D.

Elston, Julie Ann

PD January 1996. **TI** Investment, Liquidity Constraints and Bank Relationships: Evidence from German Manufacturing Firms. **AA** Wissenschaftszentrum Berlin fur Sozialforschung. **SR** Centre for Economic Policy Research, Discussion Paper: 1329; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** E22, E44, G32. **KW** Investment. Banking. Liquidity. Germany.

AB This paper presents evidence supporting the theory that informational and incentive problems in capital markets affect firm investment. This hypothesis is tested by estimating investment equations for two groups of German manufacturing firms. The first group of firms are those with bank ownership, suggesting lower costs to banks of obtaining information and better access to capital for the firm. The second group contains independent firms, that are expected to face greater external financing costs and liquidity constraints. Findings support the hypothesis of greater investment sensitivity to liquidity constraints, as well as increased investment sensitivity over time, for the group of independent firms.

Engelhardt, Gary V.

PD July 1995. **TI** House Prices and Home Owner Saving Behavior. **AA** Dartmouth College. **SR** National Bureau of Economic Research Working Paper: 5183; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 27. **PR** $5.00. **JE** R12, E21. **KW** Saving. Price Appreciation. Housing. Inflation.

AB This paper examines the empirical link between house price appreciation and the savings behavior of home owners during the 1980's. The analysis uses household asset and debt data for a sample of under age sixty-five home owning households from the 1984 and 1989 waves of the PSID to construct changes in real household wealth as a measure of household saving behavior. Cross-time and cross-regional variation in housing market conditions are used to identify behavior savings effects. The empirical analysis suggests that the estimated marginal propensity to consume out of real housing capital gains is 0.03 for the median saver household. However, there is an asymmetry in the saving response to both total and unanticipated real housing capital gains. All of the savings offset comes from households that experience real housing capital losses. Households that experience real gains do not change their saving behavior. The existence of this asymmetry casts doubt on the power of changes in house prices to explain the time series path of saving in the U.S.

Engen, Eric M.

PD September 1995. **TI** Unemployment Insurance and Precautionary Saving. **AU** Engen, Eric M.; Gruber, Jonathan. **AA** Engen: Board of Governors of the Federal Reserve System. Gruber: Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5252; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 33. **PR** $5.00. **JE** J65, D91, E21. **KW** Precautionary Saving. Unemployment Insurance.

AB We consider both theoretically and empirically the effect of unemployment insurance (UI) on precautionary savings behavior. Simulations of a stochastic life cycle model suggest that increasing the generosity of UI will substantially lower the asset holdings of the median worker, and that this effect will both rise with unemployment risk and fall with worker age. We test these implications by matching data on potential UI replacement rates to asset holdings in the Survey of Income and Program Participation (SIPP). Our empirical results are quite consistent with the predictions of the model. We find that raising the replacement rate for UI by 10 percentage points lowers financial asset holdings by 1.4 to 5.6 percent, so that UI crowds out up to one-half of private savings for the typical unemployment spell. We also find that this effect is stronger for those facing higher unemployment risk and weaker for older workers.

Erkel-Rousse, Helene

PD May 1995. **TI** New Empirical Evidence on the Costs of European Monetary Union. **AU** Erkel-Rousse, Helene; Melitz, Jacques. **AA** CREST-INSEE. **SR** Centre for Economic Policy Research, Discussion Paper: 1169; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** F02, F15, F40. **KW** Currency Areas. Europe. Monetary Union. Vector Autoregression.

AB In order to assess the costs of a European Monetary Union (EMU), we use a structural Vector Autoregression (VAR) approach based on the long-run identifying scheme pioneered by Blanchard and Quah and extended by others. We then apply the approach to as many EU members as data limitations permit: namely, Germany, Spain, France, Italy, the Netherlands and the United Kingdom. By identifying a separate shock which would cause exchange rate jumps in the short run, we hope to assess the extent to which such jumps would produce short-run movements in prices as opposed to volumes in each country. Thereby, we hope to see how much sacrifice

each EU member would suffer from the surrender of independent monetary policy. Similarly, we try to identify a separate shock to home absorption in order to see how much profit each EU member would have in preserving their fiscal policy independence inside of EMU. The asymmetry between the shocks hitting the country members of a monetary union remains an issue in the paper; but it is only one of several.

Estrella, Arturo

PD September 1995. **TI** The Term Structure of Interest Rates and Its Role in Monetary Policy for the European Central Bank. **AU** Estrella, Arturo; Mishkin, Frederic S. **AA** Estrella: Federal Reserve Bank of New York. Mishkin: Federal Reserve Bank of New York and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5279; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 29. **PR** $5.00. **JE** E43, E52, F33. **KW** Central Banks. Europe. Term Structure.

AB This paper examines the relationship of the term structure of interest rates to monetary policy instruments and to subsequent real activity and inflation in both Europe and the United States. The results show that monetary policy is an important determinant of the term structure spread, but it unlikely to be the only determinant. In addition, there is significant predictive power for both real activity and inflation. The yield cure is thus a simple and accurate measure that should be viewed as one piece of useful information which, along with other information, can be used to help guide European monetary policy.

Evans, George W.

PD January 1996. **TI** Convergence in Monetary Inflation Models with Heterogeneous Learning Rules. **AU** Evans, George W.; Honkapohja, Seppo; Marimon, Ramon. **AA** Evans: University of Oregon. Honkapohja: Academy of Finland and University of Helsinki. Marimon: European University Institute. **SR** Centre for Economic Policy Research, Discussion Paper: 1310; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** E42, E62. **KW** Hyperinflation. Fiscal Rules. Experimental Evidence.

AB Inflation and financing of public expenditure are analyzed in an OLG model where the deficit is constrained to be less than a given fraction of intergenerational savings. Even if there may be multiplicity of steady-state equilibria, we show that, with such a constraint, the dynamics with adaptive learning are globally convergent to a set of equilibria satisfying a local stability condition. We allow for heterogeneity of agents' learning rules and look at the role of some basic behavioral assumptions, such as a certain degree of random epsilon-precautionary savings and inertia on agents' updating of beliefs. We also provide experimental evidence on the effect of public expenditure constraints on the stability of equilibria.

Evans, Philip

PD March 1996. **TI** Occupational Downgrading and Upgrading in Britain. **AU** Evans, Philip; McCormick, Barry. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9610; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17

1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 29. **PR** no charge. **JE** J21, J24, J62. **KW** Occupational Downgrading. Occupational Upgrading. Unemployment.

AB The willingness of workers to move down an occupational hierarchy is a potentially important source of flexibility in the labor market. Nevertheless, relatively little is known about the scale or pattern of occupational up and downgrading. This paper studies who downgrades and the cyclical structure of up and downgrading. We find that occupational downgrading is surprisingly large relative to flows into unemployment. Using two types of data, we find evidence that individuals who might be expected to have a higher payoff to downgrading are more likely to do so. Contrary to expectations, the rate of downgrading is found to be greater in booms, while upgrading follows the more conventional expectation of also being procyclical. We interpret this finding as evidence consistent with the rationing of jobs in the downgrading process, contrary to the assumptions of simple dual labor market models.

Evans, Robert

PD August 1995. **TI** Reputation and Punishment in Repeated Games With Two Long-Run Players. **AU** Evans, Robert; Thomas, Jonathan. **AA** Evans: University of Cambridge. Thomas: University of Warwick. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9538; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 25. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C73, D83, L14. **KW** Reputation. Repeated Games. Commitment. Incomplete Information.

AB This paper considers reputation effects in a repeated game between two long-run players, one of whom is relatively patient and may be committed to a fixed strategy which punishes the opponent for increasingly long periods whenever inappropriate actions are taken. It is shown that the existence of such commitment types create powerful reputation effects. If the less patient player is sufficiently patient, then the more patient player is guaranteed (in any Nash equilibrium) a payoff close to the highest feasible payoff consistent with the individual rationality of the other player. For an arbitrary degree of patience of the less patient player a weaker result is established: the more patient player is guaranteed an average equilibrium payoff close to the static Stackelberg payoff. This latter result generalizes that of Schmidt (1993), who established the same result for the restricted class of conflicting interest games. Finally, the extension of the results to repeated sequential move games is considered.

PD November 1995. **TI** Coalition Bargaining With Competition to Make Offers. **AA** University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9539; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 9. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** D83, C78, C73. **KW** Bargaining Game. Subgame Perfect.

AB The paper analyses a simple discrete-time noncooperative bargaining game in which, at each stage, there is a contest for the right to make a proposal. The pure strategy subgame-perfect equilibrium payoff set is equal to the core.

Faini, Riccardo

TI Trade Liberalization, Employment and Migration. Some Simulations for Morocco. **AU** de Melo, Jaime; Faini, Riccardo.

Fatas, Antonio

TI International Business Cycles and the Dynamics of the Current Account. **AU** Elliott, Graham; Fatas, Antonio.

PD February 1996. **TI** Endogenous Growth and Stochastic Trends. **AA** INSEAD. **SR** Centre for Economic Policy Research, Discussion Paper: 1340; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** C22, E32, O41. **KW** Business Cycles. Persistence. Economic Growth. Stochastic Trends.

AB This paper shows that there exists a strong positive correlation between long-term growth rates and the persistence of output fluctuations in a cross section of countries. We argue that the traditional explanation of persistence, a real business cycles model with exogenous productivity shocks, cannot produce this correlation. We propose an explanation based on an endogenous growth model with exogenous cyclical shocks. We find that, despite the cyclical nature of the shocks, output fluctuations are persistent and the degree of persistence is an increasing function of long-term growth rates. Growth dynamics become an important component of the transmission of business cycles. We conclude that the analysis of economic fluctuations in models where technological progress is assumed to be exogenous can be misleading.

Fauli-Oller, Ramon

PD February 1996. **TI** Managerial Incentives for Mergers. **AU** Fauli-Oller, Ramon; Motta, Massimo. **AA** Fauli-Oller: Universitat d'Alacant. Motta: Universitat Pompeu Fabra. **SR** Centre for Economic Policy Research, Discussion Paper: 1325; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** G34, L21, L12. **KW** Incentives. Takeovers. Merger Profitability.

AB We study managerial incentives in a model where managers make not only product market but also take-over decisions. We show that the optimal contract includes an incentive to increase the firm's sales, under both quantity and price competition. This result contrasts with the previous literature, and hinges on the fact that with a more aggressive manager rival firms earn lower profits and are willing to sell out at a lower price. As a side-effect of such a contract, however, the manager might take more rivals over than would be profitable.

Favero, Carlo A.

PD January 1996. **TI** High Yields: The Spread on German Interest Rates. **AU** Favero, Carlo A.; Giavazzi, Francesco; Spaventa, Luigi. **AA** Favero and Giavazzi: Universita Bocconi. Spaventa: Universita degli studi di Roma. **SR** Centre for Economic Policy Research, Discussion Paper: 1330; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 52. **PR** 4 pounds or $8.00. **JE** E44, F34. **KW** Yield Differentials. High Yield.

AB This paper is a first attempt at evaluating the determinants of the total interest rate differentials on government bonds between high yielders, namely Spain, Italy, Sweden, and Germany. In particular, we address the question of the relative importance of local and global factors in the determination of such spreads. We identify and measure two components of total yield differentials: one due to expectations of exchange rate depreciation, which we call the exchange rate factor; and another which reflects the market assessment of default risk. We propose and discuss a measure of the exchange rate factors and of the default risk premium based on interest rates swaps. Overall our investigation provides strong evidence in favor of the existence of a common trend for the Spanish and Italian spreads on Bunds, which is not shared by the Swedish spread. Such trend is driven by international factors and is independent from country-specific shocks. Country-specific shocks are only relevant in explaining short-term cycles around the common stochastic trend.

Feenberg, Daniel

PD July 1995. **TI** Improving the Accessibility of the NBER's Historical Data. **AU** Feenberg, Daniel; Miron, Jeffrey A. **AA** Feenberg: National Bureau of Economic Research. Miron: Boston University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5186; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 15. **PR** $5.00. **JE** C81, C82, N11, N12. **KW** Historical Data. Internet. Web.

AB During the early years of its existence, the National Bureau of Economic Research (NBER) assembled an extensive data set on all aspects of the pre-WWII macroeconomy. Until 1978, this data set existed only on the handwritten sheets to which the early NBER researchers copied the data from original sources. In 1978, the Inter-University Consortium for Political and Social Research (ICPSR) transferred the data to magnetic tape. A number of researchers have used the ICPSR tape, but two key problems discourage many from taking advantage of this unique data set. The first is that modern econometric software does not have the ability to read the obsolete ICPSR format. The second is that the process of transferring the data from the NBER's handwritten sheets to the ICPSR tape introduced a number of mistakes. We have eliminated these two impediments to the use of the NBER data set by converting the ICPSR tape to a portable format and by verifying the accuracy of the data using the NBER's original handwritten sheets. The data set is now available on the Internet and can be accessed using standard gopher or web-browser software.

Feldman, Maryann P.

TI Innovative Clusters and the Industry Life Cycle. **AU** Audretsch, David B.; Feldman, Maryann P.

Feldstein, Martin

PD September 1995. **TI** Would Privatizing Social Security Raise Economic Welfare? **AA** National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5281; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 25. **PR** $5.00. **JE** H55, G23, H63, E22. **KW** Privatization. Social Security. Pensions. Debt.

AB A funded social security retirement program would imply a larger capital stock and a higher level of real income than an unfunded program that provides the same level of benefits. The

transition from an unfunded program to a funded program that does not reduce the benefits of existing retirees or the present value of the benefit entitlements of existing employees would, however, require substituting explicit government debt for the equally large implicit debt of the unfunded program. This paper shows that such a debt financed transition from an unfunded program to be funded program is not just a change of form without economic effects. Such a debt financed transition would raise economic welfare if three conditions are met: (1) the marginal product of capital exceeds the rate of economic growth; (2) the capital intensity of the economy is below the welfare maximizing level (i.e., the marginal product of capital exceeds the appropriate consumption discount rate); and (3) the rate of economic growth is positive. Illustrative calculations based on U.S. experience since 1960 suggest that the present value of the gain from a debt financed transition to a funded program would substantially exceed the current level of GDP. More explicitly, even with a relatively high real consumption discount rate of 4.4 percent, the present value gain would be about 1.5 dollars per dollar of current net social security wealth or about $17 trillion.

Fershtman, Chaim

PD November 1995. TI The Effect of the Arab Boycott on Israel: The Automobiles Market. AU Fershtman, Chaim; Gandal, Neil. AA Tel-Aviv University. SR Tel Aviv Sackler Institute of Economic Studies Working Paper: 39/95; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. PG 27. PR no charge. JE D74, F13, L62. KW Economic Sanctions. Boycott.
AB Recent progress towards a comprehensive peace in the Middle East had led to a relaxation of the enforcement of the Arab economic boycott of Israel. This, in turn, had led to the entry of all the major Japanese and Korean automobile manufacturers into the Israeli market. In this paper we examine the effect of the Arab economic boycott on this market. Using recent advances in estimating discrete-choice models of product differentiation, we estimate that had the boycott continued, the welfare loss per purchaser would have been approximately $790 in 1994. This benefit can be interpreted as a peace dividend. Since approximately 113,000 new automobiles were sold in 1994, the welfare gain to consumers was more than $89 million that year.

PD December 1995. TI Tradeable Emission in Oligopoly. AU Fershtman, Chaim; de Zeeuw, Aart. AA Fershtman: Tel-Aviv University. de Zeeuw: Tilburg University. SR Tel Aviv Sackler Institute of Economic Studies Working Paper: 45/95; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. PG 37. PR no charge. JE D43, L13, Q28, D45. KW Emission Permits. Oligopoly.
AB The paper considers an oligopolistic industry in which pollution is a by-product of production. Firms are assumed to have emission permits that restrict the amount that they pollute. These permits are assumed to be tradeable and the paper discusses a structure in which the same set of firms operates both in the product market as well as in the pollution permits market. The paper demonstrates that in such a structure allowing trade in emission permits is not necessarily beneficial. In particular, it may lead to the choice of inferior production and abatement technologies, it may lead to a market equilibrium with lower output rates and higher prices and it may result in a shift of production from a low cost to a high cost firm.

PD May 1996. TI Relative Price Variability, Repeat Sales and the Welfare Cost of Inflation. AU Fershtman, Chaim; Fishman, Arthur; Simhon, Avi. AA Fishman and Simhon: University of Haifa. Fershtman: Tel-Aviv University. SR Tel Aviv Sackler Institute of Economic Studies Working Paper: 15/96; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. PG 30. PR no charge. JE E31, D81, D84. KW Price Variability. Inflation.
AB We present a model in which inflation has a systematic effect on relative prices and welfare. The model focuses on the microeconomics of trade under inflation, and, in particular, the role of long-term trading relationships in markets characterized by imperfect information. Higher inflation, by increasing the cost of holding money, lowers the value of repeat transactions, reducing the relative advantage of efficient firms, and altering the pattern of commerce in a way that shifts productive resources from more efficient to less efficient producers. This welfare cost is shown to mirror the effect of inflation on relative prices and price dispersion in a way that is consistent with empirical regularities.

PD July 1996. TI Why Do We Care What Others Think About Us? AU Fershtman, Chaim; Weiss, Yoram. AA Tel-Aviv University. SR Tel Aviv Sackler Institute of Economic Studies Working Paper: 21/96; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. PG 41. PR no charge. JE A14, A13, C73, Z10. KW Social Status. Endogenous Preferences. Social Evolution.
AB The paper characterized the circumstances under which evolution leads to the survival of socially minded individuals who care about "what other people think about them." It is shown that social status can induce cooperation in the long run if the marginal social reward is non- negligible and not excessive. However, if socially minded individuals care only about the opinion of other socially minded individuals, the society may be locked in an inefficient evolutionary stable equilibrium where no-one cares about status. We show that investment in schooling can enhance the effectiveness of social status. The option of immigration, however, can lead to the disappearance of socially minded individuals.

Fisher, Jonas
TI Asset Pricing Lessons For Modeling Business Cycles. AU Boldrin, Michele; Christiano, Lawrence J.; Fisher, Jonas.

Fishman, Arthur
PD May 1995. TI Search with Learning and Price Adjustment Dynamics. AA Tel-Aviv University. SR Tel Aviv Sackler Institute of Economic Studies Working Paper: 18/95; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. PG 31. PR no charge. JE D82, D83, E31. KW Search. Learning. Price Inertia.
AB This paper presents a theory of limited price responsiveness to cost shocks in a context of search with learning. Consumers confuse general cost shocks, common to all firms in the industry, with firm specific shocks. In the case of a general cost increase, this confusion leads to an excessive propensity to search, temporarily inhibiting price increases, lest they encourage search. In the case of an idiosyncratic shock, consumers initially search too little, allowing the prices of high cost firms to temporarily overshoot.

TI Relative Price Variability, Repeat Sales and the Welfare Cost of Inflation. AU Fershtman, Chaim; Fishman, Arthur;

Simhon, Avi.

Fjaerli, Erik
TI The Norwegian Microsimulation Model LOTTE: Applications to Personal and Corporate Taxes and Social Security Benefits. AU Aasness, Jorgen; Fjaerli, Erik; Gravningsmyhr, Hanne A.; Holmoy, Ann Marit; Lian, Bard.

Flam, Harry
PD May 1995. TI Why do Pre-tax Car Prices Differ so Much Across European Countries? AU Flam, Harry; Nordstrom, Hakan. AA Flam: Stockholm University. Nordstrom: World Trade Organization. SR Centre for Economic Policy Research, Discussion Paper: 1181; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 36. PR 4 pounds or $8.00. JE F13, F15. KW Price Discrimination. Market Segmentation. Voluntary Export.
AB The European car market is segmented by regulatory measures that support price discrimination by manufacturers and make consumer arbitrage difficult and costly. In a sample covering 43 models making up 80% of car sales in 11 countries in 1989-92, we find that the average standard deviation of pre-tax prices across markets is 14%. The difference between the maximum and minimum price is typically about 50% of the average price. The price discrimination seems to be driven largely by taxes, tariffs and import quotas. For example, a quota raises the pre-tax price of the average Japanese car by 12% and of the average competing European car by 7%.

Flandreau, Marc
PD July 1995. TI An Essay on the Emergence of the International Gold Standard, 1870- 80. AA OFCE. SR Centre for Economic Policy Research, Discussion Paper: 1210; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 60. PR 4 pounds or $8.00. JE E05, N02. KW Gold Standard. Coordination. Regime Change. Central Banking. International Monetary System.
AB This paper is an exploration of the theory of endogenous regime changes which takes as an illustration the making of the classical gold standard. The international gold-based fixed exchange rate regime that surfaced during the 1870s has traditionally been interpreted as resulting from a mix of structural factors (Kindleberger (1993)), free- rider problems (Kenwood and Lougheed (1972)), transaction costs considerations (Redish (1992)), or political economy forces (Gallarotti (1990)). This paper - initially written to disentangle these various theories -- argues that none of the traditionally accepted views proves sufficiently robust to closer scrutiny. We build a model of the pre- 1870 international monetary system which allows us to formally test and reject the "free-rider" and "structural" views. We rely on historical and microeconomic evidence to criticize the "transaction costs" and "political economy" theories. Finally, we provide an alternative explanation of the emergence of the gold standard. Our conclusion is twofold. First, we argue that the making of the gold standard was very much the result of path-dependency and coordination problems. Second, we claim that the very process through which the gold standard was adopted played a major role in shaping its operation.

Follain, James R.
TI In Search of Empirical Evidence That Links Rent and User Cost. AU Blackley, Dixie M.; Follain, James R.

Forni, Mario
PD September 1995. TI Let's Get Real: A Dynamic Factor Analytical Approach to Disaggregated Business Cycle. AU Forni, Mario; Reichlin, Lucrezia. AA Forni: University of Modena. Reichlin: Universite Libres de Bruxelles. SR Centre for Economic Policy Research, Discussion Paper: 1244; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 36. PR 4 pounds or $8.00. JE C51, E32, O30. KW Business Cycle. Sectoral Movements. Technical Shocks. Factor Analysis. Principal Components.
AB This paper analyzes output and productivity for 450 US industries from 1958 to 1986. We make the following contributions. (i) We develop a method based on dynamic principal components to identify the number of common shocks to our data set. (ii) We propose a simple method for the estimation of the unobserved common dynamic component in a factor analytic model. (iii) We use a new method for identifying the technology shock based on the innocuous idea that technological innovations are mainly positive. (iv) We propose and construct a measure of the degree of substitution between complementary effects of shocks. Our main empirical findings are: (i) There are only two common shocks driving output and productivity in the 450 sectors; (ii) Technological innovations produce positive comovements at business cycle frequencies, but they are not sufficient to explain all cyclical fluctuations. (iii) Technological shocks are strongly correlated with the growth rates of the investment in machinery and equipment sectors and their inputs.

PD December 1995. TI Dynamic Common Factors in Large Cross-Sections. AU Forni, Mario; Reichlin, Lucrezia. AA Forni: University of Modena. Reichlin: Universite Libres de Bruxelles. SR Centre for Economic Policy Research, Discussion Paper: 1285; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 33. PR 4 pounds or $8.00. JE C51, E32, O33. KW Business Cycle. Sectoral Comovements. Factor Analysis. Principal Components.
AB This paper develops a method to analyze large cross-sections with non-trivial time dimensions. The method: (i) identifies the number of common shocks in a factor analytic model; (ii) estimates the unobserved common dynamic component; (iii) shows how to test for fundamentality of the common shocks; and (iv) quantifies positive and negative comovements at each frequency. We illustrate how the proposed techniques can be used for analyzing features of the business cycle and economic growth.

Forslid, Rikard
TI Investment Creation and Investment Diversion: Simulation Analysis of the Single Market Programme. AU Baldwin, Richard E.; Forslid, Rikard; Haaland, Jan I.

Francois, Joseph F.
PD July 1995. TI Multilateral Trade Rules and the Expected Cost of Protection. AU Francois, Joseph F.; Martin, Will. AA Francois: World Trade Organization. Martin: World Bank. SR Centre for Economic Policy Research,

Discussion Paper: 1214; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** F11, F13. **KW** Expected Protection. Stochastic Protection. Trade Liberalization. Tariff Bindings. Trade Rules. Trade Policy.
AB Protection unconstrained by rules typically varies considerably over time. The policy disciplines introduced in the Uruguay Round in "new" areas such as agricultural, services, and developing country industrial protection will constrain, but not eliminate, this variability. The effects of these constraints on the expected costs of protection are examined, taking into account their impacts on both the first and second moments of the distribution of protection. As an application, we examine Uruguay Round agricultural bindings, finding substantial reductions in the expected cost of protection even in some cases where the bindings are above previous protection levels.

PD August 1995. **TI** The Role of Services in the Structure of Production and Trade: Stylized Facts From a Cross-Country Analysis. **AU** Francois, Joseph F.; Reinert, Kenneth A. **AA** Francois: World Trade Organization. Reinert: Kalamazoo College. **SR** Centre for Economic Policy Research, Discussion Paper: 1228; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** F14, O11, O57. **KW** Services and Development. Trade in Services. Production and Services.
AB We examine the role of services in the structure of production and trade. Working with a cross-country sample of 17 social accounting matrices, we develop stylized facts relating upstream and downstream service linkages to incomes and the input-output structure of production. Expansion of services is related to expansion of private sector intermediate services, and to increased demand in manufacturing for service inputs. This growth in demand is more closely related to changes in the structure of production rather than to outsourcing or splintering processes. The embodied service component of exports is also strongly linked to the level of development.

Frank, Richard G.
TI Economic Issues In Vaccine Purchase Arrangements. **AU** Salkever, David S.; Frank, Richard G.

Frankel, Jeffrey A.
TI Open Regionalism In a World of Continental Trade Blocs. **AU** Wei, Shang-Jin; Frankel, Jeffrey A.

PD February 1996. **TI** Currency Crashes in Emerging Markets: Empirical Indicators. **AU** Frankel, Jeffrey A.; Rose, Andrew K. **AA** University of California, Berkeley. **SR** Centre for Economic Policy Research, Discussion Paper: 1349; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** F32, F34. **KW** Exchange Rate. Development. Panel Data. Debt.
AB We use a panel of annual data for over one hundred developing countries from 1971-92 to characterize currency crashes. We define a currency crash as a large change of the nominal exchange rate that is also a substantial increase in the rate of change of nominal depreciation. We examine the composition of the debt as well as its level, and a variety of other macroeconomic factors, external and foreign. Crashes tend to occur when: output growth is low; the growth of

domestic credit is high; and the level of foreign interest rates is high. A low ratio of foreign direct investment to debt is consistently associated with a high likelihood of a crash.

Franks, Julian
TI Underpricing, Ownership and Control in Initial Public Offerings of Equity Securities in the UK. **AU** Brennan, Michael J.; Franks, Julian.

Friedman, Benjamin M.
PD August 1995. **TI** Does Monetary Policy Affect Real Economic Activity? Why Do We Still Ask This Question? **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5212; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 31. **PR** $5.00. **JE** E52, E32, E27, B41. **KW** Methodology. Monetary Policy.
AB The predominant weight of the existing evidence suggests that the effects of monetary policy on real economic activity are systematic and sizable. Yet questions remain, both about individual empirical results and, more broadly, about the different methodological approaches that researchers have used to investigate these effects. This paper addresses the conceptual issues that account for our continuing to ask whether monetary policy has real effects even though, at a certain level, we do "know" the answer. The paper's overview of theory and evidence suggests that much of the explanation for the continuing tug- of-war between research findings and subsequent questions in this area lies in two sets of limitations, one reflecting how economics conceptualizes behavioral processes and one reflecting how economics draws inferences from observed data.

Fujita, Masahisa
PD February 1996. **TI** Economics of Agglomeration. **AU** Fujita, Masahisa; Thisse, Jacques-Francois. **AA** Fujita: Kyoto University. Thisse: Universite Catholique de Louvain and CERAS-ENPC. **SR** Centre for Economic Policy Research, Discussion Paper: 1344; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 60. **PR** 4 pounds or $8.00. **JE** F12, L13, R12. **KW** Agglomeration. City. Externality. Imperfect Competition. Trade.
AB We address the fundamental question arising in economic geography: why do economic activities agglomerate in a small number of places? The main reasons for the formation of economic clusters involving firms and/or households are analyzed: (i) externalities under perfect competition; (ii) increasing returns under monopolistic competition; and (iii) spatial competition under strategic interaction. We review what has been accomplished in these three domains and identify a few general principles governing the organization of economic space. Other standard lines of research in location theory are also discussed while several alternative, new approaches are proposed.

Gali, Jordi
PD June 1995. **TI** Real Business Cycles with Involuntary Unemployment. **AA** New York University. **SR** Centre for Economic Policy Research, Discussion Paper: 1206; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4

pounds or $8.00. **JE** E32, J64. **KW** Business Cycles. Unemployment. Insider-Outsider. Endogenous Mark- ups.
AB We develop and analyze a real business cycle model in which both goods and labor markets are characterized by imperfect competition. In equilibrium, unemployment emerges as the result of the market power exercised by insiders at the firm level. We show that a calibrated version of the model is capable of generating both a procyclical labor supply and a countercyclical unemployment rate, in a way qualitatively consistent with US data.

Galor, Oded

PD August 1995. **TI** The Gender Gap, Fertility and Growth. **AU** Galor, Oded; Weil, D. N. **AA** Brown University. **SR** Centre for Economic Policy Research, Discussion Paper: 1157; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** J13, J16, O11, O41. **KW** Fertility. Growth. Gender Gap. Development.
AB This paper examines a novel mechanism linking fertility and growth. There are three components to the model. First, increases in capital per worker raise women's relative wages, since capital is more complementary to women's labor input than to men's. Second, increasing women's relative wages reduces fertility by raising the cost of children more than household income. Third, lower fertility raises the level of capital per worker. This positive feedback loop generates a demographic transition: a rapid decline in fertility accompanied by accelerated output growth.

PD February 1996. **TI** Convergence? Inferences From Theoretical Models. **AA** Brown University. **SR** Centre for Economic Policy Research, Discussion Paper: 1350; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** O41, O57, D31. **KW** Conditional Convergence. Club Convergence. Income Distribution. Growth. Overlapping Generations.
AB This essay suggests that the convergence controversy may reflect, in part, differences in perception regarding the viable set of competing testable hypotheses generated by existing growth theories. It argues that in contrast to the prevailing wisdom, the traditional neo-classical growth paradigm generates the club convergence hypothesis as well as the conditional convergence hypothesis. Furthermore, the inclusion of empirically significant variables such as human capital, income distribution, and fertility in conventional growth models, along with capital market imperfections, externalities, and non-convexities, strengthens the viability of club convergence as a competing hypothesis with conditional convergence.

PD July 1996. **TI** The Distribution of Human Capital and Economic Growth. **AU** Galor, Oded; Tsiddon, Daniel. **AA** Galor: Hebrew University, Brown University and Centre for Economic Policy Research. Tsiddon: Tel-Aviv University and Centre for Economic Policy Research. **SR** Tel Aviv Sackler Institute of Economic Studies Working Paper: 18/96; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. **PG** 41. **PR** no charge. **JE** O41, D31, J24. **KW** Income Distribution. Human Capital. Growth. Overlapping-Generations.
AB This paper analyzes the interaction between the distribution of human capital, technological progress, and economic growth. It argues that the composition of human capital is an important factor in the determination of the pattern of economic development. The study demonstrates that the evolutionary pattern of the human capital distribution, the income distribution and economic growth are determined simultaneously by the interplay between local home environment externality and a global technological externality. In early stages of development the local home environment externality is the dominating factor and hence the distribution of income becomes polarized, whereas in mature stages of development the global technological externality dominates and the distribution of income ultimately contracts. Polarization, in early stages of development may be a necessary ingredient for future economic growth. An economy that prematurely implements a policy designed to enhance equality may be trapped at a low stage of development. An under-developed economy which values equality as well as prosperity may confront a tradeoff between equality in the short-run followed by equality and stagnation in the long-run, and inequality in the short-run followed by equality and prosperity in the long run.

Gandal, Neil

TI The Effect of the Arab Boycott on Israel: The Automobiles Market. **AU** Fershtman, Chaim; Gandal, Neil.

TI Systems Competition, Vertical Merger and Foreclosure. **AU** Church, Jeffrey; Gandal, Neil.

PD April 1996. **TI** Standardization Policy and International Trade. **AU** Gandal, Neil; Shy, Oz. **AA** Shy: University of Michigan and Tel-Aviv University. Gandal: Tel-Aviv University. **SR** Tel Aviv Sackler Institute of Economic Studies Working Paper: 12/96; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. **PG** 29. **PR** no charge. **JE** F13, L52. **KW** Standards. International Trade. Standardization Policy.
AB In this paper we examine the incentives for governments to recognize the standards of foreign products. In the case of non-recognition, a foreign firm must incur an additional cost to sell in the local market. In the benchmark case, we assume that governmental policy is limited to either (1) recognizing all foreign standards or (2) not recognizing any standards. We then enrich the model and investigate whether countries can gain by forming blocks (standardization unions) which entail mutual standard recognition among member countries.

Gazeley, Ian

PD February 1996. **TI** Wages and Employment in Britain Between the Wars: Quarterly Evidence from the Shipbuilding Industry. **AU** Gazeley, Ian; Rice, Patricia G. **AA** Gazeley: University of Sussex. Rice: University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9605; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 39. **PR** no charge. **JE** N14, N64. **KW** Employment. Inter-War. Shipbuilding. Quarterly Data.
AB The traditional view that the Great Depression of 1930-1932 arose from a collapse in aggregate demand has been challenged recently by economists who argue that the fundamental causes lay on the supply-side of the market. This paper examines these issues in the context of the shipbuilding

industry. A model of the determination of price, output and employment is developed and estimated using quarterly data for the industry. The results support the view that a negative demand shock in the form of a sharp fall in the volume of world trade led to the sharp decline in output. In the case of shipbuilding, the impact on employment was exacerbated by nominal wage developments.

Gentry, William M.
TI Organizational Form and Insurance Company Performance: Stocks Versus Mutuals. AU Born, Patricia; Gentry, William M.; Viscusi, W. Kip; Zeckhauser, Richard J.

Gerlach, Stefan
PD July 1995. TI The Monetary Transmission Mechanism: Evidence From the G-7 Countries. AU Gerlach, Stefan; Smets, Frank. AA Bank for International Settlements. SR Centre for Economic Policy Research, Discussion Paper: 1219; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 52. PR 4 pounds or $8.00. JE E05. KW Monetary Policy. Structural Vector Autoregressions.
AB In this paper we compare the effects of monetary policy on output and prices in the G-7 countries using a parsimonious macroeconometric model comprising output, prices and a short-term interest rate. We identify monetary policy shocks by assuming that they do not affect real output instantaneously (within the quarter) or in the long run, and implement these restrictions using a sequential instrumental variables technique. We show that the so-called price-puzzle, which has been noticed in the large VAR-literature in which only short-run restrictions are used, disappears. This suggests that the puzzle is due to the fact that the use of only short-run identifying restrictions does not properly discriminate between contractionary aggregate supply shocks and monetary policy shocks. We conclude that the effects of a standardized monetary policy action are very similar across countries.

PD October 1995. TI The Term Structure of Euro-Rates: Some Evidence in Support of the Expectations Hypothesis. AU Gerlach, Stefan; Smets, Frank. AA Gerlach: Bank of International Settlements, Smets: Bank of International Settlements. SR Centre for Economic Policy Research, Discussion Paper: 1258; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 40. PR 4 pounds or $8.00. JE E43, D84. KW Term Structure of Interest Rates. Expectations Hypothesis. Europe.
AB This paper studies one-, three-, six- and twelve-month Euro-rates for 17 countries using between 10 and 30 years of data. Term spreads contain information about future short-term rates in all 51 regressions that we estimate. Furthermore, in 35 cases we accept the expectations hypothesis. Using cross-sectional regressions, we estimate the variance of the term premium and the correlation of the term premium and the expected change in short rates. The estimates are compatible with existing informal estimates. We conclude that, despite the presence of a time-varying term premium, for many countries the expectations hypothesis is broadly compatible with the data.

PD November 1995. TI The Information Content of the Term Structure: Evidence for Germany. AA Gerlach: Bank of International Settlements. SR Centre for Economic Policy

Research, Discussion Paper: 1264; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 24. PR 4 pounds or $8.00. JE E43, E52. KW Inflation Expectations. Term Structure. Information Content.
AB This paper studies the usefulness of spreads between interest rates of different maturities as indicators of future inflation and real interest rates in Germany, using monthly data from the first quarter of 1967. The central results are two-fold. First, the interest rate spreads considered contain considerable information about future changes in inflation, but no information about the time path of real interest rates. Second, the medium-term segment of the yield curve (spreads between six- and two-year rates, for instance) appears to be the most informative for future inflation. These results are similar to those obtained by Mishkin (1990b) and Jorion and Mishkin (1991).

Ghironi, Fabio
TI European Monetary Unification: The Challenges Ahead. AU Eichengreen, Barry; Ghironi, Fabio.

Giavazzi, Francesco
PD November 1995. TI Non-Keynesian Effects of Fiscal Policy Changes: International Evidence and the Swedish Experience. AU Giavazzi, Francesco; Pagano, Marco. AA Giavazzi: IGIER and Universita Bocconi, Milano. Pagano: Universita degli Studi di Napoli Federico II. SR Centre for Economic Policy Research, Discussion Paper: 1284; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 56. PR 4 pounds or $8.00. JE E21, E22, E62, E63, E65. KW Fiscal Policy. Stabilization. Public Debt. Public Deficit. Public Consumption.
AB In earlier work we documented two episodes in which a sharp fiscal consolidation was associated with a surprisingly large expansion in private domestic demand. In this paper we draw on further evidence to investigate if and when fiscal policy changes can have such non-Keynesian effects. In the first part of the paper, we analyze cross-country data for 19 OECD countries. In the second part we concentrate on the Swedish fiscal expansion of the early 1990's. The cross-country evidence on private consumption confirms that fiscal policy changes -- both contractions and expansions -- can have non-Keynesian effects if they are sufficiently large and persistent. It also suggests that these effects can result not only from changes in public consumption, but to some extent also from changes in taxes and transfers. The latter result is also consistent with the Swedish experience, where a decrease in net taxes (with almost no change in public consumption) was associated with a dramatic fall in private domestic demand. Our evidence and that from other studies agree that during the Swedish fiscal expansion of the early 1990's a large negative error should be interpreted, but it is clear that the most obvious candidates (wealth effects and after-tax real interest rate effects) are not sufficient to explain it. This error may reflect a large downward revision of permanent disposable income, which affected the consumption choices of Swedish households over and beyond the negative effects of the drop in real asset prices. We suggest that this downward revision in permanent disposable income may have been triggered, at least partly, by the fiscal expansion of the early 1990's.

TI High Yields: The Spread on German Interest Rates.

AU Favero, Carlo A.; Giavazzi, Francesco; Spaventa, Luigi.

Giovannetti, Giorgia
PD February 1996. TI Hysteresis in Exports.
AU Giovannetti, Giorgia; Samiei, Hossein.
AA Giovannetti: European University Institute. Samiei:
International Monetary Fund. SR Centre for Economic
Policy Research, Discussion Paper: 1352; Centre for Economic
Policy Research, 25-28 Old Burlington Street, London W1X
1LB, United Kingdom. PG 24. PR 4 pounds or $8.00.
JE C51, F31. KW Hysteresis. Pass-Through. Aggregation.
AB This paper presents an empirical examination of the
importance of hysteresis in international trade. An econometric
model of export determination is developed where the presence
of sunk costs causes discontinuous behavior and hysteresis so
that an individual exporter's decision to stay in or out of the
market depends on the current value of the exchange rate as
well as its past history. The aggregate level of exports is then
determined by the proportion of exporters that stay in the
market. The resulting non-linear model is estimated using data
on manufacturing exports for Germany, Japan and the United
States. The paper finds strong evidence in favor of the presence
of pricing-to- market and hysteresis only in the case of
Japanese exports.

Glazer, Yacob
PD January 1995. TI What Motives Should Guide
Referees? On the Design of Mechanisms to Elicit Opinions.
AU Glazer, Yacob; Rubinstein, Ariel. AA Glazer: Tel-
Aviv University. Rubinstein: Tel-Aviv University and Tilburg
University. SR Tel Aviv Sackler Institute of Economic
Studies Working Paper: 3/96; Department of Economics, Tel
Aviv University, Ramat Aviv 69978, ISRAEL. PG 37.
PR no charge. JE C72, D82. KW Motives.
Implementation. Opinions. Referees.
AB The refereeing process can be conceived of as a
mechanism for deciding whether or not to accept a paper based
on information gathered from a number of referees, each of
whom receives a noisy signal regarding the appropriateness of
publications. The public target is to make the best possible
decision on the bases of all the information held by the referees.
We compare two worlds. In one, all referees are driven only the
public motive - to accept appropriate papers. In the second,
each referee is also driven by a private motive - to have his
recommendation accepted. It is shown that in the first world,
every mechanism will have a "bad" equilibrium, that is, one
which does not achieve the public target. For the second world,
we construct a mechanism whose unique equilibrium outcome
does achieve the public target. According to the mechanism we
construct, one of the referees is assigned a special role, that of
determining the subgroup whose members' votes, when
combined with his own vote, will determine the decision by
employing the majority rule. He makes his selection of the
subgroup simultaneously with all other referees casting their
votes, whereas his own vote is cast only after hearing the
outcome of the subgroup voting.

Goerke, Laszlo
PD February 1996. TI Taxes on Payroll, Revenues and
Profits in Three Models of Collective Bargaining.
AA University of Hamburg and University of Southampton.
SR University of Southampton, Discussion Paper in
Economics and Econometrics: 9603; Discussion Paper

Secretary, Department of Economics, University of
Southampton, Southampton SO17 1BJ, England. website:
www.soton.ac.uk/discp.html. PG 27. PR no charge.
JE H25, J51. KW Trade Union. Taxes. Collective
Bargaining.
AB Variations in company taxes are analyzed for a right-to-
manage model, an efficient bargaining setting and a seniority
approach. Taxes cannot be shifted forward by the risk-neutral
firm. Alternative income and bargaining power are allowed to
vary with taxes. Employing the asymmetric Nash solution it is
found that changes in a payroll, revenue or profit tax can have
differing implications for labor demand curve models and
efficient bargaining solutions. This distinction might provide a
novel basis for empirical work. Variations in bargaining power
and -- within a labor demand curve setting -- the union's
objective function do not change results.

Goldberg, Linda
PD July 1995. TI Strategic Trading in a Two-Sided
Foreign Exchange Auction. AU Goldberg, Linda; Tenorio,
Rafael. AA Goldberg: New York University and National
Bureau of Economic Research. Tenorio: University of Notre
Dame. SR National Bureau of Economic Research Working
Paper: 5187; National Bureau of Economic Research, 1050
Massachusetts Avenue, Cambridge, MA 02138. PG 28.
PR $5.00. JE C91, D44, F31. KW Foreign Exchange.
Market Microstructure.
AB The market microstructure chosen for foreign exchange
markets can influence trading volumes and equilibrium
exchange rates. With emerging markets and developing
countries increasingly utilizing two-sided auctions, we show
that the choice of the discrete "tatonnement" auction creates
incentives for strategic behavior among market participants.
We provide theoretical predictions on strategic under-
revelation of demand or supply positions that are supported
empirically using detailed data from a rare example of a
tatonnement market, the Moscow Interbank Currency
Exchange. Our results also are consistent with findings from
experimental work on auctions: new entrants altered strategic
behavior mainly on the market's demand side, without
comparable implications for the supply side. We also show that
bids and offers were influenced by fundamentals and specific
policy measures.

Goldberg, Pinelopi K.
PD August 1995. TI Measuring the Intensity of
Competition in Export Markets. AU Goldberg, Pinelopi K.;
Knetter, Michael M. AA Goldberg: Princeton University and
National Bureau of Economic Research. Knetter: Dartmouth
University and National Bureau of Economic Research.
SR National Bureau of Economic Research Working Paper:
5226; National Bureau of Economic Research, 1050
Massachusetts Avenue, Cambridge, MA 02138. PG 25.
PR $5.00. JE F11, F14, F31. KW Trade. Exports.
Germany.
AB This paper develops an approach to measuring the
intensity of competition in international markets. The method
measures the degree of "outside" competition faced by
exporters located in one source country from firms located
outside the source country. We use the elasticity of price and
quantity of exchange rate shocks, which shift the relative costs
of producers from a particular source country, to calculate our
measure of outside competition. The measures are estimated

using panel data on exports of U.S. linerboard and German beer to a variety of destination markets. The destination-specific panel data allow comparisons of outside competition across destination markets.

Goldin, Claudia

AB Recent college graduate women express frustration regarding the obstacles they will face in combining career and family. Tracing the demographic and labor force experiences of four cohorts of college women across the past century allows us to observe the choices each made and how the constraints facing college women loosened over time. No cohort of college graduate women in the past had a high success rate in combining family and career. Cohort I (graduating c. 1910) had a 50 percent rate of childlessness. Whereas cohort III (graduating c. 1955) had a high rate of childbearing, it had initially low labor force participation. Cohort IV (graduating c. 1972) provides the most immediate guide for today's college women and is close to the end of its fertility history. The estimates for career vary from 24 percent to 33 percent for all college graduate women in the sample. Thus only 13 percent to 17 percent of the group achieved "family and career" by the time it was about 40 years old. Among those who attained career, 50 percent were childless. Cohort IV contains a small group of women who have combined family with career, but for most, the goal remains elusive.

AB Between 1890 and the late 1920's the premium to high school education declined substantially for both men and women. In 1890 ordinary office workers, whose positions generally required a high school diploma, earned almost twice what production workers did. But the late 1920's they earned about one and one-half times as much. The premium earned by female office workers, male office workers, and male office workers plus supervisors fell by about 30 percent. Several factors operated in tandem to narrow differentials to education. The supply of high school graduates relative to those without high school degrees increased by 16 percent from 1890 to 1910, but by 40 percent from 1910 to 1920 and by 50 percent from 1920 to 1930. The premium to high school graduation, rather than declining further in the 1930's, leveled off as the demand for high school educated workers expanded in the manufacturing sector. We make comparisons between this historical period of narrowing wage differentials in the face of technological progress in the office and ours of widening differentials.

Gordon, Robert J.

AB This paper shows how misleading is the facile contrast of Europe following a path of high productivity growth, high unemployment, and relatively greater income equality, with the opposite path being pursued by the United States. While structural shocks may initially create a positive trade-off between productivity and unemployment, they set in motion a dynamic path of adjustment involving capital accumulation or decumulation that in principle can eliminate the trade- off. The main theoretical contributions of this paper are to show how a productivity-unemployment trade-off might emerge and how it might subsequently disappear as this dynamic adjustment path is set in motion. Its empirical work develops a new data base for levels and growth rates of output per hour, capital per hour, and multifactor productivity in the G-7 nations both for the aggregate economy and for nine sub-sectors. It provides regression estimates that decompose observed differences in productivity growth across sectors. It finds that much of the productivity growth advantage of the four large European countries over the United States is explained by convergence and by more rapid capital accumulation, and that the only significant effect of higher unemployment is to cause capital accumulation to decelerate, thus reducing the growth rate of output per hour relative to multi-factor productivity.

Gorton, Gary

AB We study whether the socially optimal level of stability of the banking system can be implemented with regulatory capital requirements in a multi-period general equilibrium model of banking. We show that: (i) bank capital is costly because of the unique liquidity services provided by demand deposits, so a bank regulator may optimally choose to have a risky banking system; (ii) even if the regulator prefers more capital in the system, the regulator is constrained by the private cost of bank capital, which determines whether bank shareholders will agree to meet capital requirements rather than exit the industry.

Gosling, Amanda

Meghir, Costas. **AA** Gosling and Meghir: Institute for Fiscal Studies. Machin: London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 271; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 37. **PR** no charge. **JE** D31, J31. **KW** Wage Dispersion. Cohort.

AB This paper uses microeconomic data from the UK Family Expenditure Surveys and the General Household Surveys to describe and explain changes in the distribution of male wages from 1966 to 1992. Both education and age differentials have risen over the sample period. We show that the increase in age differentials can be explained as cohort effects; these are important in the UK due to a succession of policy reforms affecting the amount, quality and distribution of education that children receive. We also show that dispersion increased much more within the lower education groups. Finally we show that the brief wage compression that occurred during the late 1970's can be characterized as a common effect across all education and age groups. After controlling for these we find that there was an underlying trend towards increasing dispersion during our entire sample period.

Grabowski, Maciej

PD March 1995. **TI** The Taxation of Entrepreneurial Income in a Transition Economy: Issues Raised by Experience in Poland. **AU** Grabowski, Maciej; Smith, Stephen. **AA** Grabowski: Gdansk Institute for Market Economics. Smith: Institute for Fiscal Studies. **SR** Centre for Economic Policy Research, Discussion Paper: 1166; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 48. **PR** 4 pounds or $8.00. **JE** H25, P21. **KW** Fiscal Policy. Tax Reform. Entrepreneurs. Small Businesses. Poland.

AB This paper considers the taxation of small business and entrepreneurial incomes in Poland. In both transition economies and existing West European market economies, the efficient taxation of entrepreneurial incomes presents particular difficulties, partly due to the absence of clearly defined "borderlines", for example between labor and capital incomes, and between business expenses and private consumption. The treatment of income volatility, of social insurance contributions, and of inheritance by the tax system can easily have a non-neutral impact on the balance between entrepreneurial investment and other investments. The paper considers how these problems could be addressed, and outlines a number of issues specific to the taxation of entrepreneurs in transition economies.

Granger, C. W. J.

PD June 1996. **TI** A Decision-Theoretic Approach to Forecast Evaluation. **AU** Granger, C. W. J.; Pesaran, M. Hashem. **AA** Granger: University of California, San Diego. Pesaran: University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9618; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 19. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C53, C22. **KW** Forecast Evaluation. Cost Function. Probabilistic Forecasts.

AB This paper addresses the problem of forecast evaluation in the context of a simple but realistic decision problem, and proposes a procedure for the evaluation of forecasts based on their average realized value to the decision maker. It is shown that by concentrating on probability forecasts stronger theoretical results can be achieved than if just event forecasts were used. A possible generalization is considered concerning the use of the correct, conditional predictive density function when forming forecasts.

Gravningsmyhr, Hanne A.

TI The Norwegian Microsimulation Model LOTTE: Applications to Personal and Corporate Taxes and Social Security Benefits. **AU** Aasness, Jorgen; Fjaerli, Erik; Gravningsmyhr, Hanne A.; Holmoy, Ann Marit; Lian, Bard.

TI The Norwegian Microsimulation Model LOTTE: Applications to Personal and Corporate Taxes and Social Security Benefits. **AU** Aasness, Jorgen; Fjaerli, Erik; Gravningsmyhr, Hanne A.; Holmoy, Ann Marit; Lian, Bard.

Green, Francis

PD February 1996. **TI** Trade Unions and Training Practices in British Workplaces. **AU** Green, Francis; Machin, Stephen; Wilkinson, David. **AA** Green: University of Leeds. Machin and Wilkinson: London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 278; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 36. **PR** no charge. **JE** J51, J24. **KW** Training. Incidence. Intensity. Unionization.

AB We use establishment-level data from the 1991 Employers Manpower and Skills Practices Survey (EMSPS) and individual-level data from the Autumn 1993 Quarterly Labor Force Survey (QLFS) to investigate the links between training provision and workplace unionization. We focus on two training measures, and incidence variable and an intensity variable. Both are strongly positively related to whether unions are recognized in the workplace. Working in a unionized establishment substantially raises the probability of receiving training and the amount of training received by British workers. We view these results as confirming the potentially important role that British unions can play in developing skill formation.

Green, Richard

PD June 1996. **TI** The Electricity Contract Market. **AA** University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9616; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 22. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** L94, L13, G13. **KW** Electricity Trading. Forward Markets. Supply Functions. Oligopoly.

AB In England and Wales, wholesale electricity is sold in a spot market partly covered by long-term contracts which hedge the spot price. Two dominant conventional generators can raise spot prices to undesirable levels, which is profitable in the absence of contracts. If fully hedged, however, the generators lose their incentive to raise prices above marginal costs. Competition in the contract market could lead the generators to sell contracts for much of their output. Since privatization, the generators have indeed covered most of their sales in the contract market.

Green, Richard K.

PD July 1995. TI Should the Stagnant Homeownership Rate Be a Source of Concern? AA University of Wisconsin-Madison. SR National Bureau of Economic Research Working Paper: 5176; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 33. PR $5.00. JE R21, D12, J11. KW Housing. Demographic Trends. Interest. Tax Reform.

AB The homeownership rate in the United States was essentially stagnant during the 1980's. This stagnation should be a source of concern if the rate reflects stagnant economic conditions and ownership opportunities, not if it simply reflects changing demographic conditions or preferences. Using a series of affordability measures, we find that homeownership opportunities improved almost everywhere during the 1980's, suggesting that the cause of the stagnant rate was something other than economic conditions. In fact, we find that both demographics and changes in preferences led to an increase in the proportion of households headed by single people; all else being equal, this would tend to push the owner-occupancy rate downward. We also found that while homeownership opportunities improved during the 1980's, the ex ante use cost of owning a home increased almost everywhere, reducing the financial attractiveness of owning a home. The combination of improving affordability conditions and worsening financial appeal had an overall neutral effect of the aggregate ownership rate.

Grenadier, Steven R.

PD July 1995. TI Risk-Based Capital Standards and the Riskiness of Bank Portfolios: Credit and Factor Risks. AU Grenadier, Steven R.; Hall, Brian J. AA Grenadier: Stanford University. Hall: Harvard University. SR National Bureau of Economic Research Working Paper: 5178; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 24. PR $5.00. JE G21, D81. KW Risk. Capital. Banking.

AB Bank risk-based capital (RBC) standards require banks to hold differing amounts of capital for different classes of assets, based almost entirely on a credit risk criterion. The paper provides both a theoretical and empirical framework for evaluating such standards. A model outlining a pricing methodology for loans subject to default risk is presented. The model shows that the returns on such loans are affected by the complicated interaction of the likelihood of default, the consequences of default, term structure variables, and the pricing of factor risks in the economy. When we examine whether the risk weights accurately reflect bank asset risk, we find that the weights fail even in their limited goal of correctly quantifying credit risk. In addition, we find large differences in the credit riskiness of loans within the 100 percent weight class and potentially large benefits to loan diversification, neither of which are considered by RBC regulations. We also examine other types of bank risk by estimating a simple factor model that decomposes loan risk into term structure, default, and market risk.

Gron, Anne

PD August 1995. TI External Financing and Insurance Cycles. AU Gron, Anne; Lucas, Deborah. AA Gron: Northwestern University. Lucas: Northwestern University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5229; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 20. PR $5.00. JE G22, G12. KW Liquidity. Capital Shortage. Insurance. Property-Casualty.

AB In this paper we explore the conjecture that the periodic episodes of high prices and constrained supply in the property-casualty industry are the result of temporary capital shortages. We do this by looking for increases in activities aimed at increasing capital at these times: dividend cuts, repurchase cuts, equity issues, and debt issues. We also look for evidence that the costs of raising external capital are unusually high relative to other industries by examining the market price response to security issues. We find that there is some evidence of payout policy changes in the expected direction, and also of an increased volume of debt and equity issues following low capacity periods. However, the total amount of capital obtained by security issues or reduced payouts appears to be small relative to the observed drops in net worth, suggest that insurers rely primarily on future retained earnings to rebuild their capital position. When property-casualty insurers do go to the capital markets, we find no evidence that they receive an unusually poor reception. In fact, the market price reaction to equity issues appears to be considerably less negative than for industrial issuers but similar to that for banks and utilities.

Grossman, Michael

PD July 1995. TI An Empirical Analysis of Alcohol Addiction: Results from the Monitoring the Future Panels. AU Grossman, Michael; Sirtalan, Ismail; Chaloupka, Frank J. AA Grossman: City University of New York Graduate School and National Bureau of Economic Research. Sirtalan: Greater New York Hospital Association. Chaloupka: University of Illinois and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5200; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 30. PR $5.00. JE D11, D12, D84. KW Addiction. Alcohol.

AB This paper aims to refine and enrich the empirical literature dealing with the sensitivity of alcohol consumption and excessive consumption to differences in the prices of alcoholic beverages. The main refinement pertains to the incorporation of insights provided by a model of rational addictive behavior which emphasizes the interdependency of past, current, and future consumption of an addictive good. The data employed in this study consist of a U.S. panel whose members range in age from seventeen through twenty-seven. We find that alcohol consumption by young adults is addictive in the sense that increases in past or future consumption cause current consumption to rise. The positive and significant future consumption effect is consistent with the hypothesis of rational addiction and inconsistent with the hypothesis of myopic addiction. The long-run elasticity of consumption with respect to the price of beer is approximately 60 percent larger than the short-run price elasticity and twice as large as the elasticity that ignores addiction.

Gruber, Jonathan

PD August 1995. TI Non-Employment and Health Insurance Coverage. AU Gruber, Jonathan; Madrian, Brigitte C. AA Gruber: Massachusetts Institute of Technology and National Bureau of Economic Research. Madrian: Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper:

5228; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** not available. **PR** $5.00. **JE** J33, J65, J25. **KW** Search. Health Insurance. Labor Supply.

AB Low rates of health insurance coverage among the non-employed have motivated consideration of policies to subsidize the purchase of insurance for those who are without a job. But there it little evidence on the extent to which coverage differentials between the employed and the non-employed reflect the effects of job loss or merely different underlying tastes for insurance. If the latter, subsidies may not be successful in increasing the rate of insurance coverage among the non- employed. Furthermore, subsidies which lower the costs of non- employment may increase both the incidence and duration of joblessness. We provide new evidence on these issues by analyzing longitudinal data on 25-54 year-old men over the 1983-1989 period. We have four findings of interest. First, even after modeling differences in underlying tastes for insurance, the likelihood of insurance coverage drops by roughly 20 percentage points following job separation. Second, limited subsidization of the cost of insurance through state laws mandating continued access to employer-provided health insurance for the non- employed increases the likelihood of having insurance while without a job by 6.7 percent. Third, these mandates also increase the number of individuals with spells of non-employment and the total amount of time spent jobless. Finally, at least some of this increased non-employment appears to be spent in productive job search as the availability of continuation coverage is related to significant wage gains among those who separate from their jobs.

TI Unemployment Insurance and Precautionary Saving. **AU** Engen, Eric M.; Gruber, Jonathan.

Gruen, David

PD May 1996. **TI** Why Does the Australian Dollar Move So Closely with the Terms of Trade? **AU** Gruen, David; Kortian, Tro. **AA** Reserve Bank of Australia. **SR** Reserve Bank of Australia Research Discussion Paper: 9601; Economic Research Department, Reserve Bank of Australia, GPO Box 3947, Sydney NSW 2001, Australia. **PG** 24. **PR** no charge. **JE** C15, C22, F31. **KW** Terms of Trade. Exchange Rate. Excess Returns. Short-Term.

AB The paper is motivated by two empirical results. Australia's terms of trade exhibit temporary fluctuations around a slowly declining trend, and movements in Australia's real exchange rate tend to follow those in the terms of trade. Together these results imply predictability in Australia's real exchange rate as well as the presence of predictable excess returns that are sometimes quite large. Using a simple econometric model, with the terms of trade as the sole explanator, the paper demonstrates the forecastability of Australia's real exchange rate over horizons ranging from one to two years. It then quantifies the magnitude of the predictable excess returns to holding Australian dollar denominated assets over such horizons, finding them to be highly variable and sometimes quite large in magnitude. The results suggest a relative scarcity of forward-looking foreign exchange market participants with an investment horizon of a year or more.

Guimaraes, Paulo

PD June 1995. **TI** The Survival of New Plants: Start-Up Conditions and Post-Entry Evolution. **AU** Guimaraes, Paulo; Mata, Jose; Portugal, Pedro. **AA** Guimaraes: Universidade do Minho. Mata: Banco de Portugal. Portugal: Universidade do Porto. **SR** Centre for Economic Policy Research, Discussion Paper: 1203; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** L11, C41. **KW** Entry. Survival. Duration.

AB This paper examines the longevity of entrants. We find size to be an important determinant of the chances of survival, this being particularly relevant to de novo entrants as compared to entry by established firms. Current size is also found to be a better predictor of failure than initial size. Moreover, our findings indicate that, after controlling for size differences, past growth matters for survival suggesting a partial adjustment process for firm size in the post entry period. Finally, new plants are more likely to live longer if they enter growing industries or industries with little entry activity.

Gustafson, Tara A.

TI More Bad News For Smokers? The Effects of Cigarette Smoking On Labor Market Outcomes. **AU** Levine, Phillip B.; Gustafson, Tara A.; Velenchik, Ann D.

Haaland, Jan I.

PD November 1995. **TI** Reciprocal Anti-Dumping and the Location of Firms. **AU** Haaland, Jan I.; Wooton, Ian. **AA** Haaland: Norwegian School of Economics and Business Administration. Wooton: University of Glasgow. **SR** Centre for Economic Policy Research, Discussion Paper: 1272; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** F12, F13, L11. **KW** Anti-Dumping. Market Integration. Location.

AB Anti-dumping policies are often justified as legitimate actions by governments in their efforts to protect domestic producers from unfair foreign competition. We investigate the impact of anti-dumping rules on firms' production decisions as to how much and where to produce. Anti- dumping measures may have unforeseen effects if they induce direct foreign investment and consequently increase domestic competition. We therefore focus on locational choice and consider the strategies of national governments attempting to advance the interests of their citizens through anti-dumping legislation. Our analysis also has implications for the effects of market integration policies, such as Europe 1992.

TI Investment Creation and Investment Diversion: Simulation Analysis of the Single Market Programme. **AU** Baldwin, Richard E.; Forslid, Rikard; Haaland, Jan I.

Haisken-De New, John P.

PD January 1996. **TI** Wage and Mobility Effects of Trade and Migration. **AU** Haisken-De New, John P.; Zimmermann, Klaus F. **AA** University of Munich. **SR** Centre for Economic Policy Research, Discussion Paper: 1318; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** C23, C35, J31, J62, F22. **KW** Panel Data. Probit Model. Trade. Occupational Mobility. Migration.

AB The paper investigates the relative importance of trade and immigration for earnings and job mobility of male German workers. Using panel data, changes of workplace within a firm and between firms are separated from occupational changes. Various subgroups are investigated, differentiating between blue and white collar workers according to job level and work

experience. The general finding is that trade matters more than migration, which is contrary to the public attention both determinants receive, at least in Germany. While wages are affected negatively by a relative increase in imports, immigration exhibits a positive effect. Trade seems to depress occupational mobility and internal movement, but stimulates inter-firm changes. Immigration affects intra-firm changes negatively, but is largely unrelated to other aspects of labor mobility.

Hall, Brian J.
TI   Risk-Based Capital Standards and the Riskiness of Bank Portfolios: Credit and Factor Risks. AU   Grenadier, Steven R.; Hall, Brian J.

TI   Property and Casualty Solvency Funds As a Tax and Social Insurance System. AU   Bohn, James; Hall, Brian J.

Hallett, Andrew Hughes
TI   On Measuring the Costs of Labour Immobility and Market Heterogeneity in Europe. AU   Demertzis, Maria; Hallett, Andrew Hughes.

PD   June 1995. TI   Economic Cooperation within Europe: Lessons from the Monetary Arrangements in the 1990s. AU   Hallett, Andrew Hughes; Ma, Yue. AA   University of Strathclyde. SR   Centre for Economic Policy Research, Discussion Paper: 1190; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   64. PR   4 pounds or $8.00. JE   E61, F33. KW   Europe. Monetary Union. Policy Cooperation.
AB   The early 1990s marked a distinction between the European Monetary System (EMS) as a vehicle for creating monetary stability and the EMS as a vehicle for moving towards monetary union. We model that distinction by contrasting policies generated by preference transfers from the lead country (to create the EMS discipline of "tying ones hands") against policies generated by extending the domain of policy- making to Europe-wide targets. We find both solutions to be incentive incompatible compared to simple non-cooperative policy-making, unless the aim becomes the social welfare of Europe as a whole. Various modifications are considered, but incentive compatibility requires some monetary relaxation in order to redistribute the gains. That combines German monetary discipline with differentiated fiscal-monetary mixes for the different economic structures elsewhere in the system. These results are used to explain why wider bands paradoxically provide a more credible route to monetary union.

PD   February 1996. TI   Fiscal Deficit Reductions in Line with the Maastricht Criteria for Monetary Union: An Empirical Analysis. AU   Hallett, Andrew Hughes; McAdam, Peter. AA   University of Strathclyde. SR   Centre for Economic Policy Research, Discussion Paper: 1351; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   64. PR   4 pounds or $8.00. JE   H62, E62, E63. KW   Convergence Criteria. Monetary Union. Policy Mix.
AB   Of all the institutional arrangements for monetary union in Europe, the fiscal convergence criteria have proved the most difficult to achieve and the most controversial because of their presumed deflationary impact on economies already suffering high unemployment. This paper examines what fiscal corrections would be necessary in the four largest European economies to reach the 3% deficit criterion by 1999, and to

maintain that criterion thereafter. It argues that because these criteria are defined as ratios, a change in the policy mix is required -- not simply fiscal contractions. The interaction between fiscal and other policies is the crucial factor therefore. The change in policy mix might involve monetary relaxation, a currency depreciation, or perhaps most effectively, wage restraint to boost competitiveness. Certainly some action is needed to maintain (or boost) the ratio's denominator, since fiscal cuts will otherwise cut both the numerator and denominator and leave the ratio unchanged. But, because there is also a debt criterion and it is most unlikely that the deficit and debt criteria are reached simultaneously, it is very hard to reach the deficit criterion and stay there without accompanying policies designed to maintain output. Fiscal cuts will otherwise continue to deflate the economy, and hence inflate the deficit ratio, in an attempt to reach the required debt ratio. To offset this there must be reform of the tax regime as well. These results point to growth and the design of the tax regime as being the key features of the fiscal side of a successful monetary union.

Hamermesh, Daniel S.
PD   August 1995. TI   Who Works When? Evidence From the U.S. and Germany. AA   University of Texas and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 5208; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG   30. PR $5.00. JE   J22, J24, J15, J16. KW   Germany. Work Schedule.
AB   This study uses data for the U.S. from the May 1991 CPS and for Germany from the 1990 wave of the Socioeconomic Panel (GSOEP) to analyze when people work during the day and week. The evidence shows: 1) Work in the evenings or at night is quite common in both countries, with around 7 percent of workers on the job even at 3AM; 2) Such work is performed mostly by people who are not shift workers; 3) Work at these times is inferior, in that it is performed disproportionately by people with little human capital; 4) Minority workers in the U.S. and the foreign-born in Germany are especially likely to work at these undesirable times; 5) Evening and night work is least likely in large metropolitan areas; 6) Spouses tend to work at the same time of the day; but 7) Young children break down the joint timing of spouses' work, with the burden of evening and night work falling disproportionately on working mothers. The findings demonstrate the gains to basing the analysis of work and leisure on data describing instantaneous time use.

Hammond, George W.
PD   May 1995. TI   Regional Insurance Against Asymmetric Shocks. An Empirical Study for the European Community. AU   Hammond, George W.; von Hagen, Jurgen. AA   University of Mannheim. SR   Centre for Economic Policy Research, Discussion Paper: 1170; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   40. PR   4 pounds or $8.00. JE   E32, E52, E63, F42. KW   Monetary Union. Fiscal Federalism. Business Cycles. Stabilization Policy.
AB   The loss of the exchange rate as an independent policy instrument implied by European Monetary Union (EMU) has spurred calls for an insurance scheme as a buffer against temporary, asymmetric shocks to national income. We study the potential properties of such a system using historical data from the 12 EC economies. An insurance scheme with reasonable

properties can be implemented on the basis of a fairly complex econometric formula. Simplifying the computation of the transfers severely worsens the performance of the system, however. Forcing the system to balance financially is not a critical constraint. The simulations show that stabilizing asymmetric shocks around a common trend may amplify the univariate variance of GDP for some member countries.

Hammour, Mohamad L.
TI On the Ills of Adjustment. **AU** Caballero, Ricardo J.; Hammour, Mohamad L.

Hardouvelis, Gikas A.
PD November 1995. **TI** Asset Pricing Models with and without Consumption: An Empirical Evaluation. **AU** Hardouvelis, Gikas A.; Kim, Dongcheol; Wizman, Thierry A. **AA** Hardouvelis: Bank of Greece. Kim: Rutgers University. Wizman: Strategic Investment Partners, Inc. **SR** Centre for Economic Policy Research, Discussion Paper: 1262; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 48. **PR** 4 pounds or $8.00. **JE** G12, E21. **KW** Consumption. Asset Pricing. Size Effect.
AB The paper evaluates the ability of asset pricing models that do not use consumption data, and models that use consumption data as a proxy for true consumption, to explain the time-series and cross-sectional variation of expected returns of portfolios of stocks. Although some parameter restrictions are rejected by models that do not use consumption data, we find that they provide economically meaningful estimates of the representative agent's preference parameters and fit the data slightly better than models which use consumption data to proxy true consumption. Models without consumption data are also not rejected when they are augmented to account for the "size" effect.

PD November 1995. **TI** Price Volatility and Futures Margins. **AU** Hardouvelis, Gikas A.; Kim, Dongcheol. **AA** Hardouvelis: Bank of Greece. Kim: Rutgers University. **SR** Centre for Economic Policy Research, Discussion Paper: 1263; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** G18, G13. **KW** Margin Requirements. Metal Futures. Jump Volatility. Poisson Process. Futures.
AB Futures exchanges raise margins in environments characterized by recent substantial increases in futures price volatility, and they raise margins in contracts that have recently shown the largest volatility increase. Volatility then tends to fall. This reduction is smaller -- especially the troublesome jump component of volatility that is derived from a Poisson jump-diffusion process of futures daily returns -- when the earlier margin increase is larger. The exchanges appear to raise margins when they perceive the earlier volatility increase to be more permanent. Conversely, exchanges reduce margins after an earlier decrease in volatility, but they seem anxious to reduce margins well before volatility has bottomed out. After the margin reduction, volatility continues to decline and by a greater amount for the cases when the earlier reduction in margins was larger.

Harhoff, Dietmar
PD January 1996. **TI** Is the German Apprenticeship System a Panacea for the US Labour Market? **AU** Harhoff,

Dietmar; Kane, Thomas J. **AA** Harhoff: Zentrum fur Europaische Wirtschasftsforschung. Kane: Harvard University. **SR** Centre for Economic Policy Research, Discussion Paper: 1311; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** J24, J31, O51, O52, P52. **KW** Labor Market. Employment. Apprenticeship Training. Human Capital.
AB Advocates of apprenticeship programs often argue as if it is simply a matter of historical accident that such investment by US firms has been hindered. This paper explores the structure of incentives underpinning the German system of apprenticeship training. First, we describe three characteristics of the German labor market that might lead firms to accept part of the cost of general training, even in the face of worker turnover. In the second part of the paper, we compare labor market outcomes for apprentices in Germany and high school graduates in the United States. Apprentices in Germany occupy a similar station within the German wage structure as that held by high school graduates in the US labor market. Finally, we provide evidence that the problem of forming labor market bonds is particularly acute for minority groups -- in Germany as well as in the United States. We discuss some implications for the vocational training debate in the United States.

Harkman, Anders
TI Unemployment Duration, Unemployment Benefits, and Labour Market Programmes in Sweden. **AU** Carling, Kenneth; Edin, Per-Anders; Harkman, Anders; Holmlund, Bertil.

TI Unemployment Duration, Unemployment Benefits, and Labour Market Programmes in Sweden. **AU** Carling, Kenneth; Edin, Per-Anders; Harkman, Anders; Holmlund, Bertil.

Harrison, Ann
PD August 1995. **TI** Openness and Growth: A Time-Series, Cross-Country Analysis for Developing Countries. **AA** Columbia University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5221; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** not available. **PR** $5.00. **JE** O11, O19. **KW** Growth. Trade. Development. Panel Data.
AB This paper draws together a variety of openness measures to test the association between openness and growth. Although the correlation across different types of openness is not always strong, there is generally a positive association between growth and different measures of openness. The strength of the association depends on whether the specification uses cross-section or panel data (which combines cross- section and time series). For industrializing countries, which have exhibited significant fluctuations in trade regimes over time, long run averages may not serve as very meaningful indicators of policy.

PD August 1995. **TI** The Effects of Trade Policy Reform: What Do We Really Know? **AU** Harrison, Ann; Revenga, Ana. **AA** Harrison: Columbia University and National Bureau of Economic Research. Revenga: The World Bank. **SR** National Bureau of Economic Research Working Paper: 5225; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 35. **PR** $5.00. **JE** F13, F11, F21. **KW** Trade. Growth.

Policy. Reform.

AB The magnitude of existing research on the effects of trade reform is impressive. Yet economists have not reached a clear consensus on a number of important questions such as the labor market impact of trade reform, the linkages between trade and foreign direct investment, and the relationship between trade and growth. In this paper we attempt to clarify what we know about the relationship between trade reform, factor markets, and growth. Although many studies have shown a positive relationship between various measures of openness and growth, many nagging problems remain. Trade policy is almost never measured using the most obvious indicators -- such as tariffs. In addition, many studies are plagued by serious econometric problems. The evidence on labor markets and trade reform is less extensive. Based on the studies to date, it appears that the unemployment and wage effects of trade reforms have generally been small. In the paper, we discuss the possibility that small wage and employment responses are due to labor market regulations. The paper concludes with an analysis of the linkages between trade policies and foreign investment flows. Our evidence suggests that trade reform has been accompanied by significant increases in investment inflows.

Haskel, Jonathan

AB The usual analysis of privatization and X-inefficiency uses agency theory to model managerial effort. We model worker effort as determined by a bargain between firms and workers. Workers dislike effort because it lowers utility. Firms prefer high effort because it raises productivity. Public-sector firms are assumed to be social welfare maximizers and compared to private-sector firms, therefore, they bargain lower effort levels since they have the interests of consumers and workers at heart. Our model predicts that under certain conditions privatization should raise effort and so lower X-inefficiency, and that wages may increase or decrease.

AB Trading in futures markets has grown substantially for many commodities. At the same time the power of many dominant producers has weakened and core prices have tended to fall towards those on the fringe. Existing cartel/fringe models fail to explain the difference between core and fringe prices and have no role for the development of futures trading. We present a cartel/fringe model that incorporates search and contracting. The model predicts that cartel prices exceed those on the fringe; that the cartel/fringe price differential narrows as futures trading increases; and that a move to contracting lowers market prices.

AB This paper examines how firms interact with their rivals. The main novelty of our approach is that we let conjectural variations depend on the actual ability of other firms to react, which we measure by both the physical capacity and financial status of firms. Our main findings are threefold. First, in general, spare physical capacity leads rival firms to conjecture more aggressive behavior. Second, financial variables have a complex effect on conjectures. We interpret this as due to signalling effects being more important in some industries, and financial distress in others. Third, leader-follower interactions appear to be relevant in all of the industries considered.

Hassett, Kevin A.

Hatton, Timothy J.

AB Current debate on the impact and assimilation of immigrants into the American labor market sounds remarkably like the debate which eventually triggered the imposition of the quotas in the 1920's. Then as now, observers failed to agree on exactly what the impact of the mass migration was on labor markets. Despite its relevance to current discussion, there has been almost no quantitative effort to assess late nineteenth century impact, while instead analysis has been obsessed with assimilation issues. This paper redresses this imbalance by confronting three macro-impact questions that are just as relevant today as they were almost a century ago: Did late nineteenth century American immigrants act as a flexible (guest worker) labor supply? Did they flow into occupations where job creation was fast, or did they displace natives and living standards for natives while increasing their unemployment? We use econometrics and computable general equilibrium models to get surprising and unambiguous answers.

Hausman, Jerry A.

E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. **PG** 45. **PR** $7.00 U.S., Canada, Mexico; $10.00 other international. **JE** D23, H23, L83. **KW** Sports. Athletics. Salaries. Salary Cap.
AB Two competing arguments have been put forward regarding the extraordinary fan interest in sports leagues. The first argument is based on the concept of "superstars," asserting that fan interest is generated by the desire to see great players exhibit their skills. The second argument, called "competitive balance," is defined as the condition that prevails when the disparity between the best and worst teams in a league is not too great. We investigate the effects of superstars on fan interest and the revenues of NBA teams. In particular, we analyze the impact superstars have on attendance and television ratings and show that, in addition to the effect they have on their own teams, superstars exert a tremendous positive externality on other teams. The NBA and NFL have adopted salary cap policies to avoid the problems caused by the superstar externalities and maintain competitive balance. We show that the league should impose a tax on superstar salaries, and show that the tax is less distortionary than the salary cap.

Heckman, James
PD September 1995. **TI** Does Measured School Quality Really Matter? An Examination of the Earnings-Quality Relationship. **AU** Heckman, James; Layne-Farrar, Anne; Todd, Petra. **AA** Heckman: University of Chicago and National Bureau of Economic Research. Layne-Farrar and Todd: University of Chicago. **SR** National Bureau of Economic Research Working Paper: 5274; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 46. **PR** $5.00. **JE** C23, I21. **KW** School Quality. Education. Wages.
AB This paper examines the economic and empirical foundations of the aggregate evidence on the effect of schooling quality on earnings. A common framework is presented which nests all previous studies as special cases. We discuss two crucial identifying assumptions and test them. The first assumption is the absence of region of birth-region of resident interactions in the return to schooling. This rules out patterns of migration on the basis of realized earnings in the destination state. Both parametric and nonparametric versions of this hypothesis are tested. Using 1970, 1980 and 1990 Census data, it is decisively rejected. A second assumption is that log earnings equations are linear -- or nearly linear in schooling. This assumption is false. We find that estimated earnings-quality relationships are sensitive to specification of the earnings function. When false linearity assumptions are relaxed, the only effect of measured schooling quality is on the returns for college graduates. The evidence for an aggregate earnings-quality relationship is weak once false empirical restrictions are relaxed.

Helliwell, John F.
PD August 1995. **TI** Do National Borders Matter For Quebec's Trade? **AA** University of British Columbia and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5215; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** not available. **PR** $5.00. **JE** F14, O51, R12. **KW** Canada. Quebec. Gravity Models. Trade.
AB Extending McCallum's (1995) result, based on a gravity model of 1988 trade flows, that a typical Canadian province trades 22 times more with other provinces that with U.S. states of similar size and distance, this paper asks how Quebec trade patterns compare with those of other provinces. The results, based on revised data for 1988, 1889 and 1990, show that while the typical province trades more than 20 times as much with other provinces as with comparable U.S. states, for Quebec the multiple is even greater. Thus trade between Quebec and the United States appears to be an even less viable alternative to interprovincial trade for Quebec than it is for the rest of Canada. The implications of these results for international economics are considerable, as they show that trade linkages within a national economy are far greater than previously imagined. If these results are confirmed, they imply that the fabric of national economies is far tighter than that of the global trading system, even for countries operating without substantial trade barriers.

Helper, Susan
PD September 1995. **TI** Supplier Relations and Adoption of New Technology: Results of Survey Research in the U.S. Auto Industry. **AA** Case Western University. **SR** National Bureau of Economic Research Working Paper: 5278; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 21. **PR** $5.00. **JE** L62, O32, L22. **KW** Suppliers. Subcontracting. Transaction Costs. Automobiles. Cars.
AB Using an original data source, this paper investigates the circumstances under which firms adopt computer numerical control (CNC), an important type of flexible automation which can significantly increase productivity, product variety and quality. The paper shows that arms'-length supplier/customer relationships are a significant barrier to CNC adoption, even where CNC would improve efficiency. For firms where CNC would be efficient, but who currently receive little commitment from their customers, an increase in contract length of one year would increase the adoption rate by 30 percent. These results have theoretical implications in two areas. First, the paper integrates questions of appropriability into the technical change literature, by adding supplier relations as a determinant of technology adoption. Second, the paper extends transaction-cost analysis, by relaxing the assumption that agents' private maximizing behavior will always produce organizational forms that maximize social efficiency.

Helpman, Elhanan
PD September 1995. **TI** Politics and Trade Policy. **AA** Tel-Aviv University and the Canadian Institute for Advanced Research. **SR** Tel Aviv Sackler Institute of Economic Studies Working Paper: 30/95; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. **PG** 38. **PR** no charge. **JE** F13, F15. **KW** Political Economy. Trade Policy.
AB First I describe a number of political economy approaches that have been developed to explain trade policies. All approaches are presented in a unified framework that helps to see the key differences among them. These comparisons revolve around tariff formulas that are predicted by political equilibria. A typical formula explains cross-sectoral variations in rates of protection as well as differences in average rates of protection across countries. Second, I review a set of results that emerge from a new approach to the interaction of international economic relations with domestic politics.

Importantly, there are two- way interactions in such systems. They link the formation of trade policies in the international arena with the activities of domestic special interest groups . The use of a framework of this sort is essential for a proper analysis of a host of important problems, such as negotiations about tariff levels or the formation of free trade areas. Recent studies have developed suitable tools for this purpose.

PD November 1995. TI Politics and Trade Policy. AA Tel Aviv University. SR Centre for Economic Policy Research, Discussion Paper: 1269; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 40. PR 4 pounds or $8.00. JE F13, F15. KW Political Economy. Trade Policy. AB See Elhanan Helpman. "Politics and Trade Policy", Tel Aviv Sackler Institute of Economic Studies Working Paper: 30/95; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL.

PD August 1996. TI Diffusion of General Purpose Technologies. AU Helpman, Elhanan; Trajtenberg, Manuel. AA Tel-Aviv University. SR Tel Aviv Sackler Institute of Economic Studies Working Paper: 24/96; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. PG 42. PR no charge. JE O11, O33, O41, E32. KW Growth. General Purpose. Technology. Diffusion. Cycles. AB History and theory alike suggest that General Purpose Technologies (GPT's), such as the steam engine or electricity, may play a key role in economic growth. In a previous paper (Helpman and Trajtenberg, 1994) we incorporated this notion into a Grossman-Helpman growth model and explored the economy-wide dynamics that a GPT generates. The present paper deals with the diffusion of the GPT over heterogeneous final-good sectors. We show that the gradual adoption of the GPT by each user sector generates a sequence of two-phased cycles, culminating in a "second wave": after all sectors adopt, they engage anew in research and development, bringing about a spell of sustained growth. We also analyze the welfare implications of the order of adoption, by way of numerical simulations. As a "reality check", we sketch the early diffusion of the transistor (the first embodiment of semiconductors, the dominant GPT of our era), and seek to characterize both the early adopters and the laggards in terms of the parameters of the model.

Henrekson, Magnus
TI Industrial Policy, Employer Size, and Economic Performance In Sweden. AU Davis, Steven J.; Henrekson, Magnus.

Hoekman, Bernard
PD August 1995. TI The WTO, the EU and the Arab World: Trade Policy Priorities and Pitfalls. AA World Bank. SR Centre for Economic Policy Research, Discussion Paper: 1226; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 52. PR 4 pounds or $8.00. JE F13. KW Trade Liberalization. Trade Policy. Regional Integration. AB A basic tenet of economic reform efforts in much of the Middle East and North Africa region has been gradualism. Partial and slow reform has led to a lack of credibility, limiting private sector supply response. The creation of the World Trade Organization, and the offer from the EU to establish a Euro-Meditteranean Economic Area provide possible institutional

frameworks that can greatly enhance the credibility of a gradual reform strategy. Neither option is a panacea, however, and much depends on the willingness of governments to exploit opportunities that are embodied in these institutional options. Both avenues should be pursued simultaneously in order to limit the potential negative trade diversion effects of a preferential agreement with the EU.

TI Catching Up With Eastern Europe? The European Union's Mediterranean Free Trade Initiative. AU Djankov, Simeon; Hoekman, Bernard.

TI Trade Liberalization and Enterprise Restructuring in Bulgaria, 1992- 4. AU Djankov, Simeon; Hoekman, Bernard.

Holmes, Jessica
TI Disease Complementarities and the Evaluation of Public Health Interventions. AU Dow, William H.; Holmes, Jessica; Philipson, Tomas; Sala-i-Martin, Xavier.

TI Death, Tetanus and Aerobics: The Evaluation of Disease-Specific Health Interventions. AU Dow, William H.; Holmes, Jessica; Philipson, Tomas; Sala-i-Martin, Xavier.

Holmstrom, Bengt
PD September 1994. TI Financial Intermediation, Loanable Funds and the Real Sector. AU Holmstrom, Bengt; Tirole, Jean. AA Holmstrom: Massachusetts Institute of Technology. Tirole: IDEI and CERAS. SR Massachusetts Institute of Technology, Department of Economics Working Paper: 95/1; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. PG 32. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE D82, D92, E22, G32. KW Financial Intermediation. Investment. Debt Contracts. AB We study an incentive model of financial intermediation in which firms as well as intermediaries are capital constrained. We analyze how the distribution of wealth across firms, intermediaries and uninformed investors affects investment, interest rates and the intensity of monitoring. We show that all forms of capital tightening (a credit crunch, a collateral squeeze, or a savings squeeze) hit poorly capitalized firms the hardest, but that interest rate effects and the intensity of monitoring will depend on relative changes in the various components of capital. The predictions of the model are broadly consistent with the lending patterns observed during the recent financial crises in Scandinavia.

Honkapohja, Seppo
TI Convergence in Monetary Inflation Models with Heterogeneous Learning Rules. AU Evans, George W.; Honkapohja, Seppo; Marimon, Ramon.

Hoxby, Caroline M.
PD September 1995. TI Is There An Equity-Efficiency Trade-Off In School Finance? Tiebout and a Theory of the Local Public Goods Producer. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5265; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 30. PR $5.00. JE 122, 128. KW Tiebout. State Government. Local Government. AB New empirical work shows that the degree of competition among public providers of local public goods or

between public and private providers of local public goods matters. This evidence needs a theory of the local public goods producer. Tiebout's hypothesis spawned a literature that gives local public economics a useful theory of the consumer, and the same Tiebout mechanism can generate a theory of the local public goods producer. This potential has remained largely undeveloped apart from Tiebout's vision of the local public goods producer as an entrepreneur, which is unrealistic because local public goods are nonverifiable. The Tiebout mechanism does not operate in alternative models of the local public goods producer, such as bureaucracy and agenda models. The essential insight is that Tiebout's mechanism generates information that can be used in regulatory schemes to achieve lower costs for any given provision of local public goods. Thus, we face a fundamental trade-off between promoting equitable consumption of the public good and promoting efficiency (cost minimization) in production of the public good. This trade-off exists eve when equity in consumption generates positive externalities, as is often suggested of the consumption of schooling. I present evidence that when the Tiebout mechanism for schools is weakened by state-level school funding, per-pupil costs rise and the growth of educational attainment falls. This latter fact implies that losses from inefficient production generally outweigh gains from equalized consumption.

Hubbard, R. Glenn
TI The Political Economy of Branching Restrictions and Deposit Insurance: A Model of Monopolistic Competition Among Small and Large Banks. **AU** Economides, Nicholas; Hubbard, R. Glenn; Palia, Darius.

TI Tax Reforms and Investment: A Cross-Country Comparison. **AU** Cummins, Jason G.; Hassett, Kevin A.; Hubbard, R. Glenn.

Ianni, Antonella
TI Learning on a Torus. **AU** Anderlini, Luca; Ianni, Antonella.

Ichino, Andrea
TI Wage Inequality and Unemployment: US vs. Europe. **AU** Bertola, Giuseppe; Ichino, Andrea.

Im, Kyung So
PD June 1995. **TI** Testing for Unit Roots in Heterogeneous Panels. **AU** Im, Kyung So; Pesaran, M. Hashem; Shin, Yongcheol. **AA** University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9526; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 49. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C12, C15, C22, C23. **KW** Heterogeneous Panels. Unit Root. T-Bar Statistic. Serial Correlation. Monte Carlo.
AB This paper considers the mean group based unit root testing procedure in panels, and develops a t-bar statistic based on the average of the ADF t-statistics. It is shown that under certain conditions the t-bar statistic has a standard normal distribution for a finite T, so long as N is sufficiently large. The paper investigates finite sample performances of alternative unit root test statistics via Monte Carlo experiments, and finds that the t-bar statistic performs significantly better than the unit

root test statistic for panels developed recently by Levin and Lin (1993).

PD February 1996. **TI** Least Square Approach to Non-Normal Distribution. **AA** University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9603; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 22. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C12, C13. **KW** Robust Estimation. Adaptive Estimation. Generalized. Least Squares.
AB Excessive sensitivity of Least Square (LS) to outliers, combined with the possibility of fat tailed error distributions in many economic and financial models, have given rise to many alternative robust estimation procedures. These robust estimators are designed to be resistant to the errors from the tails of the distributions, and are more efficient than LS estimators by relying less on outliers when the error distribution is leptokurtic. However, the computational difficulty involved in obtaining these estimators and the uncertainty about the underlying error distribution have slowed the adoption of these robust procedures in applications. This paper takes a computationally simple LS approach to develop a more efficient estimation procedure, Residual Augmented Least Square (RALS), rather than OLS when the errors are not normally distributed. The efficiency gain is from manipulating the higher moment conditions implied by the standard i.i.d. assumption.

Irwin, Gregor
PD September 1995. **TI** The Macroeconomics of the Mexican Crisis: A Simple Two-period Model. **AU** Irwin, Gregor; Vines, David. **AA** Balliol College. **SR** Centre for Economic Policy Research, Discussion Paper: 1241; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 23. **PR** 4 pounds or $8.00. **JE** F31, F32, F41. **KW** Macroeconomic Stabilization. Mexico. Exchange Rate Crisis. Capital Inflow.
AB We analyze the events leading to the devaluation of the Mexican peso last year, using a simple two-period model. We view the problem as a race between a foreign investment led demand boom and the potential expansion in supply which might follow; the outcome of such a race is inherently uncertain. If, in an exchange rate based stabilization program, supply does not keep pace with demand, competitiveness problems will eventually result in lower output, and consequently the government might be tempted to devalue. In Mexico it would also appear that the costs and benefits of maintaining the regime were adversely affected by a reduction in the amount of external financing available.

Jackman, R.
TI The Labor Market in Bulgaria. **AU** Beleva, I.; Jackman, R.; Nenova-Amar, M.

PD March 1996. **TI** Combatting Unemployment: Is Flexibility Enough? **AU** Jackman, R.; Layard, Richard; Nickell, Stephen. Jackman and Layard: London School of Economics. Nickell: Institute of Economics and Statistics and London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 293; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England.

PG 49. PR no charge. JE E24, J51, J65. KW Unemployment. Labor Market. Public Policy.
AB This paper concludes that the most important influences on unemployment come from the following: (i) The longer unemployment benefits are available and the more generous these benefits are, the longer unemployment lasts. On the other hand active help in finding work can reduce unemployment. (ii) Union coverage and union power raise unemployment. But if wage bargaining is decentralized, wage bargainers have incentives to settle for more than the "going rate", and only higher unemployment can prevent them leap-frogging. Thus, where union coverage is high, coordinated wage bargaining leads to lower unemployment. (iii) Conscious intervention to raise the skill levels of less able workers is an important component of any policy to combat unemployment. If well designed, such reforms might halve the level of unemployment in many countries. But there are three other remedies which have been widely advocated in both the OECD Jobs Study and the Delors White Paper. These are: less employment protection, lower taxes on employment, and lower working hours. Our research does not suggest that lower employment taxes or lower hours would have any long term effects; while the effects of lower employment protection would be small.

Jacquemin, Alexis
PD September 1995. TI Is a European Hard Core Credible? A Statistical Analysis. AU Jacquemin, Alexis; Sapir, Andre. AA Jacquemin: Commission of the European Communities. Sapir: Universite Libre de Bruxelles. SR Centre for Economic Policy Research, Discussion Paper: 1242; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 20. PR 4 pounds or $8.00. JE F13, F15. KW Regional Integration. European Union.
AB The paper analyzes the proposal to create a hard core of EU countries committed to deeper and faster integration by studying the economic structure of the proposed grouping. It is divided into two parts. The first examines the relative weight and structural characteristics of the five potential candidates for early membership of the hard core in comparison with the whole EU, Japan and the United States. The second uses principal component and cluster analyzes to investigate whether these five countries represent a homogenous grouping vis-a-vis the other EU members.

Jaffee, Dwight M.
PD September 1995. TI The Causes and Consequences of Rate Regulation in the Auto Insurance Industry. AU Jaffee, Dwight M.; Russell, Thomas. AA Jaffee: University of California, Berkeley. Russell: Santa Clara University. SR National Bureau of Economic Research Working Paper: 5245; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG not available. PR $5.00. JE G22, G28, D72. KW Automobiles. Insurance. Regulation. Rational Choice. Political Economy.
AB This paper examines various explanations for the increase in the degree of regulation of the auto industry in the last ten years. Using cross section data for the State of California, the paper confirms earlier findings for the State of Massachusetts that the demand for auto insurance is highly price elastic. This implies that regulation induced price rollbacks (such as those mandated by California's popular

initiative Proposition 103) have significant welfare effects. We explain the increase in regulation in two ways: a) As an attempt to lower rates to deal with the problem of the uninsured motorist. b) More fundamentally as a response to the perceived lack of fairness of the sharp increase in premiums in the 1980's. This perception of lack of fairness arises because, although auto insurance costs rose sharply in the 1980's, most buyers of auto insurance have no claims in any ten year period. Thus most buyers have only last year's premium as a reference point with which to judge the fairness of this year's premium. The hypothesis that the increase in regulation is driven by a perception of unfairness is tested by analyzing the cross county voting pattern on Proposition 103. Voting in favor of price regulation is positively correlated with the level of insurance premium. This result is consistent both with the view that voting behavior is based on self interest and with the view that the increases demand for regulation is driven by concerns that the large disparity in premiums across counties is unfair.

Jappelli, Tullio
PD October 1995. TI The Age-Wealth Profile and the Life-Cycle Hypothesis: A Cohort Analysis with a Time Series of Cross-Sections of Italian Households. AA Instituto Universitario Navale. SR Centre for Economic Policy Research, Discussion Paper: 1251; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 48. PR 4 pounds or $8.00. JE E21. KW Wealth Accumulation. Life-Cycle Model. Repeated Cross-Sections.
AB Existing estimates of the age-wealth profile use panel or cross- sectional data. Panels with wealth data are rare, and plagued by measurement errors and sample attrition. Cross-sectional data require strong identifying assumptions. This paper represents the first attempt to use repeated cross-sectional data to test one of the central implications of the life-cycle theory, i.e., the extent to which the elderly run down accumulated assets. Using the 1984-93 Italian Survey of Household Income and Wealth, the paper shows that failing to control for the influence of cohort effects leads to substantial bias in the estimate of the age-wealth profile. Once cohort effects are taken into account, the results indicate that households accumulate assets until they are 70 years old; afterwards the estimated average annual rate of wealth decumulation is about 6%. A basic prediction of the life-cycle model, that the cohort effect increases from older to younger cohorts, is strongly supported by the data. The results also uncover considerable population heterogeneity: the rates of wealth decumulation are much lower for rich households and households headed by individuals with higher education.

Jarvis, Sarah
PD February 1996. TI The Distributional Impact of Taxing Family Allowance. AA University of Essex. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9609; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG 18. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE I38, D31. KW Family Allowance. Hungary. Taxation. Redistribution.
AB This paper examines the use of taxation as a method of improving the redistributional impact of social benefits, focusing on the case of the universal family allowance program

in Hungary. The introduction of a taxable allowance is simulated using survey micro data, and the analysis focuses on the relationship between the resulting distribution of the average tax rate on family allowance and the distribution of equivalized household income. The results cast doubts on the scope for improving the redistributional power of a family benefit by incorporating it in an individually based tax system.

PD March 1996. TI Construction of Panel Data Sets Through Record Linkage: Application to Hungarian Budget Surveys, 1987, 89, 91. AU Jarvis, Sarah; Kattuman, Paul A. AA Jarvis: University of Essex. Kattuman: University of Durham. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9611; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG 9. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE C12, C42, C81, P21. KW Household Budget. Panel Data. Record Linkage. Hungary.
AB This note describes the matching procedure used to construct panel data sets from the 1987, 1989, and 1991 Hungarian Household Budget Survey samples. The performance of the matching algorithm is tested. The panels are examined for the degree of non-random attrition. The constructed panel data sets are being analyzed to determine the impact of economic transition on Hungarian employment, incomes and consumption.

Jehiel, Philippe
PD June 1995. TI Resale Markets and the Assignment of Property Rights. AU Jehiel, Philippe; Moldovanu, Benny. AA Jehiel: CERAS-ENPC. Moldovanu: University of Bonn. SR Centre for Economic Policy Research, Discussion Paper: 1196; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 36. PR 4 pounds or $8.00. JE C78, D23, D61, D62. KW Externalities. Non-Commitment. Resale. Coase Theorem.
AB An indivisible good is to be consumed by one of several agents. The consumption involves identity-dependent externalities to the non- consumers. Resale markets for such goods are analyzed in various institutional settings with complete information, assuming the agents cannot commit to future actions. It is shown that the laissez-faire institution results in final outcomes that are welfare-equivalent irrespective of the initial structure of property rights. The final outcome need not be socially optimal, however. While the independence result is in the spirit of Coase, the inefficiency result shows that the independence and efficiency properties are logically unrelated.

Jensen, J. Bradford
TI Exporters, Jobs and Wages in U.S. Manufacturing: 1976-1987. AU Bernard, Andrew B.; Jensen, J. Bradford.

Jermann, Urban J.
TI Nontraded Goods, Nontraded Factors, and International Non- Diversification. AU Baxter, Marianne; King, Robert G.; Jermann, Urban J.

Jimeno, Juan F.
TI Why is Spanish Unemployment so High? AU Dolado, Juan J.; Jimeno, Juan F.

TI Regional Unemployment Persistence (Spain, 1976-94). AU Bentolila, Samuel; Jimeno, Juan F.

Jones, Charles I.
TI Productivity and Convergence Across U.S. States and Industries. AU Bernard, Andrew B.; Jones, Charles I.

Jones, Larry E.
PD August 1995. TI A Positive Model of Growth and Pollution Controls. AU Jones, Larry E.; Manuelli, Rodolfo E. AA Jones: Northwestern University and National Bureau of Economic Research. Manuelli: University of Wisconsin and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5205; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 47. PR $5.00. JE Q28, D71, C62. KW Pollution. Environmental Policy.
AB The most recent addition to the economics gloom concerns the interplay between income and environmental degradation. The main question raised is whether or not continued environmental degradation is a necessary part of the process of industrialization. Will pollution continue to increase without bound as more and more countries pass through the development phase or will it be controlled? Intuitively, if "clean air" is a normal good, we could expect that societies might be "self-regulating" in the sense that as income increases, pollution controls also increase. However, this intuition is somewhat misleading as the presence of external effects is an essential feature of environmental regulation. This paper describes a growth model in which pollutants are internal to a jurisdiction. To this end this paper develops a model of the joint determination of the rate of development of the economy through market interactions and the extent of pollution regulation through collective decision making. It demonstrates that depending on the collective decision making mechanism in place, the time path of pollution can display an inverted U shape, a "sideways mirrored" S, or an increasing (but bounded) level over time. This paper contributes to the literature on both the large differences in income per capita across countries as well as the discrepancies in their growth rates. It shows that by relying on collective decision making mechanisms to choose policies, the dynamics of convex models can resemble those usually ascribed to models of multiple equilibria.

Juhn, Chinhui
PD August 1995. TI The Effects of Rising Female Labor Supply On Male Wages. AU Juhn, Chinhui; Kim, Dae Il. AA Juhn: University of Houston and National Bureau of Economic Research. Kim: Rice University. SR National Bureau of Economic Research Working Paper: 5236; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG not available. PR $5.00. JE D31, J31, J16. KW Labor Supply. Women. Education. Gender.
AB This paper examines the extent to which rapid increases in female labor supply contributed to rising wage inequality and to declining real wages of less skilled males during the 1980's. We find that while the male wage declines are concentrated in the 1980's, female labor supply growth slowed in the 1980's relative to the 1970's. Women also increased the relative supply of skill in the economy in the 1980's. We find these findings to be inconsistent with a simple story in which supply shifts among women have played a major role. Instead,

they further support the view that demand shifts, rather than supply shifts, have been the underlying cause of declining opportunities for less skilled males and rapid inequality growth in the 1980's. We also use state and SMSA-level data to estimate cross-substitution effects between men and women of different skill types. We find weak evidence that women may be substitutes for high school dropout men and that college educated women may have contributed to wage inequality growth by being better substitutes for high school dropout men than high school graduate men. We end with some suggestive evidence that unmeasured demand shifts which favored skilled female workers over less skilled male workers may be biasing our results towards finding substitution between these two groups.

Juster, F. Thomas
TI   Preference Parameters and Behavioral Heterogeneity: An Experimental Approach in the Health and Retirement Survey. AU   Barsky, Robert B.; Kimball, Miles S.; Juster, F. Thomas; Shapiro, Matthew D.

TI   Preference Parameters and Behavioral Heterogeneity: An Experimental Approach in the Health and Retirement Survey. AU   Barsky, Robert B.; Kimball, Miles S.; Juster, F. Thomas; Shapiro, Matthew D.

Kane, Thomas J.
TI   Is the German Apprenticeship System a Panacea for the US Labour Market? AU   Harhoff, Dietmar; Kane, Thomas J.

Karanassou, Marika
PD   May 1995. TI   A Contribution to Unemployment Dynamics. AU   Karanassou, Marika; Snower, Dennis J. AA   Birkbeck College. SR   Centre for Economic Policy Research, Discussion Paper: 1176; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   28. PR   4 pounds or $8.00. JE   J21, J23, J31, J64, J68. KW   Unemployment. Employment. Wage Setting. Labor Force. Dynamics.
AB   This paper views movements in unemployment as the result of the interaction between: (a) lags in labor market decisions; and (b) labor market shocks with temporary and permanent components. Two features of unemployment dynamics are examined: (i) "unemployment persistence", arising when temporary shocks have persistent effects on unemployment; and (ii) "imperfect unemployment responsiveness", arising when the full effects of permanent shocks are delayed. An empirical model of aggregate labor market activity in Germany, the United Kingdom, and the United States is constructed, and the sources of persistence and imperfect responsiveness are evaluated in this context.

Karp, Larry
PD   January 1995. TI   International Trade in Exhaustible Resources: A Cartel-Competitive Fringe Model. AU   Karp, Larry; Tahvonen, Olli. AA   Karp: University of California, Berkeley. Tahvonen: Cornell University. SR   Centre for Economic Policy Research, Discussion Paper: 1291; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   44. PR   4 pounds or $8.00. JE   D12, E21, Q31. KW   Non-Renewable Resources. Cartel-Fringe. Dynamic Games. Markov Perfect.
AB   We characterize the open-loop and the Markov-Perfect Stackelberg equilibria for a differential game in which a cartel and a fringe extract a non-renewable resource. Both agents have stock dependent costs. The comparison of initial market shares, across different equilibria, depends on which firm has the cost advantage. The cartel's steady-state market share is largest in the open-loop equilibrium and the smallest in the competitive equilibrium. The initial price may be larger in the Markov equilibria (relative to the open-loop equilibrium), so less market power is consistent with an equilibrium that appears less competitive. The benefit to cartelization increases with market share.

PD   May 1995. TI   Vertically Related Markets and Trade Policy in a Bargaining Framework.
AU   Karp, Larry; Sioli, Lucy. AA   Karp: University of California, Berkeley. Sioli: University of Southampton. SR   Centre for Economic Policy Research, Discussion Paper: 1175; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   44. PR   4 pounds or $8.00. JE   C71, C78, F13, L22. KW   Multistage Bargaining. Vertical Integration. Strategic Trade. Cooperative Games.
AB   We analyze the interaction of asymmetric industries in international vertically related markets. Each downstream firm bargains efficiently with its domestic supplier in a first stage and with the foreign supplier in a second stage. The asymmetry in upstream costs leads to inter-industry trade. It can also cause vertical integration in the more efficient industry, and possibly vertical foreclosure. The latter occurs if competition in the final goods market is severe (the goods are close substitutes). When the more efficient industry is integrated, a tariff on imports of the final good stimulates inter-industry trade of the input, but it may increase or decrease the market share of the domestic upstream firm. The effects of a tariff depend on the industry configuration in the low-cost country.

Kattuman, Paul A.
TI   Construction of Panel Data Sets Through Record Linkage: Application to Hungarian Budget Surveys, 1987, 89, 91. AU   Jarvis, Sarah; Kattuman, Paul A.

Katz, Lawrence F.
TI   The Decline of Non-Competing Groups: Changes in the Premium to Education, 1890 to 1940. AU   Goldin, Claudia; Katz, Lawrence F.

Keenay, Gordon
PD   May 1995. TI   Personal Income Tax Modelling in the UK Inland Revenue. AA   UK Inland Revenue. SR   University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9520; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG   35. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE   C81, D31, H24. KW   Income Tax. Forecasts. Budget Analysis. Microsimulation Models. Model Building.
AB   The UK Inland Revenue has made use of computerized models for income tax forecasts and analyses of budget measures for many years. Static microsimulation models based on a stratified sample of administrative data have been in use since 1977. Model development has been stimulated by increasing demands within government departments and from Parliament. Similar developments have occurred in a number of other countries. In recent years models based on household

survey data have also been developed within and outside government and their design and use for general socio-economic analyses has been widely reported. But little has been formally reported about specialized income tax models even though the results have been regularly published and used. This paper aims to remedy this omission and air a range of methodological issues which merit further research.

Khalil, Fahad
PD May 1996. **TI** The Loan Size as a Commitment Device. **AU** Khalil, Fahad; Parigi, Bruno M. **AA** Khalil: University of Southampton. Parigi: University of Venice. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9626; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 25. **PR** no charge. **JE** E51, D82, D83. **KW** State Verification. Commitment. Credit.
AB We consider a model of risky lending with costly state verification. We argue that the loan size is an important determinant for the incentive to audit income reports and the incentive to repay. The loan size is distorted below the full information level to optimally deal with the verification problem. Lack of comitment to audit probabilities leads to over-investment relative to the commitment case.

Khatri, Yougesh
PD September 1995. **TI** The Impact of Weather on UK Agricultural Production, 1953-1990. **AU** Khatri, Yougesh; Solomou, Solomos. **AA** University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9532; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 22. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C32, E32, Q11, Q16. **KW** Agriculture. Climate. Supply Response.
AB This paper explores the impact of weather shocks on the UK agricultural sector during the postwar period. The analysis is undertaken within a disaggregated framework consisting of two outputs (crops/horticulture and livestack/livestock products) and five inputs (hired labor, family labor, crop inputs, livestock related inputs and capital). The methodology employed is supply and input demand response in a restricted profit function framework. The results suggest that weather shocks have a non-linear effect on both crop and livestock production. Output effects are asymmetric, with drought conditions having larger effects than conditions of excess moisture. the adverse effects of weather anomalies are much larger for crop production than livestock production: an implication of this is that structural change within the agricultural sector is important for understanding aggregate weather effects over time.

PD November 1995. **TI** Parametric and Semi-Parametric Modelling of the Nonlinear Relation Between Weather and Agricultural Production, 1953-1990. **AU** Khatri, Yougesh; Solomou, Solomos. **AA** University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9536; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 26. **PR** $10.00 (5 pounds); checks payable to

University of Cambridge. **JE** C14, C32, N54, Q11. **KW** Weather. Agricultural Output. Error Correction Model.
AB This paper uses semi-parametric and parametric time-series methods to model the non-linear agro-climatic aggregate output relationship within an error correction model. These methods show significant non- linearities in the effect of weather on agricultural output: extremes of drought and excessive moisture have negative effects on output. Parametric methods also distinguish an asymmetric effect, with conditions of drought having larger impacts than conditions of excessive moisture; semi-parametric methods fail to distinguish an asymmetric effect.

PD June 1996. **TI** Climate and Fluctuations in Agricultural Output, 1867-1913. **AU** Khatri, Yougesh; Solomou, Solomos. **AA** Khatri: London School of Economics. Solomon: University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9617; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 18. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C14, C32, N54, Q13. **KW** Economic History. Business Cycles. Semiparametric Methods. Agriculture. Climate Impact.
AB This paper uses semiparametric and parametric time-series methods to model the non-linear agro-climatic output relationship for the British economy during the period 1867-1913. Both methods show significant non- linearities in the effect of weather on agricultural output: extremes of drought and excessive moisture have negative effects on the output. Both methods also distinguish an asymmetric effect, with conditions of excessive moisture having larger effects than conditions of drought. Climatic shocks provide us with an insight into agricultural fluctuations and macroeconomic fluctuations during this period.

Kim, Dae Il
TI The Effects of Rising Female Labor Supply On Male Wages. **AU** Juhn, Chinhui; Kim, Dae Il.

Kim, Dongcheol
TI Asset Pricing Models with and without Consumption: An Empirical Evaluation. **AU** Hardouvelis, Gikas A.; Kim, Dongcheol; Wizman, Thierry A.

TI Price Volatility and Futures Margins. **AU** Hardouvelis, Gikas A.; Kim, Dongcheol.

Kimball, Miles S.
TI Preference Parameters and Behavioral Heterogeneity: An Experimental Approach in the Health and Retirement Survey. **AU** Barsky, Robert B.; Kimball, Miles S.; Juster, F. Thomas; Shapiro, Matthew D.

King, Robert G.
TI Nontraded Goods, Nontraded Factors, and International Non- Diversification. **AU** Baxter, Marianne; King, Robert G.; Jermann, Urban J.

Kletzer, Kenneth M.
TI Capital Mobility, Fiscal Policy and Growth Under Self-Financing of Human Capital Formation. **AU** Buiter, Willem H.; Kletzer, Kenneth M.

Knetter, Michael M.
TI   Measuring the Intensity of Competition in Export Markets. AU   Goldberg, Pinelopi K.; Knetter, Michael M.

Kokko, Albert
TI   Foreign Direct Investment and Politics: The Swedish Model. AU   Blomstrom, Magnus; Kokko, Albert.

Konings, J.
PD   March 1996. TI   Job Creation and Job Destruction in a Transition Economy: Ownership, Firm Size, and Gross Job Flows in Polish Manufacturing 1988-91. AU   Konings, J.; Lehmann, H.; Schaffer, M. E. AA   Konings: Leuven Institute for Central & East European Studies. Lehmann: Ifo Institute for Economic Research. Schaffer: Centre for Economic Reform & Transformation Heriot-Watt University.   SR   London School of Economics, Centre for Economic Performance, Discussion Paper: 282; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. PG   36. PR   no charge. JE   J63, P21. KW   Job Creation. Job Destruction. Central Europe. Eastern Europe. Transition.
AB   Comprehensive firm-level data for Polish manufacturing show that in state-owned firms the large drop in net employment since the start of the transition in 1990 has been driven by a jump in the job destruction rate; job creation, by contrast, is located disproportionately in the private sector. Small firms are more dynamic than large firms, but even after controlling for size, private firms have a higher net employment growth rate.

Konrad, Kai A.
PD   January 1996. TI   The Bargaining Family Revisited. AU   Konrad, Kai A.; Lommerud, Kjell Erik. AA   Konrad: University of Berlin. Lommerud: University of Bergen. SR   Centre for Economic Policy Research, Discussion Paper: 1312; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   28. PR   4 pounds or $8.00. JE   D13, J22, J24. KW   Family Bargaining. Education.
AB   We suggest a family bargaining model where human capital investment decisions are made non-cooperatively in a first stage, while day-to-day allocation of time is determined later through Nash bargaining, but with non-cooperative behavior as the fall back position. Several authors have claimed that the well-being in the non-cooperative situation that determines how the gains of cooperation are shared should not be the level of utility after divorce, but should be characterized by the well- being in a situation in which spouses still live together, but do not agree on their actions. We argue that the empirical implications of the two approaches are quite parallel. A second finding is that over- investment in education may be even more of a problem in our mixed cooperative-non-cooperative model than in a fully non-cooperative one.

Korenman, Sanders
PD   August 1995. TI   A Reanalysis of the Bell Curve. AU   Korenman,   Sanders;   Winship,   Christopher. AA   Korenman: University of Minnesota and National Bureau of Economic Research. Winship: Harvard University. SR   National Bureau of Economic Research Working Paper: 5230; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG   22.

PR $5.00. JE   J24, I32, J11. KW   Intelligence. Bell Curve. Socioeconomic Status.
AB   In The Bell Curve Herrnstein and Murray argue that a youth's intelligence (IQ) is a more important determinant of social and economic success in adulthood than is the socioeconomic status (SES) of his or her parents. Herrnstein and Murray base this conclusion on comparisons of effects of IQ score (measures at ages 15 and 23) and the effects of an index of parents' SES from models of economic status, marriage, welfare use, involvement in crime, as well as several outcomes for young children. Reviewers of The Bell Curve have questioned whether Herrnstein and Murray's estimates of the effects of IQ are overstated by their use of a rather crude measure of parents' SES. Comparisons of siblings in the Herrnstein and Murray sample, a more complete and accurate way to control for family background, reveal little evidence that Herrnstein and Murray's estimates of the effects of IQ score are biased by omitted family background characteristics (with the possible exception of outcomes for young children). However, there is evidence of substantial bias due to measurement error in their estimates of the effects of parents' socioeconomic status. In addition, Herrnstein and Murray's measure of parental SES fails to capture the effects of important elements of family background (such as single- parent family structure at age 14). As a result, their analysis gives an exaggerated impression of the importance of IQ relative to parents' SES, and relative to family background more generally. Estimates based on a variety of methods, including analyses of siblings, suggest that parental family background is at least as important, and may be much more important than IQ in determining social and economic success in adulthood.

Kortian, Tro
TI   Why Does the Australian Dollar Move So Closely with the Terms of Trade? AU   Gruen, David; Kortian, Tro.

Kortum, Samuel
TI   Engines of Growth: Domestic and Foreign Sources of Innovation. AU   Eaton, Jonathan; Kortum, Samuel.

Kramarz, Francis
TI   Product Quality and Worker Quality. AU   Abowd, John; Kramarz, Francis; Moreau, Antoine.

Krueger, Alan B.
PD   April 1995. TI   A Statistical Analysis of Crime Against Foreigners in Unified Germany. AU   Krueger, Alan B.; Pischke, Jorn-Steffen. AA   Krueger: U.S. Department of Labor and Princeton University. Pischke: Massachusetts Institute of Technology. SR   Massachusetts Institute of Technology, Department of Economics Working Paper: 95/15; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. PG   25. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE   K42, D78. KW   Hate Crime. Immigration. Germany.
AB   Germany has seen a high and rising rate of anti-foreigner violence during the early 1990's. To analyze the determinants of crime against foreigners we assembled a new dataset on the number and nature of such crimes at the county level based on newspaper reports. We find significant differences in the patterns of violence in the eastern and western parts of the country. The incidence of anti-foreigner crime is higher in the east and rises with distance from the former West German

border. Economic variables like unemployment and wages matter little for the level of crime once location in the east is controlled for. We also find no relation with the number of foreigners in a county in the west. These results are hard to reconcile with simple economic models of crime.

Krugman, Paul

PD August 1995. TI The Seamless World: A Spatial Model of International Specialization. AU Krugman, Paul; Venables, Anthony J. AA Krugman: Stanford University and National Bureau of Economic Research. Venables: London School of Economics. SR National Bureau of Economic Research Working Paper: 5220; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 31. PR $5.00. JE F17, R12. KW Trade. Specialization. Spatial.
AB This paper is an effort to do international trade theory without mentioning countries. Nearly all models of the international economy assume that trade takes place between nations or regions which are themselves dimensionless points. We develop a model in which economic space is instead assumed to be continuous, and in which this "seamless world" spontaneously organizes itself into industrial and agricultural zones because of the tension between forces of agglomeration and disagglomeration. One might expect such a model to be analytically intractable, but we are able to gain considerable insight through a combination of simulations and an analytical approach originally suggested in a biological context by Alan Turing.

PD August 1995. TI The Seamless World: A Spatial Model of International Specialization. AU Krugman, Paul; Venables, Anthony J. AA Krugman: Stanford University. Venables: London School of Economics. SR Centre for Economic Policy Research, Discussion Paper: 1230; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 40. PR 4 pounds or $8.00. JE F01, F12, F15, R03. KW Location. Agglomeration. Regions. Linkages. Self-Organization.
AB See Paul Krugman, and Anthony J. Venables. "The Seamless World: A Spatial Model of International Specialization", National Bureau of Economic Research Working Paper: 5220; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138.

Kruse, Douglas

PD September 1995. TI Employee Ownership, Employee Attitudes, and Firm Performance. AU Kruse, Douglas; Blasi, Joseph. AA Kruse: Rutgers University and National Bureau of Economic Research. Blasi: Rutgers University. SR National Bureau of Economic Research Working Paper: 5277; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 27. PR $5.00. JE D23, G43, L21, L22. KW Employee Ownership. Employee Attitudes. Social Organization.
AB Employee ownership in U.S. companies has grown substantially in the past 20 years. This paper reviews and provides some meta-analyses on the accumulated evidence concerning the prevalence, causes, and effects of employee ownership, covering 25 studies of employee attitudes and behaviors, and 27 studies on productivity and profitability (with both cross-sectional and pre/post comparisons). Attitudinal and behavioral studies tend to find higher employee commitment among employee-owners but mixed results on satisfaction,

motivation, and other measures. Perceived participation in decisions is not in itself automatically increased through employee ownership, but may interact positively with employee ownership in affecting attitudes.

Kuhn, Kai-Uwe

PD November 1995. TI Excess Entry, Vertical Integration and Welfare. AU Kuhn, Kai-Uwe; Vives, Xavier. AA Institut d'Analisi Economica, CSIC. SR Centre for Economic Policy Research, Discussion Paper: 1293; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 44. PR 4 pounds or $8.00. JE L12, L42. KW Vertical Integration. Excess Entry. Preferences. Variety.
AB This paper provides a systematic analysis of the welfare effects of vertical integration by a monopolistic input supplier into a monopolistically competitive downstream industry. We give sufficient conditions on consumer preferences that lead to Pareto improving vertical integration. We demonstrate a close relationship between assumptions on preference for variety, excess entry in monopolistically competitive markets, and the welfare effects of vertical integration. Both excess entry and welfare improving vertical integration arise only if preference for variety falls as variety increases for given total output.

Laffont, Jean-Jacques

TI Pollution Permits and Compliance Strategies. AU Tirole, Jean; Laffont, Jean-Jacques.

TI A Note on Environmental Innovation. AU Tirole, Jean; Laffont, Jean-Jacques.

TI Access Pricing and Competition. AU Tirole, Jean; Laffont, Jean-Jacques.

Lafontaine, Francine

PD September 1995. TI Pricing Decisions in Franchised Chains: A Look at the Restaurant and Fast-Food Industry. AA University of Michigan and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5247; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 27. PR $5.00. JE L22, L23, L14, L66. KW Franchising. Restaurants. Pricing.
AB This paper examines empirical issues of pricing and price dispersion within franchised restaurant and fast-food chains. Given the per se illegality of resale price maintenance (RPM) under current U.S. antitrust laws, and the fact that franchised outlets are independent businesses under the law, franchisers must delegate the power to set prices to franchisees whereas corporate chains can control downstream prices directly. The issue examined is whether it matters empirically who, between the franchiser or the franchisee, gets to choose downstream prices, and why. After discussing a number of reasons why prices chosen by franchisees may differ from those that a franchiser would pick, I show, using data from all restaurants chains in the metropolitan Pittsburgh and Detroit areas, that there is price dispersion in fast-food franchising. I then show that the amount of price dispersion relates to the amount of franchising in a way that suggests that 1) franchisers are not able to control franchisees' prices indirectly to the same extent that they control company-owned unit prices and 2) the prices in franchised and corporate units are systematically different. Finally, I show that prices are systematically lower in corporate

restaurants. This suggests that the reason behind the price differentials is not franchiser opportunism, but more likely double marginalization or, potentially, the existence of positive horizontal externalities among restaurants in a chain.

Lambrecht, Bart

AB This paper presents a continuous-time model for the timing of riskless arbitrage when the mispricing between two equivalent portfolios varies stochastically through time under the exogenous impact of liquidity trades and the persistent prospect that the arbitrage bubble can "burst". The models endows the arbitrageur within options to do arbitrage. When endogenously determined arbitrage bounds are violated one or more arbitrage trades bring asset prices back within the bounds. We find that an increase in the intensity of liquidity trades widens the arbitrage band. The optimal arbitrage rule makes a trade-off between the benefit of waiting and the cost of being preempted due to this delay. Comparative statics demonstrate that in the case of suboptimal arbitrage trigger policies, the loss due to acting too soon is much bigger than the loss associated with acting too late.

Layard, Richard

AB In this paper I give an impressionistic account of the situation in Russia in September 1994 and its implications for Western aid priorities. Considering the starting point, the progress of the reform has been remarkable. In the paper I discuss it under the three traditional headings: privatization, liberalization and stabilization, which are listed here in descending order of success. I then add a section on the social management of the transition.

AB The main proposals in this paper aim: to prevent the continuation in Britain of an increasingly depressed group of under-skilled workers. The main intention is to ensure that all 16-19 year olds and as many adults as possible achieve at least Level 2 qualifications. (i) For 16- 19's we should require traineeships for all young people not in full- time education. (ii) The vocational education of adults (for (G)NVQ2 and 3 or part-time first degrees) should, like full-time academic education up to first degree level, be free to the student. (iii) These proposals would cost around 2 billion pounds. This could be funded by progressively replacing student maintenance grants by loans (repaid in relation to the student's subsequent income) and by shifting student loan finance. Alternatively they could be financed by a Training Levy, by general taxation, or by borrowing. (iv) The Learning Bank should provide loans to enable any adult to finance maintenance while studying. (v) The University for Industry would develop teaching packages for use by colleges and by its own distance learning systems (mainly for adults).

AB Unemployment depends on cyclical demand factors, and on the underlying equilibrium level of unemployment. This latter is influenced especially by (a) how unemployed people are treated, (b) the wage- bargaining system, and (c) the pattern of skills and wage differentials. The Swedish model, fathered by Rudolf Meidner and Gosta Rehn, has promoted low unemployment by (a) providing short-duration unemployment benefits linked to active help for unemployed people and (b) attempting to coordinate average wages to promote low inflation. But (c) narrow and rigid wage differentials ("solidaristic" wage policy) can only work if the rate of skill formation is adequate With this reservation Sweden should stick to the Swedish model.

Layne-Farrar, Anne

Lazear, Edward P.

AB Common culture and common language facilitate trade between individuals. Minorities have incentives to become assimilated and to learn the majority language so that they have a larger pool of potential trading partners. The value of assimilation is larger to an individual from a small minority than to one from a large minority group. When a society has a very large majority of individuals from one culture, individuals from minority groups will be assimilated more quickly. Assimilation is less likely when an immigrant's native culture and language is broadly represented in his new country. Also, when governments protect minority interests directly, incentives to be assimilated into the majority culture are

reduced. Both factors may explain the recent rise in multiculturalism. Individuals do not properly internalize the social value of assimilation. They ignore the benefits that others receive when they learn the majority language and become assimilated. In a pluralistic society, a government policy that encourages diverse cultural immigration over concentrated immigration is likely to increase the welfare of the native population. In the absence of strong offsetting effects, policies which encourage multiculturalism reduce the amount of trade and have adverse welfare consequences. Conversely, policies that subsidize assimilation and the acquisition of majority language skills can be socially beneficial. The theory is tested and confirmed by examining U.S. Census data, which reveals that the likelihood that an immigrant will learn English is inversely related to the proportion of the local population that speaks his or her native language.

Leahy, Dermot

PD June 1995. **TI** International R&D Rivalry and Industrial Strategy without Government Commitment. **AU** Leahy, Dermot; Neary, J. Peter. **AA** Leahy: University of Birmingham. Neary: University College Dublin. **SR** Centre for Economic Policy Research, Discussion Paper: 1199; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 32. **PR** 4 pounds or $8.00. **JE** F12, L13. **KW** Research. Development. Subsidies. Strategic Trade. Dynamic Inonsistency.
AB We examine optimal industrial and trade policies in a series of dynamic oligopoly games in which a home and a foreign firm compete in research and development (R&D), as well as in output. Alternative assumptions about the timing of moves and the ability of agents to commit intertemporally are considered. We show that the home export subsidy, R&D subsidy and welfare are higher in an equilibrium in which government commitment is credible than in the dynamically consistent equilibrium without commitment. Commitment yields gains but so does unanticipated reneging, whereas reneging which is anticipated by firms yields the lowest welfare of all.

PD October 1995. **TI** Public Policy Towards R&D in Oligopolistic Industries. **AU** Leahy, Dermot; Neary, J. Peter. **AA** University College Dublin. **SR** Centre for Economic Policy Research, Discussion Paper: 1243; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 40. **PR** 4 pounds or $8.00. **JE** D43, L13, O32. **KW** Research Development. R&D Spillovers. R&D Cooperation. Research Joint Ventures. Subgame Perfect Equilibrium. Strategic Aspects.
AB This paper examines the free-market and socially-optimal outcomes in a dynamic oligopoly model with R&D spillovers. First-best optimal subsidies to R&D are higher when firms play strategically against each other, but lower when they cooperate on R&D (at least with high spillovers) and when they play strategically against the government. Second-best optimal subsidies to R&D are presumptively higher than first-best ones, but policies to encourage cooperation are likely to be redundant (since it is always privately profitable) and simulations suggest that the welfare cost of lax competition policy is high.

PD November 1995. **TI** Public Policy Towards R&D in Oligopolistic Industries. **AU** Leahy, Dermot; Neary, J. Peter. **AA** University of College Dublin. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 270; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 35. **PR** no charge. **JE** C13, D43, O32. **KW** Research. Development. R&D Spillovers. Joint Ventures. Subgame Perfect. **AU** See Dermot Leahy and Peter J. Neary. "Public Policy Towards R&D in Oligopolistic Industries", Centre for Economic Policy Research, Discussion Paper: 1243; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom.

Lee, Kevin

PD April 1995. **TI** Expectations Formation and Business Cycle Fluctuations: An Empirical Analysis of Actual and Expected Output in UK Manufacturing, 1975-1993. **AA** University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9524; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 34. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C32, D84, E32. **KW** Business Cycles. Persistence. Survey. Expectations. Impulse Response.
AB The role of expectations formation in the business cycle is analyzed in a Vector Autoregressive model of actual and expected output in eight industries in the UK manufacturing sector. Direct measures of expectations are derived from survey data, and rationality in expectations formation is tested. No evidence is found with which to reject rationality when measurement error in the expectations series is appropriately taken into account. An analysis of the joint determination of actual and expected industrial outputs is provided, incorporating interactions between industries, and this illustrates the importance of intersectoral interactions and business confidence in explaining the time profile of industrial outputs.

PD August 1995. **TI** Growth and Convergence: A Multi-Country Empirical Analysis of the Solow Growth Model. **AU** Lee, Kevin; Pesaran, M. Hashem; Smith, Ron. **AA** Lee and Pesaran: University of Cambridge. Smith: Birkbeck College. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9531; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 46. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C21, C22, C23, O41. **KW** Growth. Convergence. Solow Model. Panel Data.
AB This paper considers international per capita output and its growth using a panel of data for 102 countries between 1960 and 1989. Emphasis is placed on using economic and econometric theory and the multiple dimensions of the panel to analyze the data. The theoretical framework employed is the Solow-Swann neoclassical model of growth, and the authors consider the predictions of the theory using three aspects of the data: cross-section, time series, and the evolution over time of cross-country dispersion in per capita incomes. Only the cross-section results seem to be consistent with the theory, and recent evidence on convergence of per capita outputs, using cross-section regressions on initial output is shown to be misleading.

Lehmann, H.

TI Job Creation and Job Destruction in a Transition Economy: Ownership, Firm Size, and Gross Job Flows in Polish

Manufacturing 1988-91. **AU** Konings, J.; Lehmann, H.; Schaffer, M. E.

Leonard, Gregory K.
TI Superstars in the NBA: Economic Value and Policy. **AU** Hausman, Jerry A.; Leonard, Gregory K.

Leonard, Jonathan
PD August 1995. **TI** The Duration of Unemployment and the Persistence of Wages. **AU** Leonard, Jonathan; Van Audenrode, Marc. **AA** Leonard: University of California, Berkeley. Van Audenrode: Universite Laval. **SR** Centre for Economic Policy Research, Discussion Paper: 1227; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** J64. **KW** Unemployment Duration. Wages. Displaced Workers.
AB In this paper we examine the persistent effects of past wages of displaced workers on the probability of finding a new job and on wages in the new job. We use a new database looking at the post-displacement experience of a sample of Belgian workers who have lost their jobs because of a sizable reduction in the work-force of their firm. We decompose past wages into a market return to human capital, a firm- specific component (the "firm effect"), and an individual component. We develop an information model of wages and test its predictions. These predictions are validated by the evidence on subsequent wages. We also find that spells of unemployment are long, but that re-employed workers suffer limited wage losses on re-employment. This suggests that some institutional constraints prevent wages from falling.

Leung, C.
PD May 1996. **TI** Convergence Endogenous Growth and Productivity Disturbance. **AU** Leung, C.; Quah, Danny T. **AA** Leung: Chinese University of Hong Kong. Quah: London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 290; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 15. **PR** no charge. **JE** E32, O41, C22. **KW** Cross-Country Dependence. Cross-Country Regression. Increasing Returns. Stochastic Growth. Time Series.
AB Kelly (1992) has recently shown that evidence on convergence cannot be taken as evidence against endogenous growth in general. This study uses a well-known class of stochastic growth models to show other difficulties with traditional empirical studies of convergence. Key parameters typically cannot be estimated consistently in cross-section regressions. When the parameters are assumed known, implications for convergence are unavailable except under restrictive and economically unmotivated assumptions. Those same assumptions that relate key parameters to cross-country convergence render cross-section regressions impossible to estimate consistently.

Levine, Phillip B.
PD September 1995. **TI** More Bad News For Smokers? The Effects of Cigarette Smoking On Labor Market Outcomes. **AU** Levine, Phillip B.; Gustafson, Tara A.; Velenchik, Ann D. **AA** Levine and Velenchik: Wellesley College. Gustafson: Brattel/IRI. **SR** National Bureau of Economic Research Working Paper: 5270; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 15. **PR** $5.00. **JE** I12, J31, C23. **KW** Cigarette Smoking. Wages. Panel Data.
AB This paper uses data from the National Longitudinal Survey of Youth to examine the effect of smoking on wages and employment. The panel nature and household structure of these data enable us to implement methods to account for differences in observed and unobserved individual characteristics that may be correlated with both smoking and wages. Changes in wages associated with changes in smoking behavior and models that utilize sibling comparisons are estimated to address the potential heterogeneity problem. Estimates from alternative specifications all indicate that smoking reduces wages by roughly 4-8 percent. No robust, statistically significant effect on employment is observed.

Levinsohn, James
TI Voluntary Export Restraints On Automobiles: Evaluating a Strategic Trade Policy. **AU** Berry, Steven; Levinsohn, James; Pakes, Ariel.

Levitt, Steven D.
PD September 1995. **TI** Why Do Increased Arrest Rates Appear to Reduce Crime: Deterrence, Incapacitation, or Measurement Error? **AA** Harvard Society of Fellows and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5268; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 30. **PR** $5.00. **JE** D12, K42. **KW** Crime. Law. Arrests. Deterrence.
AB A strong, negative empirical correlation exists between arrest rates and reported crime rates. While this relationship has often been interpreted as support for the deterrence hypothesis, it is equally consistent with incapacitation effects, and/or a spurious correlation that would be induced by measurement error in reported crime rates. This paper attempts to discriminate between deterrence, incapacitation, and measurement error as explanations for the empirical relationship between arrest rates and crime. Using a modified version of the techniques of Griliches and Hausman (1986) for dealing with measurement error in panel data, this paper first demonstrates that the presence of measurement error does not appear to explain the observed relationship between arrest rates and crime rates. To differentiate between deterrence and incapacitation, the impact of changes in the arrest rate for one crime on the rate of other crimes is examined. In contrast to the effect of increased arrests for one crime on the commission of that crime, where deterrence and incapacitation are indistinguishable, it is demonstrated that these two forces act in opposite directions when looking across crimes. Incapacitation suggests that an increase in the arrest rate for one crime will reduce all crime rates; deterrence predicts that an increase in the arrest rate for one crime will lead to a rise in other crimes as criminals substitute away from the first crime. Empirically, deterrence appears to be the more important factor, particularly for property crimes.

Lewis, Karen K.
PD August 1995. **TI** What Can Explain the Apparent Lack of International Consumption Risk Sharing? **AA** University of Pennsylvania and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5203; National Bureau of Economic

Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 24. **PR** $5.00. **JE** D91, E21, F34. **KW** Risk Sharing. Consumption. Capital Markets.

AB Recent research in international business cycles based upon complete markets has found that international consumption correlations are lower than predicted by the standard risk-sharing implication of these models. In this paper, I use regression tests to ask whether two different types of explanations can help explain this result. First, I consider whether non-separabilities between tradable and non-tradable leisure or goods can explain the puzzle. Surprisingly, non-separabilities explain only a tiny fraction of the variation in tradable consumption across countries. Furthermore, risk-sharing in tradable goods is rejected. Second, I examine the effects of capital market restrictions on aggregate consumption risk-sharing by countries. While rejections of risk-sharing are stronger for countries facing more severe capital market restrictions, risk-sharing is still rejected for the unrestricted group of countries. Therefore, risk-sharing does not appear to be resolved by either explanation alone.. This evidence suggests that a combination of these two effects may be necessary to explain consumption risk-sharing across countries.

Lindbeck, Assar

PD December 1995. **TI** Restructuring Production and Work. **AU** Lindbeck, Assar; Snower, Dennis J. **AA** Lindbeck: University of Stockholm. Snower: Birkbeck College. **SR** Centre for Economic Policy Research, Discussion Paper: 1323; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 52. **PR** 4 pounds or $8.00. **JE** J23, J24, L23, M12, O33. **KW** Firm Restructuring. Technological Change. Information Flows. Employment. Market Segmentation.

AB The paper analyzes the contemporary organizational restructuring of production and work and derives some salient implications for the labor market. The analysis focuses on the switch from occupational specialization at "Tayloristic" organizations to multi-tasking at "holistic" organizations. The restructuring process is shown to create demands for new combinations of skills and thereby "resegment" the labor market, raising the wages and job opportunities of some workers relative to others.

Ling, David C.

TI The Effect of Income and Collateral Constraints on Residential Mortgage Terminations. **AU** Archer, Wayne; Ling, David C.; McGill, Gary A.

Lipsey, Robert E.

PD September 1995. **TI** Trade and Production Networks of U.S. MNCs and Exports by Their Asian Affiliates. **AA** National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5255; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 15. **PR** $5.00. **JE** F23, F14, L22. **KW** Multinational Corporations. Institutions. Asia.

AB Network connections within MNC's seem to improve export market shares for Asian affiliates of those MNC's. In particular, Asian affiliates of U.S. MNC's export more to markets where their parent firms' exports to affiliates are larger, and less to markets where their parent firm export more to non-affiliates. However, the latter effect is much smaller per dollar of parent exports. These relationships are fairly consistent across industries and markets, across markets within two industries, across industries for two affiliate home countries, and across exporters and industries for individual markets.

Lockwood, Ben

PD December 1995. **TI** Commodity Tax Harmonization with Public Goods -- An Alternative Perspective. **AA** University of Exeter. **SR** Centre for Economic Policy Research, Discussion Paper: 1304; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 40. **PR** 4 pounds or $8.00. **JE** H21, H41, H87. **KW** Commodities. Tax Reform. Tax Harmonization.

AB This paper investigates whether it is possible to find Pareto- improving commodity tax reforms that harmonize taxes between two countries when governments supply public goods and thus have revenue requirements. To focus on the basic issues, we consider a Ricardian model of trade with elastic factor supply and two traded goods, and suppose that initial taxes are Nash equilibrium ones. This allows a complete characterization of the conditions under which Pareto-improving reforms exist using simple geometric arguments. These conditions are completely determined by: (i) the configuration of initial taxes across countries; and (ii) whether the two goods are substitutes or complements. An example suggests that harmonization is unlikely to be Pareto-improving if the revenue requirement is high, and the demand for imports relatively price elastic, in both countries. An alternative definition of harmonization, difference harmonization, which may yield Pareto-improvements under more general conditions, is proposed.

PD March 1996. **TI** State-Contingent Inflation Contracts and Output Persistence. **AA** University of Exeter. **SR** Centre for Economic Policy Research, Discussion Paper: 1348; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 12. **PR** 4 pounds or $8.00. **JE** E52, E58, E32. **KW** Monetary Policy. Inflation Contracts. Output Persistence.

AB This paper shows that the government can achieve its precommitment outcome in monetary policy when output follows an autoregressive process, by offering the central banker a linear inflation contract, and where the parameters of the contract depend on lagged output. This note therefore offers an extension of the recent results of Walsh to the case of persistence in real economic variables such as output or unemployment.

Loewy, Michael B.

TI Free Trade and Long-Run Growth. **AU** Ben-David, Dan; Loewy, Michael B.

TI Knowledge Dissemination, Capital Accumulation, Trade and Endogenous Growth. **AU** Ben-David, Dan; Loewy, Michael B.

Lommerud, Kjell Erik

TI The Bargaining Family Revisited. **AU** Konrad, Kai A.; Lommerud, Kjell Erik.

Lopez-Salido, J. David

TI Hysteresis and Economic Fluctuations (Spain, 1970-94). **AU** Dolado, Juan J.; Lopez-Salido, J. David.

Lu, Maozu

AB In this paper a new measure of persistence in macroeconomic time series has been proposed. The measure is based on the Kullback information criteria. The statistical structure of the measure has been discussed, and its relationship with the existing measures, such as Cochrane's (1988) and Campbell and Mankiw's (1988) has been explored.

Lucas, Deborah

Lumsdaine, Robin L.

AB In most data sets of labor force participation of the elderly, an empirical regularity that emerges is that retirement rates are particularly high at age 65. While there are numerous economic reasons why individuals may choose to retire at 65, empirical models that have attempted to explain the age-65 spike have met with limited success. Interpreted another way, while many models would predict a jump in the hazard rate at age 65, the magnitude of the spike indicates excessive response given the economic considerations that retirees typically face. This paper considers the puzzle of why retirement rates are so high at age 65 and explores a variety of explanations.

AB Recent policy has focused on alleviating poverty among the elderly, with varying degrees of success. Gains to some subsets of the elderly population have come at the expense of others. A component of the policy debate has been identifying factors which might influence labor force participation decisions and the effects such decisions will have on retirement income and its adequacy for a growing elderly population. While models of retirement behavior are becoming increasingly sophisticated, most fail to capture key elements such as expectations and uncertainty. This is in part due to the reduced form nature of policy instruments; parameters are estimated under a current policy and used to predict effects of an alternative scenario. Such an approach implicitly assumes that the only difference in the alternative setting is the change in policy and does not adequately account for endogeneity of decisions and responses to these changes. This paper reviews factors affecting the labor supply decisions, their interactions with and implications for subsequent retirement income, and identifies important methods and data requirements necessary to model complicated dynamic behavior more accurately.

Lynch, Lisa M.

AB This paper seeks to provide new insight into how school and post school training investments are linked to employer workplace practices and outcomes using a unique nationally representative survey of establishments in the U.S., the Educational Quality of the Workforce National Employers Survey (EQW-NES). We go beyond simply measuring the incidence of formal or informal training to examine the determinants of the types employers invest in, the relationship between formal school and employer provided training, who is receiving training, the links between investments in physical and human capital, and the more impact that human capital investments have on the productivity of establishments. We find that the smallest employers are much less likely to provided formal training programs than employers from larger establishments. Regardless of size, those employers who have adapted some practices associated with what have been called "high performance work systems" are more likely to have formal training programs. Employers who have made large investments in physical capital or who have hired workers with higher average education are also more likely to invest in formal training and to train a higher proportion of their workers, especially in the manufacturing sector. There are significant and positive effects on establishment productivity associated with investments in human capital. Those employers who hire better educated workers have appreciably higher productivity. The impact of employer provided training differs according to the nature, timing and location of the employer investments.

Ma, Yue

Machin, Stephen

Lorraine; Machin, Stephen; Reed, Howard.

TI Product Market Competition, Wages and Productivity: International Evidence from Establishment-Level Data. **AU** Blanchflower, David; Machin, Stephen.

Madrian, Brigitte C.
TI Non-Employment and Health Insurance Coverage. **AU** Gruber, Jonathan; Madrian, Brigitte C.

Malcomson, James
TI Contracting in the NHS Legal and Economic Issues. **AU** Barker, Kit; Chalkley, Martin; Malcomson, James; Montgomery, Jonathan.

Mankiw, N. Gregory
TI What Do Budgets Deficits Do? **AU** Ball, Laurence; Mankiw, N. Gregory.

Manuelli, Rodolfo E.
TI A Positive Model of Growth and Pollution Controls. **AU** Jones, Larry E.; Manuelli, Rodolfo E.

Marcet, Albert
TI The Poor Stay Poor: Non-Convergence Across Countries and Regions. **AU** Canova, Fabio; Marcet, Albert.

Marcincin, Anton
PD September 1995. **TI** Voucher Privatization, Corporate Control and the Cost of Capital: An Analysis of the Czech Privatization Programme. **AU** Marcincin, Anton; van Wijnbergen, Sweder. **AA** Marcincin: Centre for Economic and Social Analysis. van Wijnbergen: University of Amsterdam. **SR** Centre for Economic Policy Research, Discussion Paper: 1215; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** G32. **KW** Ownership Structure. Corporate Governance. Voucher Privatization.
AB Voucher privatization programs have been criticized for leading to excessively dispersed ownership and hence failure of control and insufficient corporate governance. We analyze the results of the five auction rounds of the Czech privatization program and subsequent stock market developments. Contrary to prior fears, dominant investors did emerge in most cases. We then show that the presence of a dominant investor led to an above average share price after correcting for all publicly known differences between the various enterprises. We use information contained in the price dynamics of the auction rounds to show that this price difference was not due to inside information available to dominant investors only, but also to the anticipation of better governance in the presence of dominant investors. This led to a lower cost of capital (higher share price).

Marimon, Ramon
TI Convergence in Monetary Inflation Models with Heterogeneous Learning Rules. **AU** Evans, George W.; Honkapohja, Seppo; Marimon, Ramon.

Marin, Dalia
PD May 1995. **TI** Creating Creditworthiness through Reciprocal Trade. **AU** Marin, Dalia; Schnitzer, Monika.
AA Marin: Humboldt Universitat zu Berlin. Schnitzer: University of Bonn. **SR** Centre for Economic Policy Research, Discussion Paper: 1185; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 32. **PR** 4 pounds or $8.00. **JE** F13, F34, L14. **KW** Countertrade. Sovereign Debt. Creditworthiness.
AB In the aftermath of the international debt crisis of the 1980s reciprocal trade arrangements experienced a resurgence. This paper examines how countertrade can help highly indebted countries to finance imports if they are not able to use standard credit arrangements. It compares the credit enforcement mechanisms discussed by the sovereign debt literature with those available under countertrade agreements and shows under what conditions countertrade can increase the debt capacity of highly indebted countries. The implications of our model for the design of optimal countertrade contracts are consistent with empirical evidence from a data set of 230 countertrade transactions.

Marin, Jose Maria
TI Innovation, "Bank" Monitoring and Endogenous Financial Development. **AU** de la Fuente, Angel; Marin, Jose Maria.

Markusen, James R.
PD February 1996. **TI** The Theory of Endowment, Intra-Industry and Multinational Trade. **AU** Markusen, James R.; Venables, Anthony J. **AA** Markusen: University of Colorado. Venables: London School of Economics. **SR** Centre for Economic Policy Research, Discussion Paper: 1341; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** F01, F02, F23, F12. **KW** Multinationals. Intra-Industry Trade.
AB We consider a trade model combining a 2x2x2 Heckscher-Ohlin structure, monopolistic competition, transport costs and multinational corporations. We demonstrate how the mix of national and multinational firms that operate in equilibrium depends on technology and on the division of the world endowment between countries. Multinationals are more likely to exist the more similar are countries in both relative and absolute endowments. Where multinationals exist they reduce the volume of trade and raise world welfare (although not necessarily that of both countries). They also reduce the agglomeration forces that arise when international factor mobility is allowed.

Martin, Carmela
PD September 1995. **TI** The Impact of EU Trade Agreements with Central and East European Countries: The Case of Spain. **AA** Universidad Complutense de Madrid. **SR** Centre for Economic Policy Research, Discussion Paper: 1238; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 40. **PR** 4 pounds or $8.00. **JE** F12, F15, F21. **KW** European Union. Central and Eastern Europe. Gravity Model.
AB This paper makes a tentative forecast of the impact on Spanish trade of the liberalization of economic transactions between the EU and the former communist countries of Central and Eastern Europe (CEECs), as envisaged in the Association Agreements aimed at the eventual enlargement of the EU to

include these countries. For this purpose it describes the trade patterns between the signatory countries - Spain, the rest of the EU and the CEECs -- since the fall of the communist bloc and analyzes, through the econometric estimation of a gravity model, the determining factors in these patterns. Lastly, starting from the projection of the model estimated, along with several complementary analyzes, a prediction of the Agreements' effects on Spanish trade is made.

Martin, Philippe

PD   November 1995.   TI   Long-Term Growth and Short-Term Economic Instability.   AU   Martin, Philippe; Rogers, Carol Ann.   AA   Martin: Graduate Institute of International Studies. Rogers: Georgetown University.   SR   Centre for Economic Policy Research, Discussion Paper: 1281; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom.   PG   36.   PR   4 pounds or $8.00.   JE   E32, O47.   KW   Growth. Instability. Economic Fluctuations. Learning-By-Doing.
AB   When learning-by-doing is at the origin of growth, we show that growth rates should be negatively related to the amplitude of the business cycle if the growth rate in human capital is increasing and concave in the cyclical component of production. Empirical evidence strongly supports this finding for industrialized countries and European regions. Using the standard control variables, we find that countries and regions that have higher standard deviations of growth and of unemployment have lower growth rates. The result does not come from an effect of instability on investment. The negative relation does not hold for non-industrialized countries, however, for which learning-by-doing may not to be the main engine of growth.

PD   November 1995.   TI   The Geography of Multi-Speed Europe.   AU   Martin, Philippe; Ottaviano, Gianmarco I. P.   AA   Martin: Graduate Institute of International Studies. Ottaviano: Universita di Bologna.   SR   Centre for Economic Policy Research, Discussion Paper: 1292; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom.   PG   36.   PR   4 pounds or $8.00.   JE   F15, F21, R12.   KW   Multi-Speed Integration. Location. Agglomeration. Convergence.
AB   This paper describes the possible impact of multi-speed integration on the location of economic activities in Europe. We present a model where two countries integrate their economies and leave a third temporarily outside because of its lower income. We analyze the effect of different integration sequences on industrial location and convergence during the transition period and in the long term, with and without agglomeration economies. Without agglomeration economies, income differentials at the time of integration are the main determinant of industry location. A long transition period may then be called for to avert concentration in the core countries. On the contrary, with migration the temporary exclusion of the poor country may trigger agglomeration in the rich integrated core.

Martin, Will

TI   Multilateral Trade Rules and the Expected Cost of Protection.   AU   Francois, Joseph F.; Martin, Will.

Mata, Jose

TI   The Survival of New Plants: Start-Up Conditions and Post-Entry Evolution.   AU   Guimaraes, Paulo; Mata, Jose;

Portugal, Pedro.

Matutes, Carmen

PD   May 1995.   TI   Imperfect Competition, Risk Taking, and Regulation in Banking.   AU   Matutes, Carmen; Vives, Xavier.   AA   Institut d'Analisi Economica.   SR   Centre for Economic Policy Research, Discussion Paper: 1177; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom.   PG   40.   PR   4 pounds or $8.00.   JE   G21, G28.   KW   Excessive Competition. Risk Taking. Limited Liability. Investor Protection.
AB   We develop a model of banking competition which allows us to disentangle the roles that limited liability, deposit insurance (both with flat and risk-based premia), and rivalry for deposits play in determining risk-taking incentives both in the asset and the liability side of the balance sheet. We find that in all market configurations (uninsured or insured) banking rivalry yields excessive deposit rates when social failure costs are high or when competition is intense. Maximal risk-taking incentives (on the liability and asset sides) exist with flat-premium deposit insurance and minimal with risk-based insurance. In an uninsured market, risk taking on the asset side is implied by limited liability and the presence of moral hazard (asset risk not observable). With flat-premium deposit insurance maximum risk- taking incentives exist even if there is no moral hazard. Finally, we can extricate the role of rate and asset regulation both in the case of insured and uninsured deposits.

Mayer, Christopher J.

TI   Housing Price Dynamics Within a Metropolitan Area.   AU   Case, Karl E.; Mayer, Christopher J.

McAdam, Peter

TI   Fiscal Deficit Reductions in Line with the Maastricht Criteria for Monetary Union: An Empirical Analysis.   AU   Hallett, Andrew Hughes; McAdam, Peter.

McCormick, Barry

PD   February 1996.   TI   The Brain Drain, Remittances and Economic Development.   AU   McCormick, Barry; Wahba, Jackline.   AA   University of Southampton.   SR   University of Southampton, Discussion Paper in Economics and Econometrics: 9609; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. website: www.soton.ac.uk/discp.html.   PG   23.   PR   no charge.   JE   F22, J21, J23, O15.   KW   International Migration. Remittances. Labor Allocation. Developing Countries.
AB   This paper studies the determinants of overseas migration and remittances in an economy which is distorted by a minimum wage law. The influence of population growth, productivity shocks, and the degree of family altruism upon the stock of overseas migration and urban under- employment are examined. The possibility of multiple equilibria, whereby the economy may settle at either a high or zero overseas migration is discussed.

TI   Occupational Downgrading and Upgrading in Britain.   AU   Evans, Philip; McCormick, Barry.

McCulloch, Andrew

TI   Firing Costs, Unions and Employment.   AU   Booth,

Alison L.; McCulloch, Andrew.

McGarry, Kathleen

PD September 1995. TI Factors Determining Participation of the Elderly In SSI. AA University of California, Los Angeles and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5250; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 28. PR $5.00. JE J14, J26, I38, C24. KW Elderly. Welfare. Participation. Probit.

AB The same low participation rates which plague many welfare programs have been observed among the elderly eligible for Supplemental Security Income (SSI). A number of hypotheses have been offered to explain the low enrollment, but none has attracted universal acceptance. This paper uses the Survey of Income and Program Participation (SIPP) to examine the participation of the elderly in SSI. Because of the high quality of the data, I am able to determine eligibility more accurately than in most previous studies. In this sample, only 56 percent of those who I determine to be eligible for SSI are presently receiving benefits. I model the decision to participate as a probit equation, but modify the likelihood function to account for measurement error in the expected benefit. The results indicate that participation is primarily determined by the financial situation of the eligible individuals. Although all those eligible for SSI are poor, those with little in the way of other resources are significantly more likely to participate. This finding differs from widespread beliefs that eligible individuals are discouraged by the difficulty of the application process, or that many are uninformed about the program.

McGill, Gary A.

TI The Effect of Income and Collateral Constraints on Residential Mortgage Terminations. AU Archer, Wayne; Ling, David C.; McGill, Gary A.

McVicar, Duncan

TI Participation in Full-Time Further Education in England and Wales: An Analysis of Post-War Trends. AU Rice, Patricia G.; McVicar, Duncan.

Meghir, Costas

TI The Changing Distribution of Male Wages in the UK. AU Gosling, Amanda; Machin, Stephen; Meghir, Costas.

Melitz, Jacques

TI New Empirical Evidence on the Costs of European Monetary Union. AU Erkel-Rousse, Helene; Melitz, Jacques.

Menkveld, Bert J.

TI Sub-Optimal Scale Firms and Compensating Factor Differentials in Dutch Manufacturing. AU Audretsch, David B.; Menkveld, Bert J.; Thurik, Roy; van Leeuwen, George.

Meyer, Bruce D.

TI The Incidence of a Firm-Varying Payroll Tax: The Case of Unemployment Insurance. AU Anderson, Patricia M.; Meyer, Bruce D.

Minford, Patrick

PD May 1995. TI The Elixir of Growth: Trade, Non-Traded Goods and Development. AU Minford, Patrick; Nowell, Eric; Riley, Jonathan. AA Minford and Nowell: University of Liverpool. Riley: University of Wales. SR Centre for Economic Policy Research, Discussion Paper: 1165; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 88. PR 4 pounds or $8.00. JE F11, F21, O11. KW Development. Technological Transfer. Unemployment. Unskilled Labor. Wage Dispersion.

AB Development and convergence is explained as the transfer of technology embodied in machinery, to the manufacturing sector of those developing countries that institute the necessary property rights. The process is modeled within a Heckscher-Ohlin-Samuelson framework with capital mobility and endogenous supplies of immobile factors, skilled and unskilled labor and land. The model suggests a factor-price-based PPP method of measuring developing countries' GDP. Model simulations of the assumed technical transfer to developing countries imply falling wages and employment of unskilled labor in developed countries, combined with improvements in their terms of trade -- shared gains from trade combined with a distributional bias.

Miron, Jeffrey A.

TI Improving the Accessibility of the NBER's Historical Data. AU Feenberg, Daniel; Miron, Jeffrey A.

PD September 1995. TI What Have Macroeconomists Learned About Business Cycles From the Study of Seasonal Cycles? AU Miron, Jeffrey A.; Beaulieu, J. Joseph. AA Miron: Boston University and National Bureau of Economic Research. Beaulieu: Board of Governors of the Federal Reserve System. SR National Bureau of Economic Research Working Paper: 5258; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 30. PR $5.00. JE C32, E32. KW Seasonality. Business Cycles. Preference Shifts. Labor Hoarding.

AB This paper argues that analysis of seasonal fluctuations can shed light on the nature of business cycle fluctuations. The fundamental reason is that in many instances identifying restrictions about seasonal fluctuations are more believable than analogous restrictions about non-seasonal fluctuations. We show that seasonal fluctuations provide good examples of preference shifts and synergistic equilibria. We also find evidence against production smoothing and in favor of unmeasured variation in labor and capital utilization. In some industries capacity constraints appear to bind.

Mishkin, Frederic S.

TI The Term Structure of Interest Rates and Its Role in Monetary Policy for the European Central Bank. AU Estrella, Arturo; Mishkin, Frederic S.

Mitchell, Olivia S.

PD September 1995. TI State and Local Pension Plans. AU Mitchell, Olivia S.; Carr, Roderick. AA Carr: University of Pennsylvania. Mitchell: University of Pennsylvania and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5271; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 15. PR $5.00. JE G23, G28, H72. KW Pensions. Retirement. Public Employees.

AB This paper examines the role and function of pension

plans covering state and local government employees in the United States. Covering about 16 million employees (including teachers, fire fighters, police, members of the judiciary, and many other state and local employees), these plans manage a substantial stock of financial assets -- close to $1 trillion - and receive annual contributions from employees and government revenues totaling about $56 billion. Using data gathered from a variety of different sources, some of which have only recently become available, we describe the benefits, financing, and management of these plans, and identify some of the prominent challenges facing these pension plans in the next decade.

Mohieldin, Mahmoud

PD March 1996. TI The Uruguay Round and Trade in Financial Services in the Arab Countries. AU Mohieldin, Mahmoud; Wahba, Jackline. AA Mohieldin: Cairo University. Wahba: University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9617; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. website: www.soton.ac.uk/discp.html. PG 27. PR no charge. JE F13, G18, O16, O53. KW Financial Liberalization. Trade Liberalization. Developing Countries.
AB The purpose of this paper is to examine the prospects and problems of trade liberalization in financial services in the Arab countries. The paper draws on the theoretical contributions outlining the case for financial liberalization in developing countries. It reviews the recent performance, structure and regulation of the banking systems in some Arab countries. The main conclusion is that Arab countries do not meet the prerequisites for successful financial liberalization, arguing that there is a clear need for internal reform of the financial systems first before opening up to external competition. Several policy recommendations are also discussed.

Moldovanu, Benny

TI Resale Markets and the Assignment of Property Rights. AU Jehiel, Philippe; Moldovanu, Benny.

Montgomery, Jonathan

TI Contracting in the NHS Legal and Economic Issues. AU Barker, Kit; Chalkley, Martin; Malcomson, James; Montgomery, Jonathan.

Morales, Antiono J.

PD May 1995. TI Designing Institutions for International Monetary Policy Coordination. AU Morales, Antiono J.; Padilla, A. Jorge. AA Morales: University College London. Padilla: CEMFI. SR Centre for Economic Policy Research, Discussion Paper: 1180; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 40. PR 4 pounds or $8.00. JE E61, D78, F42. KW Coordination. Europe. Monetary Union. Institutions. Mechanism Design.
AB In this paper we study the adjustment of a N-country world economy to an unfavorable common supply shock. We show that world-wide monetary policy coordination is essential to achieve an optimal adjustment to the common shock, but that its actual implementation requires careful design to ensure that each country finds it optimal to join and to remain faithful to the coordination agreement. We then construct alternative coordination mechanisms which implement the first-best

response to the common shock, discuss their main properties and rank them according to different criteria of desirability.

Moreau, Antoine

TI Product Quality and Worker Quality. AU Abowd, John; Kramarz, Francis; Moreau, Antoine.

Motta, Massimo

TI Managerial Incentives for Mergers. AU Fauli-Oller, Ramon; Motta, Massimo.

TI Country Asymmetries, Endogenous Product Choice and the Speed of Trade Liberalization. AU Cabralas, Antonio; Motta, Massimo.

Mountford, Andrew

PD March 1996. TI Trade Dynamics and Endogenous Growth -- An Overlapping Generations Analysis. AA University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9621; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. website: www.soton.ac.uk/discp.html. PG 36. PR no charge. JE F11, F43, O41. KW Endogenous Growth. Overlapping Generations. International Trade.
AB This paper examines the dynamic implications of international trade in a two sector overlapping generations economy with endogenous growth. It analyzes the global dynamics of this model for both a closed economy and a two country world economy. The world economy may have multiple steady state equilibria each with their own rate of growth and the transition to a steady state in the world economy may involve reversals in trade direction, relative income levels and relative growth rates and may cause a reduction in the average rate of growth of the world economy relative to autarky.

PD April 1996. TI Convergence, Overtaking and the Welfare Implications of International Trade in a Convex Economy. AA University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9624; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. website: www.soton.ac.uk/discp.html. PG 24. PR no charge. JE F11, F43, O41. KW Convergence. Growth. International Trade.
AB This paper describes, in a convex dynamic general equilibrium model, the implications for convergence and welfare of international trade. Under autarky or in a distorted trade equilibrium, initial conditions are an important determinant of long run income per capita. In contrast, under free trade income per capita will converge for economies with identical preferences and technology. It is also shown how free trade can reduce the income and steady state welfare in one country without increasing the steady state income or welfare in another economy and how free trade can rescue a potentially high income economy from a low income autarkic steady state so that it catches up and overtakes the income level of another economy that was in an initially higher income autarkic steady state.

Mukerji, Sujoy

PD March 1996. TI Ambiguity Aversion and Incompleteness of Contractual Form. AA University of

Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9616; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 28. **PR** no charge. **JE** D23, D81, D84, L14. **KW** Knightian Uncertainty. Ambiguity. Choquet Integral. Non-Expected Utility.

AB Subjective uncertainty is characterized by ambiguity if the decision maker has an imprecise knowledge of the probabilities of payoff relevant events. This for instance is the case if the decision maker's beliefs are better represented by a set of probability functions rather than by a single probability function. An ambiguity averse decision maker adjusts his choice on the side of caution as a reaction to his imprecise knowledge of probabilities. The non-additive expected utility model was developed to formalize such behavior. Applying this model shows that ambiguity aversion may be used to explain the existence of incomplete contracts. The setting for the demonstration is the investment hold-up model which has been the focus of much of the recent research in incomplete contracts.

Musu, Ignazio

PD February 1996. **TI** Transitional Dynamics to Optimal Sustainable Growth. **AA** Universita Ca' Foscari di Venezia. **SR** Centre for Economic Policy Research, Discussion Paper: 1282; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 24. **PR** 4 pounds or $8.00. **JE** O47, O33, Q28. O13. **KW** Endogenous Growth. Environmental Economics.

AB This paper presents a simple model of optimal sustainable growth when the environmental stock enters the consumers' utility function and production depends on produced capital and on a flow of environmental services. Endogenous growth is obtained by making the productivity growth of the environmental services dependent on past capital accumulation. Both the effect of environmental preservation on the consumers' utility function and the effect of past capital accumulation on the productivity of environmental services are seen as externalities, which are internalized along an optimal growth path. Optimal growth is sustainable when the use of the environmental asset for production is equal to the regeneration capacity of the environment. The paper describes the features of the optimal sustainable balanced growth path: It is shown that the form of the utility function is crucial in obtaining it. The transitional dynamics to the balanced path are discussed showing that, under not unreasonable assumptions concerning the structure of preferences, the path leading to sustainable balanced growth may either be completely unstable or exhibit indeterminacy. This creates problems in defining an appropriate environmental policy, which is shown to require a combination of emission taxes and a subsidy to capital accumulation.

Myers, Gordon M.

PD January 1996. **TI** International Migration Controls. **AU** Myers, Gordon M.; Papageorgiou, Yorgos Y. **AA** Myers: University of Waterloo. Papageorgiou: McMaster University. **SR** Centre for Economic Policy Research, Discussion Paper: 1271; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** F22, H87. **KW** Migration Policy. Immigration Quota. Immigration Tolls. International Transfers.

AB We study immigration control in a simple one-good model of a homogeneous population in a congested world. We compare quota, the predominant instrument of immigration control, with an entrance price or immigration toll. In our model, an absence of immigration controls (a world of free movement) is first-best efficient and equitable. We show that when the income disparity at the initial population is sufficiently large, a quota system is characterized by an inefficient prohibition of immigration. Tolls restore efficiency, but enable the migrant-receiving country to capture all efficiency gains from migration. We conclude that free movement dominates tolls, and tolls dominate quota.

Navon, Ami

PD December 1995. **TI** Product Differentiation in the Presence of Positive and Negative Network Effects. **AU** Navon, Ami; Shy, Oz; Thisse, Jacques-Francois. **AA** Navon: Tel Aviv University. Shy: University of Michigan. Thisse: Universite Catholique de Louvain and CERAS-ENPC. **SR** Centre for Economic Policy Research, Discussion Paper: 1306; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 32. **PR** 4 pounds or $8.00. **JE** L15, L11, R32. **KW** Product Differentiation. Location. Network Effects. Network Externalities.

AB Using two standard location models, we investigate price competition and divergence from optimal product differentiation when consumer preferences are influenced by the number of consumers purchasing the same brand or shopping at the same store. Negative network effects tend to lessen competition and increase prices whereas positive network effects (bandwagon effects) make competition fiercer and lead to lower prices. Furthermore, in the duopoly case, an increase in total population may adversely affect the clients of a store despite the fact that they benefit from price cuts. Finally, under free entry, increasing the population may lead to a reduction in the equilibrium number of stores and always increases the divergence between the equilibrium and optimal numbers of stores.

Neary, J. Peter

TI International R&D Rivalry and Industrial Strategy without Government Commitment. **AU** Leahy, Dermot; Neary, J. Peter.

TI Public Policy Towards R&D in Oligopolistic Industries. **AU** Leahy, Dermot; Neary, J. Peter.

TI Public Policy Towards R&D in Oligopolistic Industries. **AU** Leahy, Dermot; Neary, J. Peter. **AU** See Dermot Leahy and Peter J. Neary. "Public Policy Towards R&D in Oligopolistic Industries", Centre for Economic Policy Research, Discussion Paper: 1243; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom.

Neely, Christopher J.

TI Endogenous Realignments and the Sustainability of a Target Zone. **AU** Corbae, P. Dean; Neely, Christopher J.; Weller, Paul A.

Nenova-Amar, M.

TI The Labor Market in Bulgaria. **AU** Beleva, I.; Jackman, R.; Nenova-Amar, M.

Neumark, David

AB We re-evaluate the evidence from Card and Krueger's 1994 New Jersey- Pennsylvania minimum wage experiment, using new data based on actual payroll records from 230 Burger King, KFC, Wendy's, and Roy Rogers restaurants in New Jersey and Pennsylvania. We compare results using these payroll data to those using CK's data, which were collected by telephone surveys. We have two findings to report. First, the data collected by CK appear to indicate greater employment variation over the eight-month period between their surveys than do the payroll data. For example, in the full sample the standard deviation of employment change in CK's data is three times as large as that in the payroll data. Second, estimates of the employment effect of the New Jersey minimum wage increase from the payroll data lead to the opposite conclusion from that reached by CK. For comparable sets of restaurants, differences-in-differences estimates using CK's data imply that the New Jersey minimum wage increase (of 18.8 percent) resulted in an employment increase of 17.6 percent relative to the Pennsylvania control group, an elasticity of 0.93. In contrast, estimates based on the payroll data suggest that the New Jersey minimum wage increase led to a 4.6 percent decrease in employment in New Jersey relative to the Pennsylvania control group. This decrease is statistically significant at the five percent level and implies an elasticity of employment with respect to the minimum wage of -0.24.

Newbery, David M.

AB Fiscal reform is central to the process of transforming a Soviet- type economy to a market economy, for with the emergence of a significant private sector, the boundaries between the public and private sectors needs to be more sharply drawn. The paper draws lessons from the experience of the Visegrad countries (Hungary, Poland, the Czech and Slovak Republics) in tax and benefit reform.

AB This paper conducts a social cost benefit analysis of the privatization and restructuring of the state-owned Central Electricity Generating Board which generated and transmitted all publicly supplied electricity in England and Wales until 1990. The main benefits came from efficiency gains at the generators, the switch from nuclear fuels, lower coal costs and lower emissions. The main costs came from higher prices for imported French electricity, the cost of restructuring and premature investment in new gas-fried generating plant. Our central estimate is a permanent cost reduction of 4 percent per year, equivalent to an extra 25 percent return on assets.

AB Privatization of utilities is about ownership rather than control. Liberalization can induce greater improvements in performance than privatization alone. Regulation is inevitably inefficient, and adequately competitive network services may improve efficiency. History indicates that regulated vertical integration is durable so that liberalization may be hard to sustain. Theory and evidence suggest that pricing network access and use is difficult, risking foreclosure without regulation. Progress in modelling competition over, for and between networks is reported. The English electricity industry demonstrates the importance of entry conditions and contracts, and the gains from restructuring are estimated.

Newey, Whitney K.

AB This paper gives general conditions for convergence rates and asymptotic normality of series estimators of conditional expectations, and specializes these conditions to polynomials regression and regression splines. Both mean-square and uniform convergence rates are derived. Asymptotic normality is shown for nonlinear functionals of series estimators, covering many cases not previously treated. Also, a simple condition for square root of n-consistency of a functional of a series estimator is given. The regularity conditions are straightforward to understand, and several examples are given to illustrate their application.

Nickell, Stephen

PG 39. PR no charge. JE E24, J64, H24. KW Unemployment. Unskilled. Payroll Tax.
AB This paper states two recommendations from an OECD Report: (1) "Reduce non-wage labor costs, especially in Europe, by reducing taxes on labor..."; (2) "Reduce direct taxes (social security and income taxes) on those with low earnings...". After looking at the first recommendation we conclude that any attempt to generate a significant reduction in the unemployment rate by cutting across-the-board tax rates on employment is likely to fail. We then turn to the second recommendation and give three arguments as to why it may be a good idea. The remainder of the paper investigates the arguments. We look at why the unemployment rate of the unskilled might be higher than that of the skilled, and how we might expect their relative unemployment rates to respond both to relative demand shocks and to more neutral shocks. We then examine the facts -- what has happened to relative unemployment (and non-employment) rates, and wage rates throughout the OECD. Finally, we discuss the implications of these facts for the proposed policy measures.

TI Combatting Unemployment: Is Flexibility Enough? AU Jackman, R.; Layard, Richard; Nickell, Stephen. Jackman and Layard: London School of Economics. Nickell: Institute of Economics and Statistics and London School of Economics.

Nolan, Peter

PD March 1995. TI Large Firms and Industrial Reform in Former Planned Economies: The Case of China. AA University of Cambridge. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9516; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG 33. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE L11, P21, O53. KW China. Industrial Reform. State Planning.
AB Most advisors to former planned economies argued that large-scale state industries needed to be closed down in a sweeping "surgical operation." Growth was seen as coming mainly from the privately-owned small-scale sector. In fact, large firms have been at the heart of capitalist dynamism. In China's industrial reform, alongside the much- studied dynamism of small industries, there has been a simultaneous powerful growth of large-scale state industry. State planning has played an important role in this process, through heavy protection from international competition and support for selected enterprises which it was hoped would benefit from economies of scale and scope. These enterprises have undergone gradual institutional change, with growing foreign investment, and slow movement towards multi-plant operation. This process is one in which there are emerging institutions resembling the modern business corporation, albeit with specific Chinese features.

PD June 1996. TI From State Factory to Modern Corporation? China's Shougang Iron and Steel Corporation Under Economic Reform. AA University of Cambridge. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9613; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG 73. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE L16, L61, L71, O32.
KW China. Ferrous Metals. Management Structures. Mergers.
AB In 1978 the Shougang Iron and Steel Corporation was a traditional large, integrated iron and steel producer, located at a single site in Beijing. Under China's economic reform policies, Shougang grew at high speed. Since 1978 it has dramatically changed the nature of its business operation. The source and nature of its growth have been a subject of great controversy both within China and outside. Section 1 outlines the growth of the Corporation since its establishment in 1918. The main body of the paper (Sections 2-6) analyzes the reasons for and nature of the Corporation's remarkable growth during the economic reform years since the late 1970's.

PD August 1996. TI Big Business with Chinese Characteristics: Two Paths to Growth of the Firm in China Under Reform. AA University of Cambridge. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9621; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG 38. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE L13, L60, N45, N65. KW China. Industry Reform. Big Business.
AB In the analyses of China's industrial reforms attention has focused on the declining role of the state sector. However, the emergence of the fast-growing market economy in China since the late 1970's has provided opportunities for traditional large plants to grow into more complex big businesses, stimulated especially by booming demand for their "upstream" products, such as steel and petrochemicals. Large firms emerged also from among the ranks of new entrants and small producers. There is negligible analysis of the institutional process of the emergence of large Chinese firms under system reform. This paper presents a case study of two such reforms, one of each type. These firms are strongly shaped by the peculiarities of the Chinese institutional setting.

Noor, Waseem

TI Is An Integrated Regional Labor Market Emerging In East and Southeast Asia? AU Bloom, David E.; Noor, Waseem.

Nordstrom, Hakan

TI Why do Pre-tax Car Prices Differ so Much Across European Countries? AU Flam, Harry; Nordstrom, Hakan.

Nowell, Eric

TI The Elixir of Growth: Trade, Non-Traded Goods and Development. AU Minford, Patrick; Nowell, Eric; Riley, Jonathan.

Nyborg, Kjell G.

PD April 1995. TI Discriminatory Versus Uniform Treasury Auctions: Evidence From When- Issued Transactions. AU Nyborg, Kjell G.; Sundaresan, Suresh. AA Nyborg: London Business School. Sundaresan: Columbia University. SR Center for Economic Policy Research, European Science Foundation Working Paper: 56; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB. PG 21. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE G28, H63. KW Treasury. Auctions. Uniform. Information Production.
AB We use when-issued transactions data to assess the

Treasury's current experiment with uniform auctions. When-issued volume is higher under uniform compared with discriminatory auctions, suggesting a higher information release, which should reduce pre-auction uncertainty and the winner's curse. Consistent with this, markups tend to be smaller under uniform auctions. Also, under uniform auctions, when-issued volatility falls after the auction and again after the outcome announcement. The pattern is the opposite for discriminatory auctions. This is further evidence that uniform auctions increase pre-auction information production and lower the short squeeze.

O'Brien, R. J.
TI Stochastic Seasonality and Daily Financial Time Series. **AU** Andrade, I. C.; Clare, A. D.; O'Brien, R. J.; Thomas, S. H.

O'Rourke, Kevin H.
PD January 1996. **TI** Trade, Migration and Convergence: An Historical Perspective. **AA** University College Dublin. **SR** Centre for Economic Policy Research, Discussion Paper: 1319; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 56. **PR** 4 pounds or $8.00. **JE** N33, N73, F15. **KW** Trade. Migration. Convergence.
AB Theory is ambiguous as to how globalization influences the relative performances of rich and poor countries. This paper surveys some recent literature on the historical links between international commodity and factor market integration and convergence. Focusing on the late nineteenth century, a period both of globalization and convergence, it shows that trade had an important impact on factor prices in some countries, just as Heckscher and Ohlin would have predicted. Migration was a more important force for convergence during this period, however. The analysis suggests that more attention should be paid to open economy forces when discussing convergence.

PD February 1996. **TI** Around the European Periphery 1870-1913: Globalization, Schooling and Growth. **AU** O'Rourke, Kevin H.; Williamson, Jeffrey G. **AA** O'Rourke: University College Dublin. Williamson: Harvard University. **SR** Centre for Economic Policy Research, Discussion Paper: 1343; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 72. **PR** 4 pounds or $8.00. **JE** F21, N13, N33, N73, F02. **KW** Convergence. Education. Globalization. History.
AB On average, the poor European periphery converged on the rich industrial core in the four or five decades prior to World War I. Some, like the three Scandinavian economies, used industrialization to achieve a spectacular convergence on the leaders, especially in real wages and living standards. Some, like Ireland, achieved convergence without industrialization. Some, like Italy, underwent a less spectacular catch-up, which was limited to the industrializing North. Some, like Iberia, actually fell back. What accounts for this variety? What role did trade and tariff policy play? What about emigration and capital flows? What about schooling? We offer a tentative assessment of these contending explanations and conclude that globalization was by far the dominant force accounting for convergence (and divergence) around the periphery. Some exploited it well, and some badly.

Obstfeld, Maurice
PD July 1995. **TI** The Mirage of Fixed Exchange Rates. **AU** Obstfeld, Maurice; Rogoff, Kenneth. **AA** Obstfeld: University of California, Berkeley and National Bureau of Economic Research. Rogoff: Princeton University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5191; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 31. **PR** $5.00. **JE** F31, E58, E65. **KW** Foreign Exchange. Fixed Rates. Peg. Credibility. Commitment.
AB This paper discusses the profound difficulties of maintaining fixed exchange rates in world of expanding global capital markets. Contrary to popular wisdom, industrialized-country monetary authorities easily have the resources to defend exchange parities against virtually any private speculative attack. But if their commitment to use those resources lacks credibility with markets, the costs to the broader economy of defending an exchange-rate peg can be very high. The dynamic interplay between credibility and commitment is illustrated by the 1992 Swedish and British crises and the 1994-95 Mexican collapse. We also discuss the small number of successful fixers.

PD January 1996. **TI** Models of Currency Crises with Self-Fulfilling Features. **AA** University of California, Berkeley. **SR** Centre for Economic Policy Research, Discussion Paper: 1315; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** E58, F33. **KW** Balance-of-Payments. Speculative Attack. Exchange Rate. Multiple Equilibria.
AB The discomfort a government suffers from speculation against its currency determines the strategic incentives of speculators and the scope for multiple currency-market equilibria. After describing an illustrative model in which high unemployment may cause an exchange rate crisis with self-fulfilling features, the paper reviews some other self-reinforcing mechanisms. Recent econometric evidence seems to support the practical importance of these mechanisms.

Ogilvie, Sheilagh
TI Universal Banks and German Industrialization: A Reappraisal. **AU** Edwards, Jeremy S.; Ogilvie, Sheilagh.

Orszag, J. Michael
PD January 1996. **TI** Hiring Risk and Labour Market Equilibrium. **AU** Orszag, J. Michael; Zoega, Gylfi. **AA** Birkbeck College. **SR** Centre for Economic Policy Research, Discussion Paper: 1314; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 24. **PR** 4 pounds or $8.00. **JE** J23, J41, J64. **KW** Hiring Costs. Quitting. Incentive Wages. Uncertainty.
AB This paper introduces asymmetric information about workers' abilities into the turnover-training model of Phelps (1994) and Salop (1979). This makes hiring an investment under uncertainty. We show that an increase in the level of uncertainty reduces the rate of hiring, increases the optimal wage, and reduces steady-state employment. We conclude that the optimal rate of hiring by firms with hiring pools that have a proportionately high number of young workers is lower, and the rate of employment among these workers lower, since it is more difficult to predict their future performance. Also, the use of

statistical discrimination is shown to increase employment because it reduces uncertainty about the ability of new hires. Conversely, anti- discrimination laws and quotas increase the rate of unemployment in this model.

Ortalo-Magne, Francois

PD March 1996. **TI** Measuring the Effects of Credit Market Imperfections: A US Farmland Application. **AA** London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 288; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 33. **PR** no charge. **JE** G12, Q14. **KW** Asset Prices. Fluctuations. Credit Constraints. Agricultural Land.
AB Agricultural credit market imperfections affect the dynamics of the farming sector, farmers' debt leverage, entry and exit. The question is to what extent these effects translate into amplified land price fluctuations. Real U.S. farmland prices tripled in the Seventies; they returned to their early Seventies value during the Eighties. The boom period appears to have been triggered by a sudden decrease in the real cost of borrowing and high expectations for the marketing of U.S. agricultural output. The unexpected rise in interest rates of the early Eighties started the bust period, as well as an unprecedented debt crisis in the farming sector. The main reason for farmland sales in the Eighties became financial difficulty, whereas land is generally sold due to the death or retirement of a farmer. This paper investigate how land price fluctuations interact with entry/exit and debt leverage of firms. In particular, we measure the contribution of a collateral requirement for borrowing to land price volatility. The collateral requirements is found to be critical to match observed patterns of the volume of transaction, methods of payment, reasons for sale, farm closure and of the distribution of the debt across firms. However, it does not have a significant impact on land price fluctuations.

Ottaviano, Gianmarco I. P.

TI The Geography of Multi-Speed Europe. **AU** Martin, Philippe; Ottaviano, Gianmarco I. P.

PD February 1996. **TI** Monopolistic Competition, Trade, and Endogenous Spatial Fluctuations. **AA** Universita di Bologna. **SR** Centre for Economic Policy Research, Discussion Paper: 1327; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** E32, F12, F22, R12. **KW** Monopolistic Competition. Increasing Returns. International Trade. Spatial Fluctuations.
AB This paper investigates the possibility of endogenous fluctuations in the international distribution of economic activities in the presence of increasing returns, monopolistic competition, trade and convex adjustment costs without allowing for any local productive externalities. Using a two-country dynamic general equilibrium model, it derives necessary and sufficient conditions for the existence of self-reinforcing relocation processes. It shows that the occurrence of multiple equilibria and endogenous fluctuations is associated with a high degree of increasing returns to scale as well as low trade and adjustment costs. Under such circumstances relocation processes are driven by self-fulfilling expectations.

Padilla, A. Jorge

TI Designing Institutions for International Monetary Policy Coordination. **AU** Morales, Antiono J.; Padilla, A. Jorge.

PD January 1996. **TI** Endogenous Communication Among Lenders and Entrepreneurial Incentives. **AU** Padilla, A. Jorge; Pagano, Marco. **AA** Padilla: CEMFI. Pagano: Universita degli Studi di Napoli Federico II. **SR** Centre for Economic Policy Research, Discussion Paper: 1295; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** D82, G21. **KW** Banking. Lending. Credit Bureaus. Entrepreneurial Incentives. Information Sharing.
AB When banks have an informational monopoly about their borrowers, the latter incentives can be thwarted by the fear that the return on their effort will be partly appropriated by their banks via high future interest rates. Banks can correct this incentive problem through a commitment to share with other lenders their private information about the quality of their customers. The resulting competitive pressure forces them to forgo opportunistic behavior in the future and encourages borrowers to perform better. As a result, information sharing among banks has two opposite effects on their profits: the borrowers' higher effort levels raise current profits (while each bank retains an informational advantage), but the fiercer competition triggered by information sharing lowers future profits. The trade-off between these two effects determines the banks' choice to sign an information-sharing agreement. Their decision affects the degree of banking competition, the level and time profile of interest rates charged to clientele and the volume of lending, as well as the welfare of borrowers.

Pagano, Marco

TI Non-Keynesian Effects of Fiscal Policy Changes: International Evidence and the Swedish Experience. **AU** Giavazzi, Francesco; Pagano, Marco.

TI Endogenous Communication Among Lenders and Entrepreneurial Incentives. **AU** Padilla, A. Jorge; Pagano, Marco.

PD February 1996. **TI** Why Do Companies Go Public? An Empirical Analysis. **AU** Pagano, Marco; Panetta, Fabio; Zingales, Luigi. **AA** Pagano: Universita degli Studi di Napoli Federico II. Panetta: Banca d'Italia. Zingales: University of Chicago. **SR** Centre for Economic Policy Research, Discussion Paper: 1332; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 64. **PR** 4 pounds or $8.00. **JE** G31, G32. **KW** Public Offering. Going Public. Stock Market.
AB This paper empirically analysis the determinants of an initial public offering (IPO) and the consequences of this decision on a company's investment and financial policy. We compare both the ex-ante and the ex- post characteristics of IPOs with those of a large sample of privately held companies of similar size. We find that: (i) the likelihood of an IPO is positively related to the market-to-book ratio prevailing in the relevant industrial sector and to a company's size; (ii) IPOs are followed by an abnormal reduction in profitability; (iii) the new equity capital raised upon listing is not used to finance subsequent investment and growth, but to reduce leverage; (iv) going public reduces the cost of bank credit; and (v) it is often associated with equity sales by controlling shareholders, and is followed by a higher turnover of control than for other companies.

Pakes, Ariel
TI   Voluntary Export Restraints On Automobiles: Evaluating a Strategic Trade Policy. AU   Berry, Steven; Levinsohn, James; Pakes, Ariel.

Palia, Darius
TI   The Political Economy of Branching Restrictions and Deposit Insurance: A Model of Monopolistic Competition Among Small and Large Banks. AU   Economides, Nicholas; Hubbard, R. Glenn; Palia, Darius.

Panetta, Fabio
TI   Why Do Companies Go Public? An Empirical Analysis. AU   Pagano, Marco; Panetta, Fabio; Zingales, Luigi.

Papageorgiou, Yorgos Y.
TI   International Migration Controls. AU   Myers, Gordon M.; Papageorgiou, Yorgos Y.

Papell, David H.
TI   The Great Wars, the Great Crash and Steady State Growth: Some New Evidence About an Old Stylized Fact. AU   Ben-David, Dan; Papell, David H.

TI   The Unit Root Hypothesis in Long-Term Output: Evidence from Two Structural Breaks for 16 Countries. AU   Ben-David, Dan; Lumsdaine, Robin L.; Papell, David H.

TI   Slowdowns and Meltdowns: Post-War Growth Evidence from 74 Countries. AU   Ben-David, Dan; Papell, David H.

Parigi, Bruno M.
TI   The Loan Size as a Commitment Device. AU   Khalil, Fahad; Parigi, Bruno M.

Perotti, Roberto
TI   Fiscal Expansion and Fiscal Adjustments in OECD Countries. AU   Alesina, Alberto; Perotti, Roberto.

Perron, Pierre
TI   Estimating and Testing Linear Models with Multiple Structural Changes. AU   Bai, Jushan; Perron, Pierre.

Pesaran, M. Hashem
PD   June 1995. TI   New Directions in Applied Macroeconomic Modelling. AU   Pesaran, M. Hashem; Smith Ron. AA   Pesaran: University of Cambridge. Smith: Birkbeck College. SR   University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9525; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG   30. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE   E32, E37, E47. KW   Model. Cointegration. Identification.
AB   This paper surveys a number of recent developments in dynamic macroeconomic modelling, including the identification and estimation of long-run cointegrating relations, efficient estimation of short-run dynamics and measurement of the effects of shocks and their persistence on the evolution of dynamic economic systems. It also discusses how these developments can be used to provide a new framework for macro- modelling. One unifying theme in these developments is to provide a new answer to an old question, the identification problem: how can economic theory be used to convert statistical estimates into structural models? Thus the paper considers previous answers to this question before reviewing the new developments.

TI   Testing for Unit Roots in Heterogeneous Panels. AU   Im, Kyung So; Pesaran, M. Hashem; Shin, Yongcheol.

TI   Growth and Convergence: A Multi-Country Empirical Analysis of the Solow Growth Model. AU   Lee, Kevin; Pesaran, M. Hashem; Smith, Ron.

TI   Decision-Making in the Presence of Heterogeneous Information and Social Interactions. AU   Binder, Michael; Pesaran, M. Hashem.

PD   January 1996. TI   The Role of Economic Theory in Modeling the Long Run. AA   University of Cambridge. SR   University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9612; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG   20. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE   C12. C13, C22, C32. KW   Long Run. Equilibrium. Cointegration. Error Correction.
AB   This paper argues for a closer link between the modelling of the long-run relations in applied economics and the intertemporal equilibrium from economic theory. It suggests formulating long-run relations as the steady-state solution of intertemporal economic optimization problems. For empirical analysis such steady-state solutions can be embedded within vector autoregressive models. The paper argues that as far as estimation and inference involving long-run parameters are concerned, the abandonment of the traditional methods in favor of the new unit-root cointegration procedures might have been premature.

TI   Stochastic Growth. AU   Binder, Michael; Pesaran, M. Hashem.

TI   A Decision-Theoretic Approach to Forecast Evaluation. AU   Granger, C. W. J.; Pesaran, M. Hashem.

TI   Multivariate Linear Expectations Models: Characterization of the Nature of the Solutions and Their Fully Recursive Computation. AU   Binder, Michael; Pesaran, M. Hashem.

Pesenti, Paolo A.
TI   A Centre-Periphery Model of Monetary Coordination and Exchange Rate Crises. AU   Buiter, Willem H.; Corsetti, Giancarlo; Pesenti, Paolo A.

Peterson, William
PD   March 1996. TI   Econometric Interpretations of the Normal Cost Pricing Hypothesis. AA   University of Cambridge. SR   University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9604; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG   26. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE   E31, C22. KW   Pricing Behavior. Normal Cost Hypothesis.
AB   This paper considers alternative interpretations of the Normal Cost Hypothesis of industrial pricing behavior. It shows first that the hypothesis can be interpreted as implying that actual unit costs are an endogenous variable, for which

some measure of normal unit costs is an appropriate instrument. Under this interpretations OLS estimates of a regression equation for price containing actual costs are inconsistent, and the normal cost hypothesis also implies overidentifying restrictions on the parameters of the underlying simultaneous equation system. The paper reinterprets the classic studies of Nield (1963) and Coutts, Godley and Nordhaus (1978) in the light of this argument. The paper also considers the implications of regarding the Normal Cost Hypothesis as a statement about the properties of the long-run equilibrium relationship between costs and prices, and applies cointegration techniques to the resulting equation for manufacturing output prices in the UK over the period 1975Q1-1992Q4. The results show that the equilibrium profit markup was influenced by measures of demand, and that consequently for this period the Normal Cost Hypothesis can be rejected.

Philipson, Tomas

TI   Disease Complementarities and the Evaluation of Public Health Interventions. AU   Dow, William H.; Holmes, Jessica; Philipson, Tomas; Sala-i-Martin, Xavier.

TI   Disease Complementarities and the Evaluation of Public Health Interventions. AU   Dow, William H.; Holmes, Jessica; Philipson, Tomas; Sala-i-Martin, Xavier.

TI   Death, Tetanus and Aerobics: The Evaluation of Disease-Specific Health Interventions. AU   Dow, William H.; Holmes, Jessica; Philipson, Tomas; Sala-i-Martin, Xavier.

TI   Death, Tetanus and Aerobics: The Evaluation of Disease-Specific Health Interventions. AU   Dow, William H.; Holmes, Jessica; Philipson, Tomas; Sala-i-Martin, Xavier.

Pinto, Brian

PD   December 1995. TI   Ownership and Corporate Control in Poland: Why State Firms Defied the Odds. AU   Pinto, Brian; van Wijnbergen, Sweder. AA   Pinto: International Finance Corporation. van Wijnbergen: University of Amsterdam. SR   Centre for Economic Policy Research, Discussion Paper: 1273; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   48. PR   4 pounds or $8.00. JE   G32, P21. KW   Privatization. State Enterprises. Corporate Governance. Corporate Control. Transition Economies.
AB   We present evidence of major adjustment efforts in the State sector in Poland well before privatization. Extensive survey evidence is used both to establish this point and to find an answer to the question why managers instigated such reforms in spite of the absence of an effective ownership structure. We find both the government and, importantly, commercial banks, exercised strong governance: the government through its refusal to give open-ended subsidies and a tax-based wage policy, the effectiveness of which we establish using econometric techniques; and the banks through their discretion in allocating new funds. We also show that banks started to discipline their borrowers only after strong governance reforms for the banks themselves were instituted.

Pischke, Jorn-Steffen

TI   A Statistical Analysis of Crime Against Foreigners in Unified Germany. AU   Krueger, Alan B.; Pischke, Jorn-Steffen.

Pollitt, Michael G.

PD   April 1995. TI   Ownership and Efficiency in Nuclear Power Production. AA   University of Cambridge. SR   University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9518; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG   26. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE   L94, C13. KW   Nuclear Power. Data Envelopment. Production. Efficiency.
AB   This paper uses Data Envelopment Analysis to examine the relative productive efficiency of a sample of 78 publicly and privately owned nuclear power plants operating the year 1989. The sample includes 13 UK nuclear power plants. Linear programs are used to calculate a variety of plant-specific efficiency scores including measures which attempt to adjust for vintage effects. Non-parametric and Tobit/OLS analysis is employed to test the null hypothesis that ownership has no effect on productive efficiency. The results tentatively suggest that the UK plants in 1989 could have been expected to reduce costs through significantly lower staffing levels.

TI   The Restructuring and Privatization of the CEGB: Was It Worth It? AU   Newbery, David M.; Pollitt, Michael G.

Portugal, Pedro

TI   The Survival of New Plants: Start-Up Conditions and Post-Entry Evolution. AU   Guimaraes, Paulo; Mata, Jose; Portugal, Pedro.

Powell, Andrew

TI   Cartels, Contracts and Centralization: The Transition to Futures Trading for Primary Commodities. AU   Haskel, Jonathan; Powell, Andrew.

Prasad, Eswar

TI   Currency Unions, Economic Fluctuations and Adjustment: Some Empirical Evidence. AU   Bayoumi, Tamim; Prasad, Eswar.

Pratten, Cliff

PD   June 1995. TI   The Effects of Employment Action. AU   Pratten, Cliff; Ryan, Paul. AA   University of Cambridge. SR   University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9530; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG   56. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE   J18, J31, J68. KW   Employment Action. Unemployment. Great Britain.
AB   This paper reports a study of the effects of Employment Action (EA), a government initiative introduced in 1991 and designed to increase the help and support available to long-term unemployed people to maintain their work skills. Employment Action gave the Training and Enterprise Councils the scope to offer temporary work to those who did not need, or who did not want, vocational training. The report describes the scope and administration of the initiative, and the projects on which participants worked. It also reports estimates of the productivity of EA participants and the community benefits generated by the projects.

Puga, Diego

PD December 1995. **TI** Preferential Trading Arrangements and Industrial Location. **AU** Puga, Diego; Venables, Anthony J. **AA** London School of Economics. **SR** Centre for Economic Policy Research, Discussion Paper: 1309; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 40. **PR** 4 pounds or $8.00. **JE** F12, F15, R12. **KW** Integration. Customs Union. Hub-and-Spoke. Agglomeration.
AB This paper considers the location effects of geographically- discriminatory trade policy. A preferential move towards a customs union attracts industry to the integrating countries. When internal barriers fall below some critical level, input-output links between imperfectly competitive firms lead some customs union countries to gain industry at the expense of others. Closer integration can bring converging industrial development to the union. A hub-and-spoke arrangement favors location in the hub, with better reciprocal access to spoke nations than to each other. Further liberalization induces agglomeration in the hub and may trigger disparities between the spokes.

PD February 1996. **TI** The Spread of Industry: Spatial Agglomeration in Economic Development. **AU** Puga, Diego; Venables, Anthony J. **AA** London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 279; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 35. **PR** no charge. **JE** F12, O14, R12. **KW** Location. Agglomeration. Industrialization. Linkages.
AB This paper describes the speed of industry from country to country as a region grows. All industrial sectors are initially agglomerated in one country, tied together by input-output links between firms. Growth expands industry more than other sectors, bidding up wages in the country in which industry is clustered. At some point some firms start to move away, and when a critical mass is reached industry expands in another country, raising wages there. We establish the circumstances in which industry spills over, which sectors move out first, and which are more important in triggering a critical mass.

Quah, Danny T.

PD March 1995. **TI** Measuring Core Inflation. **AU** Quah, Danny T.; Vahey, Shaun P. **AA** Quah: London School of Economics. Vahey: Bank of England. **SR** Centre for Economic Policy Research, Discussion Paper: 1153; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 32. **PR** 4 pounds or $8.00. **JE** C32, E32. **KW** Core. Inflation. Vector Autoregression. Dynamic Restrictions.
AB In this paper we argue that measured Retail Price Index inflation is conceptually mismatched with core inflation: the difference is more than just "measurement error". We propose a technique for measuring core inflation based on an explicit long-run economic hypothesis. Core inflation is defined as that component of measured inflation that has no (medium-to) long-run impact on real output -- a notion that is consistent with the vertical long-run Phillips curve interpretation of the co-movements in inflation and output. We construct a measure of core inflation by placing dynamic restrictions on a vector autoregression (VAR) system.

PD September 1995. **TI** Aggregate and Regional Disaggregate Fluctuations. **AA** London School of Economics. **SR** Centre for Economic Policy Research, Discussion Paper: 1236; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 40. **PR** 4 pounds or $8.00. **JE** C32, C33, E32. **KW** Aggregate Disturbance. Business Cycle. Distribution Dynamics. Regional Fluctuation. Stochastic Kernel.
AB This paper models fluctuations in regional disaggregates as a non- stationary, dynamically evolving distribution. Doing so enables the study of the dynamics of aggregate fluctuations jointly with those of the rich cross-section of regional disaggregates. For the United States, the leading state (regardless of which it happens to be) contains strong predictive power for aggregate fluctuations. This effect is difficult to understand if only aggregate disturbances affect aggregate business cycles through aggregate propagation mechanisms. Instead, a better picture might be one of a 'wave' of regional dynamics, rippling across the national economy.

PD January 1996. **TI** Regional Convergence Clusters Across Europe. **AA** London School of Economics. **SR** Centre for Economic Policy Research, Discussion Paper: 1286; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 24. **PR** 4 pounds or $8.00. **JE** C22, C23, D63, O33, O57. **KW** Conditioning. Distribution Dynamics. Economic Geography. Location.
AB Per capita incomes across European regions are not equal and do not stay constant; regional income distributions fluctuate over time. Such a process could have many possible limiting outcomes: complete equality (convergence), stratification, and continually increasing inequality are but three distinct possibilities. This paper asks if nation-state, macro factors and physical-geography spillover effects help explain the observed distribution dynamics across European regions. Geographical factors are found to matter more than national ones; but both are important for explaining inequality dynamics.

PD February 1996. **TI** Regional Convergence Clusters Across Europe. **AA** London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 274; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 14. **PR** no charge. **JE** C22, C23, D31, O42, O57. **KW** Conditioning. Dematerialization. Distribution Dynamics. Economic Geography. Knowledge.
AB See Danny T. Quah. "Regional Convergence Clusters Across Europe", Centre for Economic Policy Research, Discussion Paper: 1286; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom.

PD February 1996. **TI** Aggregate and Regional Disaggregate Fluctuations. **AA** London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 275; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 31. **PR** no charge. **JE** C32, C33, E32. **KW** Aggregate Disturbance. Business Cycle. Distribution Dynamics. Regional Fluctuation. Stochastic Kernel.

AB See Danny T. Quah. "Aggregate and Regional Disaggregate Fluctuations", London School of Economics, Centre for Economic Policy Research, Discussion Paper: 1236; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom.

PD March 1996. TI Twin Peaks: Growth and Convergence in Models of Distribution Dynamics. AA London School of Economics. SR London School of Economics, Centre for Economic Performance, Discussion Paper: 280; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. PG 13. PR no charge. JE C23, O42, O41, O57. KW Catch Up. Convergence Club. Divergence. Intra-Distribution Dynamics Polarization.

AB Convergence concerns poor economies catching up with rich ones. At issue is what happens to the cross sectional distribution of economies, not whether a single economy tends towards its own steady state. It is the latter, however, that has preoccupied the traditional approach to convergence analysis. This paper describes an alternative body of research that overcomes this shortcoming in the traditional approach. The new findings -- on persistence and stratification, on the formation of convergence clubs, and on the distribution polarizing into twin peaks of rich and poor -- suggest the relevance of a class of theoretical ideas, different from those surrounding the production- function accounting traditionally favored.

PD May 1996. TI The Invisible Hand and the Weightless Economy. AA London School of Economics. SR London School of Economics, Centre for Economic Performance Occasional Paper: 12; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. PG 12. PR no charge. JE D31, O33. KW Dematerialization. Inequality. Infinite Expansibility. Stratification. Superstar Technology.

AB As modern economies grow, production and consumption shift towards economic value that reside in bits and bytes, and away from that embedded in atoms and molecules. This paper discusses the implications of such changes for the nature of ongoing growth in advanced economies and for the dynamics of income distributions -- polarization, inequality -- across people within societies.

TI Convergence Endogenous Growth and Productivity Disturbance. AU Leung, C.; Quah, Danny T.

Quigley, John M.
TI Mortgage Default and Low Downpayment Loans: The Costs of Public Subsidy. AU Deng, Yongheng; Van Order, Robert; Quigley, John M.

Rainwater, L.
TI Income Distribution in European Countries. AU Atkinson, A. B.; Rainwater, L.; Smeeding, T.

Rankin, N.
PD August 1995. TI Nominal Rigidity and Monetary Uncertainty in a Small Open Economy. AA University of Warwick. SR Centre for Economic Policy Research, Discussion Paper: 1231; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 40. PR 4 pounds or $8.00. JE E44, F41. KW Monetary Uncertainty. Nominal Rigidity. Exchange Rate. Risk Premium.

AB A dynamic stochastic model of a small open monetary economy with infinitely-lived optimizing households is constructed. There are temporary nominal rigidities in the labor market, while in goods and asset markets prices are flexible. Optimizing behavior in the foreign country is also modeled. The home country is small relative to the foreign country, so the latter is effectively a closed economy. We show that whereas in the closed economy an anticipated increase in monetary variability has no effect on current macroeconomic variables, in the small open economy it weakens the current exchange rate and expands current output.

Rauch, James E.
PD July 1995. TI Choosing a Dictator: Bureaucracy and Welfare in Less Developed Polities. AA University of California, San Diego and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5196; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 26. PR $5.00. JE D73, O17. KW Public Administration. Corruption. Development.

AB Recent work in the sociology of economic development has emphasized the establishment of a professional government bureaucracy in place of political appointees as an important component of the institutional environment in which private enterprise can flourish. I focus on the role that internal promotion can play in bringing to power individuals who highly value (relative to income) imposition of their preferences over collective goods on the public. Such individuals restrain the corruption of their subordinates as a byproduct of their efforts to implement their preferences using tax revenue. Within this hierarchical framework I investigate the effects of varying subordinate compensation levels and of recruiting them meritocratically.

Ravin, Morten O.
PD June 1996. TI Permanent and Transitory Shocks, and the UK Business Cycle. AA University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9627; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. website: www.soton.ac.uk/discp.html. PG 27. PR no charge. JE E32, E37. KW Transitory Shocks. Permanent Shocks. Growth Model. Expected Changes.

AB In this paper the business cycle properties of UK data are investigated using a VAR technique. A Real Business cycle model is formulated. The model includes both permanent and transitory shocks to technology. The business cycle properties of the data and the model are investigated by deriving the expected changes over various forecast horizons from a VAR model. It is found, contrary to evidence in Rotemberg and Woodford (1994), that the model can account for many features of the data and that temporary shocks are pertinent in order to explain the business cycle moments. The main difference between theory and data is present in hours worked.

Ravn, Morten O.
PD July 1995. TI Minimum Wages: Curse or Blessing? AU Ravn, Morten O.; Sorensen, Jan Rose. AA University of Aarhus. SR Centre for Economic Policy Research, Discussion Paper: 1212; Centre for Economic Policy Research,

25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** D90, E24, I29. **KW** Overlapping Generations. Human Capital Accumulation. Intergenerational Externality. Minimum Wages. **AB** In this paper we consider the effects of minimum wage legislation in an overlapping generations model. In our model there is an intergenerational externality in the accumulation of human capital since the production of human capital of every new generation depends positively on the average human capital stock of the preceding generation. This externality means that the competitive equilibrium allocation is sub-optimal, and every generation accumulates too little human capital. We show that in the case of identical agents, a minimum wage above the market wage can increase human capital accumulation and welfare. Furthermore, the first-best allocation can be attained through the implementation of a minimum wage. We introduce a cross-agent heterogeneity such that agents differ in their ability to produce human capital. In this case a (binding) minimum wage may produce unemployment, and it may increase or decrease human capital accumulation.

Razin, Assaf

PD August 1995. **TI** Can Capital Controls Alter the Inflation-Unemployment Tradeoff? **AU** Razin, Assaf; Yuen, Chi-Wa. **AA** Razin: Tel Aviv University and National Bureau of Economic Research. Yuen: University of Hong Kong. **SR** National Bureau of Economic Research Working Paper: 5239; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 13. **PR** $5.00. **JE** F21, E63, F41. **KW** Mundell-Fleming. Capital Flows. Phillips Curve. Unemployment.
AB It is well-known that, in the Mundell-Fleming model, capital mobility creates a channel through which permanent (transitory) shocks to aggregate demand such as fiscal and trade shocks are completely (partially) neutralized by the response of the real exchange rate. An important policy implication of the model which went largely unnoticed is how the transmission of these shocks under different degrees of capital mobility may alter the inflation-unemployment tradeoff, i.e., the Phillips Curve. In the context of the stochastic Mundell-Fleming model, we show that capital controls reduce the output/employment variations at the expense of bigger variations in inflation rates. When the policy maker puts heavier weight on stable employment than on stable inflation, therefore, his/her objective can be attained more easily under capital controls.

PD October 1995. **TI** Can Capital Controls Alter the Inflation-Unemployment Trade-Off? **AU** Razin, Assaf; Yuen, Chi-Wa. **AA** Razin: Tel Aviv University. Yuen: University of Hong Kong. **SR** Centre for Economic Policy Research, Discussion Paper: 1252; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 24. **PR** 4 pounds or $8.00. **JE** E24, F21, F32. **KW** Inflation-Unemployment Trade-off. Capital Controls. Stochastic Mundell-Fleming Model. Supply Shock. Demand Shock. Money Shock.
AB See Assaf Razin and Chi-Wa Yuen. "Can Capital Controls Alter the Inflation-Unemployment Tradeoff", National Bureau of Economic Research Working Paper: 5239; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138.

PD February 1996. **TI** Labour Mobility and Fiscal

Coordination: Setting Growth Agenda for an Economic Union. **AU** Razin, Assaf; Yuen, Chi-Wa. **AA** Razin: Tel Aviv University. Yuen: University of Hong Kong. **SR** Centre for Economic Policy Research, Discussion Paper: 1342; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** E21, E32, F33, O33, O41. **KW** Human Capital. Knowledge Spillovers. Labor Mobility. Capital Mobility. Education Subsidies.
AB Using a human-capital-based growth model, we show the essential role of labor mobility and cross-country tax harmonization in equalizing income levels of countries that start off from different initial income positions. Knowledge spillovers cum labor mobility are the driving forces behind the income level equalization process. In the absence of tax harmonization within an economic union, equality of income levels is not achievable. Coordination of educational subsidies necessary for the internalization of knowledge spillovers may or may not be necessary. These considerations constitute the basis for our efficient growth agenda for an economic union such as the European Union.

Rebelo, Sergio

PD July 1995. **TI** Real Effects of Exchange Rate-Based Stabilization: An Analysis of Competing Theories. **AU** Rebelo, Sergio; Vegh, Carlos A. **AA** Rebelo: University of Rochester and National Bureau of Economic Research. Vegh: International Monetary Fund. **SR** National Bureau of Economic Research Working Paper: 5197; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 34. **PR** $5.00. **JE** D84, F33, F31. **KW** Foreign Exchange. Peg. Expectations. Money Illusion.
AB This paper uses a unified analytical framework to assess, both qualitatively and quantitatively, the relevance of the different hypotheses that have been proposed to explain the real effects of exchange rate-based stabilizations. The four major hypotheses are: (i) the supply-side effects associated with an inflation decline; (ii) the perception that the exchange rate peg is temporary; (iii) the fiscal adjustments that tend to accompany the peg; and (iv) the existence of nominal rigidities in wages or prices.

PD August 1995. **TI** Real Effects of Exchange-Rate-Based Stabilization: An Analysis of Competing Theories. **AU** Rebelo, Sergio; Vegh, C. A. **AA** Rebelo: University of Rochester. Vegh: International Monetary Fund. **SR** Centre for Economic Policy Research, Discussion Paper: 1220; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 64. **PR** 4 pounds or $8.00. **JE** F41. **KW** Inflation. Stabilization. Fixed Exchange Rates.
AB See Sergio Rebelo and Carlos A. Vegh. "Real Effects of Exchange Rate-Based Stabilization: An Analysis of Competing Theories", National Bureau of Economic Research Working Paper: 5197; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138.

TI Capital Utilization and Returns to Scale. **AU** Burnside, C.; Eichenbaum, Martin; Rebelo, Sergio.

Redmond, Gerry
PD December 1995. **TI** How Has Tax and Social Security Policy Changed Since 1978? A Distributional Analysis.

AU Redmond, Gerry; Sutherland, Holly. AA University of Cambridge. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9541; Department of Applied Economics, University of Cambridge, Sidgwick Avenue,Cambridge CB3 9DE, United Kingdom. PG 56. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE D31, H24, H55. KW Income Distribution. Tax Policy. Social Security. UK. Households.
AB The period 1978 to 1994 saw a marked widening of the distribution of incomes in the UK. This study examines some of the influences on this transformation, in the area of discretionary changes made by positive government action in personal tax and social security policies during the period. We analyze the impact of these policy changes on average taxes and benefits and on the distribution of household incomes, using the tax-benefit model POLIMOD and a single representative household dataset. We identify four types of change in policy and focus on their relative impact on household incomes: major structural reforms, budgetary changes to rates and schedules, indexation of thresholds, limits and allowances, and the impact of the uprating convention which adjusts for changes in prices or incomes. Under price indexation we find that the regimes of 1978/9 and 1994/5 have approximately the same aggregate impact on households. Furthermore, relative to the growth in average incomes (rather than prices), we find that the changes in policy regimes over the period have substantially disadvantaged low income households.

Reed, Howard
TI Intergenerational Mobility in Britain. AU Dearden, Lorraine; Machin, Stephen; Reed, Howard.

Reichlin, Lucrezia
TI Let's Get Real: A Dynamic Factor Analytical Approach to Disaggregated Business Cycle. AU Forni, Mario; Reichlin, Lucrezia.

TI Dynamic Common Factors in Large Cross-Sections. AU Forni, Mario; Reichlin, Lucrezia.

Reinert, Kenneth A.
TI The Role of Services in the Structure of Production and Trade: Stylized Facts From a Cross-Country Analysis. AU Francois, Joseph F.; Reinert, Kenneth A.

Revenga, Ana
TI The Effects of Trade Policy Reform: What Do We Really Know? AU Harrison, Ann; Revenga, Ana.

Rice, Patricia G.
PD February 1996. TI Participation in Full-Time Further Education in England and Wales: An Analysis of Post-War Trends. AU Rice, Patricia G.; McVicar, Duncan. AA University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9604; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. website: www.soton.ac.uk/discp.html. PG 38. PR no charge. JE I21, J24. KW Human Capital. Further Education. Academic Performance. Cointegration Analysis.
AB The last decade has seen the participation rate in further education among 16-17 years olds in England and Wales increase markedly. Views differ sharply as to whether this signals the success of recent changes in education policy or is mainly a consequence of the depressed state of demand for labor. In this paper, we address these issues through an analysis of the time-series evidence. Adopting a framework of analysis based on human-capital theory, we identify a set of variables that are thought to be influential in determining the participation rate in further education. Analysis of the time-series for the post-war period establish that these variables form cointegrated sets, and the estimated cointegrating vectors are consistent with theory. The results show that labor market conditions have played an important role in determining the educational outcomes within the 16 year-old cohort. Within the female cohort, in particular, changes in the pattern of labor demand has been influential in promoting the recent marked improvement in the levels of academic performance.

TI Wages and Employment in Britain Between the Wars: Quarterly Evidence from the Shipbuilding Industry. AU Gazeley, Ian; Rice, Patricia G.

Riley, Jonathan
TI The Elixir of Growth: Trade, Non-Traded Goods and Development. AU Minford, Patrick; Nowell, Eric; Riley, Jonathan.

Robin, Jean-Marc
PD April 1995. TI Tests of Rank. AU Robin, Jean-Marc; Smith, Richard J. AA Robin: INRA and CREST-INSEE. Smith: University of Cambridge. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9521; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG 42. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE C12, C15. KW Rank. Root-T . Consistent Estimator. Chi-Squared. Asymptotics.
AB This paper considers a test for the rank of a matrix for which a root-T consistent estimator is available and where the variance matrix of whose limiting normal distribution may be neither of full nor of known rank. The test statistic is based on certain estimated characteristic roots. The limiting null distribution of the test statistic is a weighted sum of independent chi-squared variables. This limiting distribution may be simply and consistently estimated. Other statistics based on the principles of Minimum Chi-Squared and Asymptotic Least Squares are also discussed whose limiting null distribution is chi-squared but which require that the rank of the limiting variance matrix of the root-T consistent estimator is known. Some simulation evidence is presented for the characteristic root test and statistics based on Asymptotic Least Squares.

Robinson Peter
TI Lifelong Learning. AU Layard, Richard; Robinson Peter; Steedman, Hilary.

Rodrik, Dani
PD July 1995. TI Why is there Multilateral Lending? AA Columbia University. SR Centre for Economic Policy Research, Discussion Paper: 1207; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB,

United Kingdom. **PG** 56. **PR** 4 pounds or $8.00.
JE F21, F34, F35. **KW** Multilateral Lending. Foreign Aid.
International Financial Institutions.

AB Why should multilateral lending exist in a world where private capital markets are well developed and governments have their own bilateral aid programs? If lending by the World Bank, IMF, and regional development banks has an independent rationale, it must rest on advantages generated by the multilateral nature of these institutions. There are in principle two such advantages. First, since information on the quality of investment environments in different countries is in many ways a collective good, multilateral agencies are in a better position to internalize the externalities that may arise. This creates a rationale for multilateral lending in terms of information provision, and particularly in terms of monitoring government policies in recipient countries. Second, as long as multilateral agencies retain some degree of autonomy from the governments that own them, their interaction with recipient countries, while official in nature, can remain less politicized than inter-governmental links. This in turn endows multilateral agencies with an advantage in the exercise of conditionality, that is in lending that is conditional on changes in government policies. Multilateral lending may be required to make these agencies tasks incentive compatible.

PD November 1995. **TI** Trade Strategy, Investment and Exports: Another Look at East Asia. **AA** Columbia University. **SR** Centre for Economic Policy Research, Discussion Paper: 1305; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 45. **PR** 4 pounds or $8.00. **JE** F14, F43, O53. **KW** Trade Policy. Investment. East Asia.

AB The export booms in South Korea and Taiwan starting in the early 1960s are anomalous when compared with later export booms in other, non- East Asian countries such as Chile and Turkey. First, these booms have taken place in the context of comparatively small changes in relative prices in favor of exportables. Second, they have been associated from the start with booms in investment. This paper offers an argument and a formal model to suggest that exports in East Asia may have been driven by an increase in the profitability of investment, with outward orientation a consequence of the investment boom rather than its instigator. In economies like South Korea and Taiwan, an increase in investment required an increase in imports of capital goods. Since savings rose alongside the desired investment, the investment boom was accompanied by a boom in both exports and imports. Moreover, this could happen with a relatively small change in the relative price of exportables.

Rogers, Carol Ann

TI Long-Term Growth and Short-Term Economic Instability. **AU** Martin, Philippe; Rogers, Carol Ann.

Rogoff, Kenneth

TI The Mirage of Fixed Exchange Rates. **AU** Obstfeld, Maurice; Rogoff, Kenneth.

Roland, Gerard

TI The Break up of Nations: A Political Economy Analysis. **AU** Bolton, Patrick; Roland, Gerard.

TI Bank Restructuring and Soft Budget Constraints in Financial Transition. **AU** Berglof, Erik; Roland, Gerard.

Rose, Andrew K.

PD August 1995. **TI** After the Deluge: Do Fixed Exchange Rates Allow Intertemporal Volatility Tradeoffs? **AA** University of California, Berkeley and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5219; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** not available. **PR** $5.00. **JE** F31, F33, E32, E31. **KW** Foreign Exchange. Fixed Rates. Volatility.

AB This paper addresses the issue of whether regimes of fixed exchange rates are a mechanism for shifting volatility inter-temporally. Using a panel of data covering twenty industrialized countries from 1959 through 1993, I examine the volatility's of a host of real and monetary variables. Graphical and statistical examination of the periods around 33 floatations and 81 devaluations reveals little evidence of significant increases in volatility following these events.

PD September 1995. **TI** After the Deluge: Do Fixed Exchange Rates Allow Inter-Temporal Volatility Trade-Offs? **AA** University of California, Berkeley. **SR** Centre for Economic Policy Research, Discussion Paper: 1240; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 24. **PR** 4 pounds or $8.00. **JE** F31, F33. **KW** Flotation. Devaluation. Panel. Macroeconomic. Standard Deviation.

AB See Andrew K. Rose. "After the Deluge: Do Fixed Exchange Rates Allow Intertemporal Volatility Tradeoffs?" National Bureau of Economic Research Working Paper: 5219; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138.

TI Currency Crashes in Emerging Markets: Empirical Indicators. **AU** Frankel, Jeffrey A.; Rose, Andrew K.

Rosenkranz, Stephanie

PD January 1996. **TI** Simultaneous Choice of Process and Product Innovation. **AA** Wissensschaftszentrum Berlin. **SR** Centre for Economic Policy Research, Discussion Paper: 1321; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** C72, L13, L15, O31. **KW** Product Innovation. Process Innovation. Cooperation. Market Size. Research.

AB This paper investigates the strategic decisions of two identical duopolists, who choose production technology as well as product differentiation through their R&D investment. The product market is characterized by heterogeneous Cournot competition. Firms have an incentive to invest in both process innovation and product innovation. The optimal division between these two kinds of R&D activities changes with market size. The higher consumers' willingness to pay, the more firms' investment is driven to product differentiation. If firms coordinate their R&D activities and share R&D costs, but remain rivals in the product market, they will reduce costs and differentiate their products more than under competition. The optimal proportion of R&D investment is driven more to product innovation than under R&D competition. It can be shown that welfare is increased if firms coordinate their research activities and share R&D costs. When firms cooperate, but do not share their R&D costs, welfare is only enhanced if product innovations are not too expensive.

Rubinstein, Ariel

TI What Motives Should Guide Referees? On the Design of Mechanisms to Elicit Opinions. **AU** Glazer, Yacob; Rubinstein, Ariel.

Ruhm, Christopher J.

PD July 1995. **TI** Alcohol Policies and Highway Vehicle Fatalities. **AA** University of North Carolina, Greensboro and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5195; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 20. **PR** $5.00. **JE** K32, K42, H23. **KW** Alcohol. Highway Fatalities. Beer Tax.

AB This study investigates the impact of beer taxes and a variety of alcohol-control policies on motor vehicle fatality rates, using fixed- effect models with data for the 48 contiguous states over the 1982 through 1988 time period. The econometric findings highlight the fragility of the parameter estimates to reasonable changes in model specifications. Special attention is paid to omitted variables biases resulting from failing to adequately control for grassroots efforts to reduce drunk driving, the enactment of other laws which simultaneously operate to reduce highway fatalities, and the economic conditions existing at the time of the legislation. In the preferred specifications, most of the regulations have little or no impact on traffic mortality. By contrast, higher beer taxes are associated with reductions in crash deaths and this result is relatively robust across specifications. These findings suggest the limited ability of further regulatory action to reduce drunk-driving but point to a potentially significant role for higher alcohol taxes.

Russell, Thomas

TI The Causes and Consequences of Rate Regulation in the Auto Insurance Industry. **AU** Jaffee, Dwight M.; Russell, Thomas.

Ryan, Paul

TI The Effects of Employment Action. **AU** Pratten, Cliff; Ryan, Paul.

Saffer, Henry

PD August 1995. **TI** The Demand for Illicit Drugs. **AU** Saffer, Henry; Chaloupka, Frank J. **AA** Saffer: National Bureau of Economic Research. Chaloupka: University of Illinois and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5238; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** not available. **PR** $5.00. **JE** I18, D18. **KW** Drug Legalization. Decriminalization. Marijuana. Cocaine. Heroin.

AB The purpose of this paper is to estimate the effects of heroin prices, cocaine prices and marijuana decriminalization on the demand for these three drugs, respectively. There are few prior empirical studies in this area because data have been difficult to acquire. This paper makes use of newly available data on drug prices and is the first to link these data to a sample of 49, 802 individuals from the National Household Survey of Drug Abuse. The new drug price data comes from the Drug Enforcement Agency. The results show that the participation price elasticity for heroin is about -.90 to -.80 and that the participation price elasticity for cocaine is about -.55 to -.36. Marijuana decriminalization was also found to increase the probability of marijuana participation by about 4 to 6 percent. The price elasticity for heroin is estimated at about -1.80 to -1.60 and for cocaine at about -1.10 to -.72. It is estimated that legalization would lead to about a 100 percent increase in the quantity of heroin consumed and about a 50 percent increase in the quantity of cocaine consumed.

Saint-Paul, Gilles

PD April 1995. **TI** Demand-Driven Financial Development. **AA** DELTA, Paris. **SR** Centre for Economic Policy Research, Discussion Paper: 1160; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** O16, F11, G18, G24. **KW** Growth. Deficits. Privatization. Saving. Crowding Out.

AB The historical record suggests that economic development is associated with the rise of the financial sector. This rise is often triggered by exogenous events such as large budget deficits generated by wars or the availability of large investment projects such as railroads. This paper discusses the role played by such demand factors in financial development and how they favor growth.

PD June 1995. **TI** A Framework for Analysing the Political Support for Active Labour Market Policy. **AA** DELTA, Paris. **SR** Centre for Economic Policy Research, Discussion Paper: 1205; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** D72, D78, E24, J68. **KW** Unemployment. Wage Formation. Labor Policy. Political Economy.

AB We develop a general equilibrium analysis of the impact of active labor market policy on unemployment, wages and the welfare of the employed. This framework is used to assess the political support in favor of such policies and to relate it to the working of such policies and other parameters characterizing the economic environment. The main finding is that if the employed have little exposure to unemployment and if the demand for unskilled labor is inelastic, there may be political support for policies which actually raise the equilibrium level of total unemployment.

PD August 1995. **TI** Reforming Europe's Labour Market: Political Issues. **AA** DELTA, Paris. **SR** Centre for Economic Policy Research, Discussion Paper: 1223; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 24. **PR** 4 pounds or $8.00. **JE** D72, D78, E24, J68. **KW** Unemployment. Labor Market Institutions. Political Economy. Income Redistribution.

AB In this paper we study the political issues associated with reform in the European labor market. We first discuss the role played by labor market rigidities in European society, and argue that reform is a difficult task because many regulations and rigidities benefit the majority of the employed. We conclude by analyzing possible strategies for successful labor market reform.

PD November 1995. **TI** Labour Market Institutions and the Cohesion of the Middle Class. **AA** DELTA, Paris. **SR** Centre for Economic Policy Research, Discussion Paper: 1298; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 15. **PR** 4 pounds or $8.00. **JE** E24, E62, E64, H24, J31. **KW** Unemployment. Wage Rigidity. Taxation. Social

Cohesion. Income Distribution.

AB We develop a simple model to study how relative wage rigidity affects equilibrium taxation. It is argued that relative wage rigidity, by compressing incomes within the middle class, leads to a lower degree of redistributive conflict within the politically important core of society, even though income inequality may increase for society as a whole. In the model, people vote first on wage rigidity and second on redistributive taxation. The rigid society has a lower tax rate than the flexible one. it is supported by the "middle-class" in the first stage, while the poor, the rich and the unemployed suffer from it.

PD January 1996. **TI** Employment Protection, International Specialization, and Innovation. **AA** DELTA, Paris. **SR** Centre for Economic Policy Research, Discussion Paper: 1338; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 28. **PR** 4 pounds or $8.00. **JE** F12, F17, J21, J32, O13. **KW** Employment Protection. Firing Costs. Innovation. Research. International Trade.

AB This paper develops a model to analyze the implications of firing costs on incentives for Research and Development (R&D) and international specialization. The key idea is that, to avoid paying firing costs, the country with a rigid labor market will tend to produce relatively secure goods, at late stages in their product life cycles. With international trade, an international product cycle emerges where, roughly, new goods are first produced in the low-firing-cost country, and then move to the high-firing-cost country. The paper shows that in the closed economy, an increase in firing costs does not necessarily imply a reduction in R&D; it crucially depends on the riskiness of R&D activity relative to productive activity. In the open economy, however, an increase in firing costs is much more likely to reduce R&D intensity.

Sala-i-Martin, Xavier

PD October 1995. **TI** The Classical Approach to Convergence Analysis. **AA** Yale University and Universitat Pompeu Fabra. **SR** Centre for Economic Policy Research, Discussion Paper: 1254; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** O41, O51, O52, O53. **KW** Convergence. Regional Growth. Neoclassical Growth. Endogenous Growth.

AB The concepts of s-convergence, absolute b-convergence and conditional b-convergence are discussed in this paper. The concepts are applied to a variety of data sets that include a large cross section of 110 countries, the sub-sample of OECD countries, the states within the United States, the prefectures of Japan and the regions within several European countries. Except for the large cross section of countries, all data sets display strong evidence of s-convergence and absolute b-convergence. The cross section of countries exhibits s-divergence and conditional b-convergence. The speed of conditional convergence, which is very similar across data sets, is close to 2% per year.

TI Technological Diffusion, Convergence and Growth. **AU** Barro, Robert J.; Sala-i-Martin, Xavier.

Salkever, David S.

PD September 1995. **TI** Economic Issues In Vaccine Purchase Arrangements. **AU** Salkever, David S.; Frank, Richard G. **AA** Salkever: Johns Hopkins and National Bureau of Economic Research. Frank: Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5248; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** not available. **PR** $5.00. **JE** D44, I11, D43. **KW** Vaccines. Auctions. Oligopoly. Public Health.

AB Federal purchases of major childhood vaccines account for roughly half of the total market for these vaccines. This paper examines Federal purchasing practices in the context of the recent literature on bidding and procurement, and compares these practices to UNICEF vaccine procurement arrangements. Federal contracts were awarded to a single winner and the firms eligible to bid were limited in number (since the number of U.S. licensed firms is small). Since production capacity cannot be expanded quickly, and the Federal share of purchases is large, it is hypothesized that firms' bid prices will be higher for larger contracts. The paper analyzes contracts over the period 1977 through 1992 to determine the contract size-price relationship, as well as effects on contract prices of 1) the National Vaccine Injury Compensation Program enacted in 1987 and 2) changes in numbers of firms in the market. Results provide equivocal support for a positive size- price relationship and evidence of a positive price effect of the injury compensation program.

Samiei, Hossein

TI Hysteresis in Exports. **AU** Giovannetti, Giorgia; Samiei, Hossein.

Samwick, Andrew A.

TI The Nature of Precautionary Wealth. **AU** Carroll, Christopher D.; Samwick, Andrew A.

TI How Important is Precautionary Saving? **AU** Carroll, Christopher D.; Samwick, Andrew A.

Sanchis, Amparo

TI Privatization and X-Inefficiency: A Bargaining Approach. **AU** Haskel, Jonathan; Sanchis, Amparo.

Sapir, Andre

TI Is a European Hard Core Credible? A Statistical Analysis. **AU** Jacquemin, Alexis; Sapir, Andre.

PD September 1995. **TI** Europe's Single Market: The Long March to 1992. **AA** Universite Libre de Bruxelles. **SR** Centre for Economic Policy Research, Discussion Paper: 1245; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 32. **PR** 4 pounds or $8.00. **JE** F13, F15. **KW** Regional Integration. European Union.

AB The paper analyzes the degree of structural change that has occurred within the EC since the launch of the internal market program. It is divided into three parts: the first examines inter-sectoral shifts in the pattern of specialization within EC manufacturing, and finds relatively little change from 1986 to 1992; the second describes the trade impact of 1992 with the help of consumption shares, and finds internal and external trade creation; and the third uses regression analysis to account for the ratio of intra-EC imports in total EC imports in 1986 and in 1992, and identifies the impact of the internal market program.

PD November 1995. **TI** Optimum Electoral Areas. **AU** Sapir, Andre; Sekkat, Khalid. **AA** Universite Libre de Bruxelles. **SR** Centre for Economic Policy Research, Discussion Paper: 1290; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 35. **PR** 4 pounds or $8.00. **JE** D72, F42. **KW** Political Economy. Business Cycles. International Policy. **AB** The paper lies at the intersection between the literature on macroeconomics and politics and the literature on coordination. It uses models of political business cycles in an open economy setting to investigate the costs and benefits of forming electoral areas, i.e., regions where countries share the same electoral calendar. Both opportunistic and partisan models are considered. The main finding of the paper is that the desirability of an electoral area between two countries is enhanced when the spillovers between these countries are large and positive, and when they face symmetric shocks (or are of comparable size). Hence, if a group of countries constitutes an optimum currency area it is also likely to be an optimum electoral area.

Satchell, Steven E.
TI Measurement Error With Accounting Constraints: Point and Interval Estimation for Latent Data With an Application to UK Gross Domestic Product. **AU** Smith, Richard J.; Weale, Martin R.; Satchell, Steven E.

Scaramozzino, Pasquale
TI Do Other Firms Matter in Oligopolies? **AU** Haskel, Jonathan; Scaramozzino, Pasquale.

TI Will East Germany Become a New Mezzogiorno? **AU** Boltho, Andrea; Carlin, Wendy; Scaramozzino, Pasquale.

Schachter, Andrea
TI Alternative Operating Procedures for Monetary Policy -- A New Look at the Money Supply Process. **AU** Bofinger, Peter; Schachter, Andrea.

Schaffer, M. E.
TI Job Creation and Job Destruction in a Transition Economy: Ownership, Firm Size, and Gross Job Flows in Polish Manufacturing 1988-91. **AU** Konings, J.; Lehmann, H.; Schaffer, M. E.

Schneider, Ryan
TI Labor Income Indices Designed For Use In Contracts Promoting Income Risk Management. **AU** Shiller, Robert J.; Schneider, Ryan.

Schnitzer, Monika
TI Creating Creditworthiness through Reciprocal Trade. **AU** Marin, Dalia; Schnitzer, Monika.

Schulz, Norbert
PD November 1995. **TI** Are Markets More Competitive if Commodities are Closer Substitutes? **AA** Fern Universitat Hagen. **SR** Centre for Economic Policy Research, Discussion Paper: 1268; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 32. **PR** 4 pounds or $8.00. **JE** D43, D83, L13. **KW** Substitutability. Product Differentiation. Search Goods. Oligopoly.

AB Equilibrium prices of the variants of a differentiated commodity are shown to increase if the variants become closer substitutes, under a set of circumstances, which is by no means pathological. Rather, the underlying argument has a bearing on market prices, whenever a potential buyer does not know with certainty the characteristics of the variants for sale before inspecting them, and therefore must incur some information costs before the final purchase decision.

PD November 1995. **TI** Do Consumers Search for the Highest Price? Equilibrium and Monopolistic Optimum in Differentiated Products Markets. **AU** Schulz, Norbert; Stahl, Konrad. **AA** University of Mannheim. **SR** Centre for Economic Policy Research, Discussion Paper: 1277; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** D42, D43, D83, L13. **KW** Monopoly. Oligopoly. Search. Information.
AB We develop a model of search among substitutes for the best combination of commodity variant and price, in which the structure of search costs can be manipulated by the suppliers of these variants (e.g., by joining an existing market or opening a new one). We analyze the subgame perfect equilibria arising in a multistage game involving specialized firms' choice of entry, variant and price; and compare them to a multiproduct monopolist's optimal choice. Together with the existence and uniqueness of (symmetric) equilibria we show that equilibrium prices increase in the number of substitutes sold in one market, and that a monopolist selling the same number of variants charges lower prices. The monopolist will also end up selling at least as much variety. Hence, in the situation considered here, monopoly tends to increase welfare.

Scott, Andrew
PD October 1995. **TI** Why Is Consumption So Seasonal? **AA** Oxford University and London School of Economics. **SR** London School of Economics, Centre for Economic Performance, Discussion Paper: 269; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, England. **PG** 51. **PR** no charge. **JE** C22, E21. **KW** Consumption. Preference Shocks. Seasonality. Unit Roots.
AB This paper explains the changes in the seasonal pattern of UK consumption and in doing so offers new insights into the much studied business cycle characteristics of consumption. It finds that changes in consumption seasonality have zero or negative correlation with changes in the income seasonal, an observation which casts doubt on liquidity constraints as an important determinant of consumption fluctuations. Neither is consumption seasonality driven by precautionary saving, rates of return or climatic variables. Instead, seasonality in consumption is induced by the utility function, with the evidence ruling out seasonal habits or periodic effects. The evidence is consistent with seasonality changing due to preference shocks which we interpret, based on econometric evidence and a historical survey, as changes in customs.

Seghezza, Elena
TI Testing for Trade-Induced Investment-Led Growth. **AU** Baldwin, Richard E.; Seghezza, Elena.

Seguin, Paul J.
TI Expectations, Efficiency, and Euphoria in the Housing Market. **AU** Capozza, Dennis R.; Seguin, Paul J.

Sekkat, Khalid

TI   Optimum Electoral Areas. AU   Sapir, Andre; Sekkat, Khalid.

Shadman-Mehta, Fatemeh

PD   November 1995. TI   Skill Demand and Factor Substitution. AU   Shadman-Mehta, Fatemeh; Sneessens, Henri. AA   Universite Catholique de Louvain. SR   Centre for Economic Policy Research, Discussion Paper: 1279; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   40. PR   4 pounds or $8.00. JE   E24, J23. KW   Shephard's Lemma. Technical Progress. Skill Mismatch. Factor Productivity.
AB   The aim of this paper is to empirically evaluate the relative importance of the various factors likely to have influenced the demand for skilled and unskilled labor in France, over the period 1962-89. Our approach is macroeconomic, and we essentially deal with technology choice, that is, factor productivity over the long run. We estimate a system of three equations, with a dynamic formulation of the error correction type. The main aim is to estimate price elasticities, and direct and cross partial elasticities of substitution between different factors, especially those related to skilled and unskilled labor.

Shiller, Robert J.

PD   September 1995. TI   Labor Income Indices Designed For Use In Contracts Promoting Income Risk Management. AU   Shiller, Robert J.; Schneider, Ryan. AA   Shiller: Yale University and National Bureau of Economic Research. Schneider: McKinsey & Co. SR   National Bureau of Economic Research Working Paper: 5254; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG   35. PR $5.00. JE   D33, D81, G22, C33. KW   Wage Inequality. Uncertainty.
AB   Labor income indices are created for groupings of individuals, using data from the Panel Study of Income Dynamics. People are grouped by a clustering algorithm based on an estimated transition matrix between jobs, by education level, and by skill category. The groupings are defined so that relatively few people move between them. For each of the groupings, we generate a labor income index using a hedonic repeated-measures regression methodology. Similarities between pairs of indices and between indices and individual labor incomes are described. It is argued that indices like those presented here might someday be used in settlement formulate in contracts promoting income risk management.

Shin, Yongcheol

TI   Testing for Unit Roots in Heterogeneous Panels. AU   Im, Kyung So; Pesaran, M. Hashem; Shin, Yongcheol.

Shy, Oz

TI   Product Differentiation in the Presence of Positive and Negative Network Effects. AU   Navon, Ami; Shy, Oz; Thisse, Jacques-Francois.

TI   Standardization Policy and International Trade. AU   Gandal, Neil; Shy, Oz.

Simhon, Avi

TI   Relative Price Variability, Repeat Sales and the Welfare Cost of Inflation. AU   Fershtman, Chaim; Fishman, Arthur; Simhon, Avi.

Siniscalco, Domenico

TI   R&D Cooperation and the Stability of International Environmental Agreements. AU   Carraro, Carlo; Siniscalco, Domenico.

Sinn, Hans-Werner

PD   May 1995. TI   Factor Price Distortions and Public Subsidies in East Germany. AA   University of Munich. SR   Centre for Economic Policy Research, Discussion Paper: 1155; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   48. PR   4 pounds or $8.00. JE   D24, L52, P21. KW   Factor Prices. Transformation. Subsidies. East Germany.
AB   Economic development in East Germany is not uniform. The building and construction industry is booming but manufacturing industry is stagnating. The paper argues that severe distortions in relative factor prices are the cause of the dichotomous development. These distortions result from excessive wage increases and investment support large enough to make the cost of capital negative for East German industry. The negative cost of capital implies that this factor in fact mutates into an economic good whose "production" the firm tries to increase by using more of other factors. It is suggested that the support for investment be abandoned and that a political compromise be sought, whose aim is to reduce the planned wage rises. The compromise could include an investment wage agreement for insider workers and a distribution of the stock of public housing to prevent workers from suffering wealth losses. It would be a Pareto improvement avoiding the large welfare loss incurred by the policies currently pursued.

PD   November 1995. TI   A Theory of the Welfare State. AA   Universitat Munchen. SR   Centre for Economic Policy Research, Discussion Paper: 1278; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   40. PR   4 pounds or $8.00.00. JE   H21, H23. KW   Welfare State. Redistribution.
AB   The welfare state can be seen as an insurance device that makes lifetime careers safer, increases risk taking and suffers from moral hazard effects. Adopting this view, the paper studies the trade-off between average income and inequality, evaluating redistributive equilibria from an allocative point of view. It studies the problem of optimal redistributive taxation with tax-induced risk taking and shows that constant returns to risk taking are likely to imply a paradox where more redistribution results in more post-tax inequality. In general, optimal taxation will either imply that the redistribution paradox is present or that the economy operates at a point of its efficiency frontier where more inequality implies a lower average income.

Sioli, Lucy

TI   Vertically Related Markets and Trade Policy in a Bargaining Framework. AU   Karp, Larry; Sioli, Lucy.

Sirtalan, Ismail

TI   An Empirical Analysis of Alcohol Addiction: Results from the Monitoring the Future Panels. AU   Grossman, Michael; Sirtalan, Ismail; Chaloupka, Frank J.

Slaughter, Matthew J.

PD   September 1995. TI   Multinational Corporations,

Outsourcing, and American Wage Divergence. **AA** Dartmouth College and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5253; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 31. **PR** $5.00. **JE** F23, D33, J31. **KW** Wage Inequality. Human Capital. Outsourcing.

AB Many economists studying America's wage divergence in the 1980's have concluded that its primary cause was a within-industry shift in relative labor demand toward the more-skilled. Following the modeling framework and empirical methods developed in Slaughter (1993), this paper tries to determine the extent to which outsourcing by multinational corporations contributed to this labor-demand shift. To do this, I use data from the Bureau of Economic Analysis (BEA) on U.S. manufacturing multinationals in the 1980's. My main finding is that the data are inconsistent with U.S. multinationals having outsourced heavily in the 1980's. First, I construct a set of stylized facts about employment, investment, and production patterns of these firms. I find that most of these facts are inconsistent with widespread outsourcing. Second, to test more rigorously whether these firms substitute between U.S. and foreign production labor I estimate their factor-price elasticities of demand in a translog-cost-function specification. I find that home and foreign production labor at best seem to be weak price substitutes and in fact may be price complements. Taken together, these findings indicate that multinational outsourcing contributed very little to rising wage inequality.

Smeeding, T.

TI Income Distribution in European Countries. **AU** Atkinson, A. B.; Rainwater, L.; Smeeding, T.

Smelled, Joel

PD August 1995. **TI** High-Income Families and the Tax Changes of the 1980's: The Anatomy of Behavioral Response. **AA** University of Michigan and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5218; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** not available. **PR** $5.00. **JE** Tax Reform. Inequality. Income Tax. **KW** D31, H31, H21, H24.

AB The relative income gains of the affluent after the passage of the Tax Reform Act of 1986 (TRA86), which sharply lowered tax rates at high income levels, are overstated by comparing cross-sectional slices using concurrent income definitions, but they are large nevertheless. Although an index of the demand-side factors affecting inequality throughout the income distribution can explain much of the increased high-income concentration until 1985, it cannot adequately explain the post-TRA86 spurt. Thus, TRA86 is likely to have been a principal cause of the large increase in the reported personal income of the affluent. A close look at the sources of the post-1986 increases in the reported individual income of high-income households suggests that much of it represents shifting of income -- for example, from the corporate tax base to the individual tax base -- and not income creation such as additional labor supply. This distinction is critical because knowing how much the reported individual income of a particular group of people changes in response to a tax change is not a sufficient statistic for evaluating adequately its revenue consequences, incidence, and efficiency,.

Smets, Frank

TI The Monetary Transmission Mechanism: Evidence From the G-7 Countries. **AU** Gerlach, Stefan; Smets, Frank.

TI The Term Structure of Euro-Rates: Some Evidence in Support of the Expectations Hypothesis. **AU** Gerlach, Stefan; Smets, Frank.

Smith Ron

TI New Directions in Applied Macroeconomic Modelling. **AU** Pesaran, M. Hashem; Smith Ron.

Smith, Alasdair

TI Trade Performance and Trade Policy in Central and Eastern Europe. **AU** Drabek, Zdenek; Smith, Alasdair.

Smith, Lones

PD January 1995. **TI** Optimal Job Search in a Changing World. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 95/3; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. **PG** 10. **PR** $7.00 U.S., Canada, Mexico; $10.00 other international. **JE** D83, J64. **KW** Bellman Curve. Reservation Wage. Lower Hemicontinuous.

AB Consider a general nonstationary job search model with a changing wage (or flow "prize") distribution. This paper shows that the decision- maker's reservation wage (or flow utility) is not the "flow return" on the asset called "being unemployed", but is rather the flow return on "being unemployed" with an option to renew at the same rate. This is linked to the following results that are also demonstrated: the flow utility (or reservation wage) need not be continuous, but is upper semi-continuous in time -- and in more general multiparameter search models, the optimal acceptance set is a lower hemicontinuous correspondence of time. I conclude with an illustrative example.

PD February 1995. **TI** Cross-Sectional Dynamics in a Two-Sided Matching Model. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 95/14; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. **PG** 31. **PR** $7.00 U.S., Canada, Mexico; $10.00 other international. **JE** D83. **KW** Search. Matching. Bellman Value.

AB This paper studies a dynamic search-theoretic model of two-sided matching with ex ante heterogeneous agents and nontransferable utility (NTU). There is a continuum of agents' types in (0,1), with both parties to the match (x,y) receiving flow output xy. Foregone wages are the only cost of search, and all productive relationships are mutual "tenant-at- will." Smith (1995a) shows that this belongs to the simple focal subclass of NTU search models in which everyone has the same von Neumann-Morgenstern preferences over matches and thus in steady-state would desire to perfectly segregate. As such, it is an ideal framework to isolate the role of time dynamics, and explore the evolution of long- term relationships. Despite a continuum of distinct intertwined dynamic optimizations, this paper characterizes the search equilibrium starting with everyone unmatched. Anyone is eventually unwilling to accept a temporary match. The paper develops an equilibrium concept addressing credibility constraints, but argues that no matches are lost due to the absence of binding contracts. The paper

relates this to dynamic properties of flow values that imply that no one ever quits a match more than once in his life.

Smith, Richard J.
TI Tests of Rank. AU Robin, Jean-Marc; Smith, Richard J.

PD May 1995. TI Measurement Error With Accounting Constraints: Point and Interval Estimation for Latent Data With an Application to UK Gross Domestic Product. AU Smith, Richard J.; Weale, Martin R.; Satchell, Steven E. AA University of Cambridge. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9522; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG 44. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE C12, C13, C32. KW Latent Data. Accounting Constraints. Measurement Error. Serial Correlation. Efficiency.
AB An econometric methodology is proposed for reconciling inaccurate measures of latent data which are subject to accounting constraints. The method deals with the case in which the measurement errors are serially correlated, generalizing previous contributions. A class of efficient estimators is derived from the latent data. Consistent estimators for the weight matrices applied to the observed information based on a linear regression procedure are obtained together with confidence interval estimators for these weight matrices. An application of the proposed method is made to UK Gross Domestic Product in constant prices for 1959Q1-1989Q4.

PD June 1995. TI Additional Critical Values and Asymptotic Representations for Seasonal Unit Root Tests. AU Smith, Richard J.; Taylor, A. M. Robert. AA Smith: Gonville College, Caius College and University of Cambridge. Taylor: University of Cambridge. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9529; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG 22. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE C12, C15, C23. KW Unit Roots. Seasonality. UK. Consumption. Monte Carlo.
AB This paper is concerned with tests for seasonal unit roots in a univariate time series process. The paper extends the procedures and tables of critical values due to Hylleberg et al. (1990) and Ghysels et al. (1991) to obtain tests which are similar (exactly and asymptotically) with respect to both the initial values of the process and the possibility of seasonal drifts under the null hypothesis of a seasonal unit root. Representations are derived for the limiting distributions of the test statistics in this and other cases of interest. These representations provide an explanation for the similarity between critical values for the statistics in different scenarios. The unit root properties of real seasonally unadjusted UK non-durable consumption expenditure are re-examined.

Smith, Ron
TI Growth and Convergence: A Multi-Country Empirical Analysis of the Solow Growth Model. AU Lee, Kevin; Pesaran, M. Hashem; Smith, Ron.

Smith, Stephen
TI The Taxation of Entrepreneurial Income in a Transition Economy: Issues Raised by Experience in Poland. AU Grabowski, Maciej; Smith, Stephen.

Sneessens, Henri
TI Skill Demand and Factor Substitution. AU Shadman-Mehta, Fatemeh; Sneessens, Henri.

Snower, Dennis J.
TI A Contribution to Unemployment Dynamics. AU Karanassou, Marika; Snower, Dennis J.

TI Restructuring Production and Work. AU Lindbeck, Assar; Snower, Dennis J.

Soderlind, Paul
PD December 1995. TI Forward Interest Rates as Indicators of Inflation Expectations. AA University of Stockholm. SR Centre for Economic Policy Research, Discussion Paper: 1313; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 32. PR 4 pounds or $8.00. JE E31, E43, E44, G12. KW Inflation Expectations. Interest Rates. Forward Rates.
AB Forward interest rates have become popular indicators of inflation expectations. The usefulness of this indicator depends on the relative volatility and the correlation of inflation expectations and expected real interest rates. This paper studies US and UK data, using a range of different tools and data sets. The forward rate rule performs reasonably well, in spite of significant movements in the expected real interest rate. The reason is that the "noise" that movements in the expected real interest rate add to the inflation expectations is balanced by a tendency for expected real interest rates and inflation expectations to move in opposite directions.

Sodersten, Jan
TI Taxation and Corporate Investment: The Impact of the 1991 Swedish Tax Reform. AU Auerbach, Alan J.; Hassett, Kevin A.; Sodersten, Jan.

Solomou, Solomos
TI The Impact of Weather on UK Agricultural Production, 1953-1990. AU Khatri, Yougesh; Solomou, Solomos.

TI Parametric and Semi-Parametric Modelling of the Nonlinear Relation Between Weather and Agricultural Production, 1953-1990. AU Khatri, Yougesh; Solomou, Solomos.

TI Climate and Fluctuations in Agricultural Output, 1867-1913. AU Khatri, Yougesh; Solomou, Solomos.

Sorensen, Jan Rose
TI Minimum Wages: Curse or Blessing? AU Ravn, Morten O.; Sorensen, Jan Rose.

Soubeyran, Antoine
TI Environmental Feedbacks and Optimal Taxation in Oligopoly. AU Carraro, Carlo; Soubeyran, Antoine.

Spaventa, Luigi
TI High Yields: The Spread on German Interest Rates. AU Favero, Carlo A.; Giavazzi, Francesco; Spaventa, Luigi.

Spiegler, Ran

PD June 1995. **TI** Coordination and Matchmakers. **AA** Tel-Aviv University. **SR** Tel Aviv Sackler Institute of Economic Studies Working Paper: 21/95; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. **PG** 24. **PR** no charge. **JE** C78, C72. **KW** Game Theory. Matchmakers. Intermediation. Coordination. Mechanism Design.

AB This paper introduces a basic model of monopolistic intermediation by matchmakers. To an extensive form variant on a 2 by 2 coordination game, I add a third party, located at a third point, whom I refer to as "a matchmaker". I offer two alternative incentive schemes that the matchmaker can run in order to enforce coordination at "her" point as the unique subgame perfect equilibrium in the dynamic games that each of them defines. The matchmaker is shown to be able to extract the players' entire surplus from the match using these schemes. Thus, the outcome of the game is that players coordinate instantaneously at their worst possible point. Finally, I raise the conjecture that the matchmaker is a natural monopolist.

Srinivasan, Sylaja

PD February 1996. **TI** Estimation of Own R&D, R&D Spillovers and Exogenous Technical Change Effects in Some U.S. High-Technology Industries. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9607; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk/discp.html. **PG** 46. **PR** no charge. **JE** C33, O33. **KW** Productivity. Research. Development. Spillovers. Multcollinearity.

AB This paper estimates own R&D, R&D spillovers and exogenous technical change effects on output growth for the three top high-technology industries in the U.S. within the context of a dynamic factor demand model. In general, because of multicollinearity effects, exogenous technical change (represented by a time trend) is difficult to distinguish from R&D spillovers and own R&D. It seems that because of this difficulty, the current literature considers only R&D spillovers and own R&D or exogenous technical change and own R&D variables in the estimating equations. Therefore existing estimates of exogenous technical change or R&D spillovers (along with own R&D) may actually be capturing some combined effect of all three variables. By pooling the data, (i.e., by exploiting the panel nature of the dataset) estimates of the effects of own R&D, R&D spillovers and exogenous technical change on output growth and estimates of spillover sources for the above industries are obtained. The analysis is performed at the 2-digit industry level for the period 1960-1987.

Stahl, Konrad

TI Do Consumers Search for the Highest Price? Equilibrium and Monopolistic Optimum in Differentiated Products Markets. **AU** Schulz, Norbert; Stahl, Konrad.

Steedman, Hilary

TI Lifelong Learning. **AU** Layard, Richard; Robinson Peter; Steedman, Hilary.

Stein, Jeremy C.

PD August 1995. **TI** An Adverse Selection Model of Bank Asset and Liability Management With Implications for the Transmission of Monetary Policy. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 5217; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** not available. **PR** $5.00. **JE** E43, G21, E42, E51. **KW** Reserves. Lending Channel. Banking. Bank Deposits.

AB This paper develops a model of bank asset and liability management, based on the idea that information problems make it difficult for banks to raise funds with instruments other than insured deposits. The model can be used to address the question of how monetary policy works. One effect it captures is that when the Fed reduces reserves, this tightens banks' financing constraints and thereby leads to a cutback in bank lending -- this is the "bank lending channel" in action. However, in addition to providing a specific set of microfoundations for the lending channel, the model also yields a novel account of how monetary policy affects bond-market interest rates.

Stock, James H.

TI Why Are Retirement Rates So High At Age 65? **AU** Lumsdaine, Robin L.; Stock, James H.; Wise, David A.

Stulz, Rene M.

PD July 1995. **TI** Foreign Equity Investment Restrictions, Capital Flight, and Shareholder Wealth Maximization. **AU** Stulz, Rene M.; Wasserfallen, Walter. **AA** Stulz: Fisher College of Business. Wasserfallen: Studienzentrum Gerzensee. **SR** Centre for Economic Policy Research, Discussion Paper: 1208; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 60. **PR** 4 pounds or $8.00. **JE** G12, G15, G32. **KW** Asset Pricing. Investment Restrictions.

AB This paper provides a theory of foreign equity investment restrictions. We consider a model where the demand function for domestic shares differs between domestic and foreign investors because of dead-weight costs in holding domestic and foreign securities that depend on the country of residence of investors. We show that domestic entrepreneurs maximize firm value by discriminating between domestic and foreign investors. The model implies that countries benefiting from capital flight have binding ownership restrictions such that foreign investors pay a higher price for shares than domestic investors. The empirical implications of this theory are supported by evidence from Switzerland.

Sundaresan, Suresh

TI Discriminatory Versus Uniform Treasury Auctions: Evidence From When- Issued Transactions. **AU** Nyborg, Kjell G.; Sundaresan, Suresh.

Suponcic, Susan J.

TI Rate Regulation and the Industrial Organization of Automobile Insurance. **AU** Tennyson, Sharon; Suponcic, Susan J.

Sutherland, Alan

PD September 1995. **TI** Fiscal Crises and Aggregate Demand: Can High Public Debt Reverse the Effects of Fiscal Policy? **AA** University of York. **SR** Centre for Economic Policy Research, Discussion Paper: 1246; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 23. **PR** 4 pounds or $8.00.

JE E21, E62, H69. KW Fiscal Policy. Public Debt Stabilization. Aggregate Demand.
AB This paper shows how the power of fiscal policy to affect consumption can vary depending on the level of public debt. At moderate levels of debt fiscal policy has the traditional Keynesian effects. Current generations of consumers discount future taxes because they may not be alive when taxes are raised (or there will be a larger population available to pay the taxes). But when debt reaches extreme values, current generations of consumers know there is a high probability that they will have to pay extra taxes. An increase in the fiscal deficit has a contractionary effect in these situations.

PD January 1996. TI Exchange Rate Dynamics and Financial Market Integration. AA University of York. SR Centre for Economic Policy Research, Discussion Paper: 1337; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 36. PR 4 pounds or $8.00. JE F31, F32, F36. KW Capital Mobility. Financial Integration. Exchange Rates.
AB Imperfect capital mobility is modeled in a two-country intertemporal general equilibrium framework by assuming that agents face costs of adjusting asset stocks in foreign asset markets. Goods markets are imperfectly competitive and goods prices are subject to sluggish adjustment. Simulation experiments show that increasing financial market integration (represented by reducing the cost of transacting in foreign asset markets) increases the volatility of a number of variables when shocks originate from the money market, but decreases the volatility of most variables when shocks originate from real demand or supply.

Sutherland, Holly

PD January 1995. TI The Development of Tax-Benefit Models: A View From the UK. AA University of Cambridge. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9519; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG 19. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE C81, D31, H55. KW Tax-Benefit. Microsimulation. Europe. Model Building.
AB This paper aims to give a flavor of what can be achieved with a tax- benefit model. It includes an overview of model development around the world and particularly with Europe. It also discusses some of the more complex issues which face model builders: the incorporation of the statistical reliability of the model.

PD April 1995. TI Static Microsimulation Models in Europe: A Survey. AA University of Cambridge. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9523; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG 36. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE C81, D33, O52. KW Microsimulation. Europe. Household Income.
AB Microsimulation models are now in widespread use for policy analysis throughout Europe and the rest of the world. This paper surveys the static models, and the data on which they depend, currently in use in five countries of the European Union: Belgium, France, Ireland, Italy and the UK. Nineteen models are discussed with a view to addressing three

objectives: First, to document activity in the field in the five countries and to provide an outline of the purpose, scope and methods of each model. Secondly, the aim is to investigate the reasons for differences in the development of the models, and hence to establish some of the factors which affect model development. Thirdly, we explore the possibilities of comparing model outputs and the feasibility of running models together as an approach to the analysis of the effects of policy within Europe but across national boundaries.

TI How Has Tax and Social Security Policy Changed Since 1978? A Distributional Analysis. AU Redmond, Gerry; Sutherland, Holly.

PD May 1996. TI Households, Individuals and the Redistribution of Income. AA University of Cambridge. SR University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9614; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG 44. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE C81, D31, I32. KW Income Distribution. Gender Inequality.
AB This paper explores the implications of examining the effect of policy changes on individual incomes rather than on household incomes. Conceptual problems arise from the treatment of collective resources and responsibilities, particularly children. These are dealt with in a manner that is transparent, with the aim of establishing a practical method of analyzing policy at the individual (and gender-specific) level. Using the Microsimulation Unit's UK tax-benefit model, POLIMOD, three policy-related issues are examined in this framework: counting the low income population; the impact of a minimum wage; and the effect of introducing a minimum pension guarantee. In each case, the implications of choosing the individual as the income unit are examined and an analysis of the issue by gender is presented.

Svensson, Lars E. O.

PD September 1995. TI Optimal Inflation Targets, 'Conservative' Central Banks, and Linear Inflation Contracts. AA Stockholm University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5251; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 32. PR $5.00. JE E61, E58. KW Inflation. Monetary Policy. Time Inconsistency. Discretion.
AB Inflation target regimes (like those of New Zealand, Canada, U.K., Sweden and Finland) are interpreted as having explicit inflation targets and implicit output/unemployment targets. Without output/unemployment persistence, delegation of monetary policy to a discretionary instrument-independent central bank with an optimal inflation target can eliminate the discretionary inflation bias, mimic the optimal linear inflation contract suggested by Walsh and extended by Persson and Tabellini, and achieve the equilibrium corresponding to an optimal rule with commitment. Thus an "inflation target-conservative" central bank with an inflation target equal to the socially best inflation rate less any inflation bias dominates a Rogoff "weight-conservative" central bank with increased weight on inflation stabilization, which suboptimally increases output/unemployment variability. With output/unemployment persistence, a constant inflation target is equivalent to a constant linear inflation contract. They can both eliminate the

average inflation bias but not the state-contingent part of the inflation bias. Inflation variability is too high, and output variability too low, compared to the equilibrium corresponding to an optimal rule. An optimal state-contingent inflation target can remove all inflation bias, but in contrast to an optimal state-contingent linear inflation contract it still leaves inflation variability too high. Delegation with an optimal state-contingent inflation target to a Rogoff "weight-conservative" central bank can then achieve the equilibrium corresponding to an optimal rule. Inflation targets may on average be exceeded, and they may have imperfect credibility. Nevertheless they may usefully reduce inflation, and they appear much easier to implement than linear inflation contracts.

PD October 1995. TI Optimal Inflation Targets, "Conservative" Central Banks, and Linear Inflation Contracts. AA Stockholm University. SR Centre for Economic Policy Research, Discussion Paper: 1249; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 40. PR 4 pounds or $8.00. JE E42, E52, E58. KW Monetary Policy. Rules. Discretion.
AB Svensson, Lars E. O., "Optimal Inflation Targets, 'Conservative' Central Banks, and Linear Inflation Contracts". National Bureau of Economic Research Working Paper: 5251; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138.

Syropoulos, Constantinos
TI Deepening of Regional Integration and Multilateral Trade Agreements. AU Bond, Eric W.; Syropoulos, Constantinos; Winters, L Alan.

Tahvonen, Olli
TI International Trade in Exhaustible Resources: A Cartel-Competitive Fringe Model. AU Karp, Larry; Tahvonen, Olli.

Tarr, David G.
TI VERs Under Imperfect Competition and Foreign Direct Investment: A Case Study of the US-Japan Auto VER. AU de Melo, Jaime; Tarr, David G.

Taylor, A. M. Robert
TI Additional Critical Values and Asymptotic Representations for Seasonal Unit Root Tests. AU Smith, Richard J.; Taylor, A. M. Robert.

Taylor, Alan M.
PD September 1995. TI Growth and Convergence in the Asia-Pacific Region: On the Role of Openness, Trade and Migration. AA Northwestern University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5276; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 22. PR $5.00. JE F43, F41, F22. KW Asia. Growth. Liberalization. Free Trade.
AB This paper examines the relationship between openness, trade, and migration in the Asia-Pacific region during the post-1970 period. Conventional reduced-form empirical-growth specifications are augmented by an appeal to structural modeling, an extension that reveals a rich set of interactions between policy, distortions, factor accumulation and growth. A broad array of openness measures play a major role in the

successful growth performance of the Asia-Pacific region, a key channel being the distortion-investment nexus. In contrast, the results suggest little role for migration as a quantitatively significant growth determinant, at least at the macro level, which is no surprise in this area of historically low net migration rates. However, I find that within-sample prediction for the Asia-Pacific region is harder to achieve -- "good luck" as well as "good policy" played a part.

Taylor, M. Scott
TI Trade, Spatial Separation, and the Environment. AU Copeland, Brian R.; Taylor, M. Scott.

Teles, Pedro
TI Is the Friedman Rule Optimal When Money is an Intermediate Good? AU Correia, Isabel H.; Teles, Pedro.

Tennyson, Sharon
PD September 1995. TI Rate Regulation and the Industrial Organization of Automobile Insurance. AU Tennyson, Sharon; Suponcic, Susan J. AA University of Pennsylvania. SR National Bureau of Economic Research Working Paper: 5275; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 28. PR $5.00. JE G22, L51. KW Car Insurance. Regulation.
AB This paper analyzes the impact of rate regulation on the structure of insurance markets for private passenger automobile insurance. The paper argues that states' restrictions on automobile insurers' rates of return will distort the structure of the market by distorting insurers' entry and output decisions. Cross-sectional analysis of the numbers of firms and the relative market shares of firms of different organizational characteristics supports this argument, especially for those states which impose the most stringent regulation. The analysis suggests that increased regulatory stringency lowers the total number of firms selling in the market, and lowers the number of low cost and national firms in the market. The market shares of these latter two groups of firms are also significantly lowered by increased regulatory stringency. These findings hold even after controlling for other factors which may influence the relative prevalence of these firms in the market, and are robust to the assumption that regulatory stringency in a state is itself partially determined by the number and market shares of large, low cost producers.

Tenorio, Rafael
TI Strategic Trading in a Two-Sided Foreign Exchange Auction. AU Goldberg, Linda; Tenorio, Rafael.

Thakor, Anjan V.
TI Financial System Architecture. AU Boot, Arnoud W. A.; Thakor, Anjan V.

TI Banking Scope, Financial Innovation, and the Evolution of the Financial System. AU Boot, Arnoud W. A.; Thakor, Anjan V.

Thisse, Jacques-Francois
TI Product Differentiation in the Presence of Positive and Negative Network Effects. AU Navon, Ami; Shy, Oz; Thisse, Jacques-Francois.

TI Economics of Agglomeration. AU Fujita, Masahisa;

Thisse, Jacques-Francois.

Thomas, Duncan
TI   Race, Children's Cognitive Achievement and The Bell Curve. AU   Currie, Janet; Thomas, Duncan.

Thomas, Jonathan
TI   Reputation and Punishment in Repeated Games With Two Long-Run Players. AU   Evans, Robert; Thomas, Jonathan.

Thomas, S. H.
TI   Stochastic Seasonality and Daily Financial Time Series. AU   Andrade, I. C.; Clare, A. D.; O'Brien, R. J.; Thomas, S. H.

Thurik, Roy
TI   Sub-Optimal Scale Firms and Compensating Factor Differentials in Dutch Manufacturing. AU   Audretsch, David B.; Menkveld, Bert J.; Thurik, Roy; van Leeuwen, George.

TI   Sub-Optimal Scale Firms and Compensating Factor Differentials in Dutch Manufacturing. AU   Audretsch, David B.; Menkveld, Bert J.; Thurik, Roy; van Leeuwen, George.

Tirole, Jean
TI   Formal and Real Authority in Organizations. AU   Aghion, Philippe; Tirole, Jean.

PD   June 1994. TI   Pollution Permits and Compliance Strategies.   AU   Tirole, Jean; Laffont, Jean-Jacques. AA   Massachusetts Institute of Technology, CERAS, and IDEI. Laffont: IDEI and GREMAQ. SR   Massachusetts Institute of Technology, Department of Economics Working Paper: 95/9;   Department   of   Economics,   E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. PG   8. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE   Q28, L51. KW   Allowance Markets. Options. Pollution. Compliance.
AB   The paper analyzes the impact of spot and futures markets for tradable pollution permits on the potential polluters' compliance decisions. Polluters can buy permits, invest in pollution abatement, or else stop production or source out. We show that stand-alone spot markets induce excessive investment. The introduction of a futures market reduces this incentive to invest, but is not the optimal way to control pollution. A menu of options on pollution rights, possibly coupled with intertemporally bundled sales, yields higher welfare. Because of its focus on long-run demand elasticities and rent extraction, this paper can be applied to a variety of situations   such   as   demand-side   management,   public transportation, bypass in telecommunications, or forward sales by a private monopolist.

PD   June 1994. TI   A Note on Environmental Innovation. AU   Tirole, Jean; Laffont, Jean-Jacques. AA   Tirole: Massachusetts Institute of Technology, CERAS and IDEI. Laffont: IDEI and GREMAQ. SR   Massachusetts Institute of Technology, Department of Economics Working Paper: 95/10; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. PG   9. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE   Q28, L51. KW   Allowance Markets. Options. Pollution. Innovation.
AB   The purpose of this explanatory note is, first, to alert the reader to the negative impact of allowance markets on environmental innovations and second, to suggest some improvements.   Stand-alone   spot   markets   enable   the government   to   expropriate   an   innovation   by   offering   a competing "technology" (pollution permits) and putting an arbitrary downward pressure on the licensing price. Advance allowances reduce expropriation but still create very suboptimal incentives for innovations. They have the further drawback that permits are inefficiently used when the innovation occurs. In this respect, options to pollute at a given striking price fare better than allowances because they create private incentives to phase out pollution in case of innovation. The note then studies government procurement. Surprisingly, ex-post licensing by the innovator to the government may yield a higher licensing fee than an ex-ante contract.

PD   July 1994. TI   Access Pricing and Competition. AU   Tirole, Jean; Laffont, Jean-Jacques. AA   Tirole: IDEI, CERAS, and Massachusetts Institute of Technology. Laffont: IDEI and GREMAQ. SR   Massachusetts Institute of Technology, Department of Economics Working Paper: 95/11; Department of Economics, E52-252, Massachusetts Institute of Technology, Cambridge, MA 02139. PG   42. PR $7.00 U.S., Canada, Mexico; $10.00 other international. JE   L43, L51.   KW   Networks.   Access   Charges.   Interconnection. Regulation.
AB   In many industries (electricity, telecommunications, railways), the network can be described as a natural monopoly. A central issue is how to combine the necessary network regulation with the organization of competition in activities using the network as an input (generation of electricity, value-added   services,   road   transportation).   This   paper   derives access-pricing formulas in the framework of an optimal regulation under incomplete information. It first studies how access- pricing formulas take into account the fixed costs of the network and the incentive constraints of the natural monopoly over the network. Second, it examines the difficulties coming from the accounting impossibility to disentangle costs of the network and costs of the monopoly's competitive goods. Third, the analysis is extended to other cases. Fourth, the possibility some consumers bypass the network is taken into account. Finally the role of access pricing for inducing the best market structure is assessed.

TI   Financial Intermediation, Loanable Funds and the Real Sector. AU   Holmstrom, Bengt; Tirole, Jean.

Todd, Petra
TI   Does Measured School Quality Really Matter? An Examination   of   the   Earnings-Quality   Relationship. AU   Heckman, James; Layne-Farrar, Anne; Todd, Petra.

Trajtenberg, Manuel
TI   Diffusion   of   General   Purpose   Technologies. AU   Helpman, Elhanan; Trajtenberg, Manuel.

Tsiddon, Daniel
TI   The   Distribution   of   Human   Capital   and   Economic Growth. AU   Galor, Oded; Tsiddon, Daniel.

Ulph, Alistair
PD   April 1996. TI   Plant Location and Strategic Environmental   Policy   With   Inter-   Sectoral   Linkages. AU   Ulph, Alistair; Valentini, Laura. AA   University of

Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9623; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 24. **PR** no charge. **JE** F12, F21, L13, Q28. **KW** Environmental Policy. Delocation. International Trade. Inter- Sectoral Linkages.
AB In recent debates on trade liberalization the concern has often been expressed that with more competitive international commerce, governments will be worried that by setting tougher environmental policies than their trading rivals they will put domestic producers at a competitive disadvantage. The response by governments to such will be to weaken environmental policies ("eco-dumping"). In competitive markets such concerns are ill founded, but there is a small literature which has analyzed whether governments will indeed have incentives for eco- dumping in the more relevant case of markets where there are significant scale economies; even here there is no presumption that the outcome will involve eco-dumping. In this paper we extend the analysis of strategic environmental policy and plant location decisions by analyzing the location decision of firms in different sectors which are linked through an input-output structure of intermediate production. Although the model appears very simple, it cannot be solved analytically, so all the conclusions must be drawn from numerical simulations.

Vahey, Shaun P.
TI Measuring Core Inflation. **AU** Quah, Danny T.; Vahey, Shaun P.

PD March 1996. **TI** Compensating Differentials: Some Canadian Self-Report Evidence. **AA** University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9608; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 18. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** J31, C81. **KW** Compensating Differentials. Job Quality. Self-Report Data.
AB This paper presents evidence that tests and supports the theory of compensating differentials for a variety of job characteristics. The self-report data used are from the National Survey of Class Structure and Labor Process in Canada. These are used in preference to more conventional occupational-trait data because they provide detailed information on individual jobs, rather than on averages across occupations and industries. The results suggest that labor markets are sufficiently competitive for compensating differentials to be important determinants of earnings, regardless of gender or union status.

Valentini, Laura
TI Plant Location and Strategic Environmental Policy With Inter- Sectoral Linkages. **AU** Ulph, Alistair; Valentini, Laura.

Van Audenrode, Marc
TI The Duration of Unemployment and the Persistence of Wages. **AU** Leonard, Jonathan; Van Audenrode, Marc.

van den Berg, Gerard J.
TI The Anatomy of Unemployment Dynamics.

AU Abbring, Jaap H.; van den Berg, Gerard J.; van Ours, Jan C.

Van Order, Robert
TI Mortgage Default and Low Downpayment Loans: The Costs of Public Subsidy. **AU** Deng, Yongheng; Van Order, Robert; Quigley, John M.

van Ours, Jan C.
TI The Anatomy of Unemployment Dynamics. **AU** Abbring, Jaap H.; van den Berg, Gerard J.; van Ours, Jan C.

van Wijnbergen, Sweder
TI Voucher Privatization, Corporate Control and the Cost of Capital: An Analysis of the Czech Privatization Programme. **AU** Marcincin, Anton; van Wijnbergen, Sweder.

TI Ownership and Corporate Control in Poland: Why State Firms Defied the Odds. **AU** Pinto, Brian; van Wijnbergen, Sweder.

Vegh, C. A.
TI Real Effects of Exchange-Rate-Based Stabilization: An Analysis of Competing Theories. **AU** Rebelo, Sergio; Vegh, C. A.

Vegh, Carlos A.
TI Real Effects of Exchange Rate-Based Stabilization: An Analysis of Competing Theories. **AU** Rebelo, Sergio; Vegh, Carlos A.

Velenchik, Ann D.
TI More Bad News For Smokers? The Effects of Cigarette Smoking On Labor Market Outcomes. **AU** Levine, Phillip B.; Gustafson, Tara A.; Velenchik, Ann D.

Venables, Anthony J.
TI The Seamless World: A Spatial Model of International Specialization. **AU** Krugman, Paul; Venables, Anthony J.

TI The Seamless World: A Spatial Model of International Specialization. **AU** Krugman, Paul; Venables, Anthony J.

TI Preferential Trading Arrangements and Industrial Location. **AU** Puga, Diego; Venables, Anthony J.

TI The Theory of Endowment, Intra-Industry and Multinational Trade. **AU** Markusen, James R.; Venables, Anthony J.

TI The Spread of Industry: Spatial Agglomeration in Economic Development. **AU** Puga, Diego; Venables, Anthony J.

Vines, David
TI Equilibrium Currency Crises: Are Multiple Equilibria Self-fulfilling or History Dependent? **AU** Davies, Gareth; Vines, David.

TI The Macroeconomics of the Mexican Crisis: A Simple Two-period Model. **AU** Irwin, Gregor; Vines, David.

Viscusi, W. Kip
TI Organizational Form and Insurance Company

Performance: Stocks Versus Mutuals. **AU** Born, Patricia; Gentry, William M.; Viscusi, W. Kip; Zeckhauser, Richard J.

TI Organizational Form and Insurance Company Performance: Stocks Versus Mutuals. **AU** Born, Patricia; Gentry, William M.; Viscusi, W. Kip; Zeckhauser, Richard J.

Vives, Xavier
TI Imperfect Competition, Risk Taking, and Regulation in Banking. **AU** Matutes, Carmen; Vives, Xavier.

TI Excess Entry, Vertical Integration and Welfare. **AU** Kuhn, Kai-Uwe; Vives, Xavier.

von Hagen, Jurgen
TI Regional Insurance Against Asymmetric Shocks. An Empirical Study for the European Community. **AU** Hammond, George W.; von Hagen, Jurgen.

TI Fiscal Policy and Monetary Union: Federalism, Fiscal Restrictions and the No-Bailout Rule. **AU** Eichengreen, Barry; von Hagen, Jurgen.

PD November 1995. **TI** East Germany: The Economics of Kinship. **AA** Universitat Mannheim. **SR** Centre for Economic Policy Research, Discussion Paper: 1296; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 44. **PR** 4 pounds or $8.00. **JE** E62, F36, H53, H55, O52. **KW** East Germany. German Unification. Transformation.
AB Assessments of the East German transition commonly focus narrowly on the size of financial transfers from the West to the East. Of more relevance to other cases of transformation is the fact that East Germany was immediately brought into the trading and financial system of the world economy and immediately adopted Western legal and administrative structures. In doing so, German union has created a unique environment for transformation in East Germany. In this paper, I review the main elements of German union: monetary union, fiscal union, legal and administrative union, and rapid privatization. I then review the main economic developments since 1990. From a macro-economic perspective, unification has promoted East Germany's fast integration into the Western trading and financial system . These factors may help in the longer run to overcome the huge terms-of-trade shock implied by monetary union and the loss of the traditional external markets. On a politico- economic level, German union has created an environment favorable for a big-bang strategy of reform by reducing the distributional problems reform processes may face and that have led to stalemate in the political process in other transition countries. The East German labor market was drawn into the West German pattern of industrial relations, which traditionally have favored insider-outsider behavior. The result has been massive destruction of employment. Thus, the most fatal mistake in the unification process was the immediate extension of labor market regulation that favor insider-outsider behavior to the East.

PD November 1995. **TI** Reciprocity and Inflation in Federal Monetary Unions. **AA** Universitat Mannheim. **SR** Centre for Economic Policy Research, Discussion Paper: 1297; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 32. **PR** 4 pounds or $8.00. **JE** E52, E58. **KW** Monetary Union. Central Banks. Political Economy. Inflation.
AB This paper presents a model of monetary policy-making in a federal monetary union. Central bank council members are representatives from the member states. In a repeated-game context, council members have an incentive to engage in strategic voting, trading political favors between each other. The paper shows that a reciprocity-equilibrium exists in the repeated bargaining game. Reciprocity induces a positive inflation bias and nominal fluctuations in the monetary union.

von Weizsacker, Robert K.
PD January 1996. **TI** Does an Aging Population Increase Inequality? **AA** University of Halle-Witte and University of Mannheim. **SR** Centre for Economic Policy Research, Discussion Paper: 1322; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 32. **PR** 4 pounds or $8.00. **JE** D31, H55, J18. **KW** Income Distribution. Population Aging. Demographic Policy. Social Policy. Political Economy.
AB The paper reviews recent research on the impact of an aging population on the distribution of income. After briefly discussing the demographic conditions responsible for population aging, a short account is given of demographic trends in the industrialized world. In order to disentangle the many potential channels by which an aging society affects the dispersion of income, several levels of aggregation are distinguished. The paper differentiates between intra- and intergenerational issues, between direct and indirect demographic inequality effects, and between the distribution of current and lifetime income. It emphasizes the critical role of age-related redistributive tax-transfer systems, like public pension schemes and health-care systems. Sources of distributional policy conflicts are identified at both the cross-section level and the lifetime level of income inequality. The institutional design of intergenerational burden sharing, individual disincentive reactions, shifts in age-income profiles related to cohort size, and politico-economic repercussions are shown to drive the relation between population aging and income distribution in distinct and partially opposite ways.

Wahba, Jackline
TI The Brain Drain, Remittances and Economic Development. **AU** McCormick, Barry; Wahba, Jackline.

TI The Uruguay Round and Trade in Financial Services in the Arab Countries. **AU** Mohieldin, Mahmoud; Wahba, Jackline.

Walz, Uwe
PD November 1995. **TI** Transport Costs, Intermediate Goods and Localized Growth. **AA** University of Mannhiem. **SR** Centre for Economic Policy Research, Discussion Paper: 1267; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 36. **PR** 4 pounds or $8.00. **JE** O18, R11, R12. **KW** Regional Growth. Economic Geography. Factor Mobility.
AB This paper presents a dynamic, two-region general equilibrium model in which inter-regional production and trade patterns are endogenously determined. Localized growth stems from geographical concentration of an industrial sector exhibiting permanent productivity increases. Geographical concentration is due to the interaction of the size of local markets and local competition in the differentiated input industry. Regional factor endowment with an immobile factor

is decisive for long-run specialization, trade and growth patterns between regions if large endowment differences prevail. With equally-sized regions, multiple equilibria exist. Furthermore, the paper finds that integration might lead to increasing regional concentration of production and growth.

PD January 1996. TI Strategic Public Provision of Local Inputs for Oligopolistic Firms in the Presence of Endogenous Location Choices. AU Walz, Uwe; Wellisch, Dietmar. AA Walz: University of Mannhiem. Wellisch: University of Dresden. SR Centre for Economic Policy Research, Discussion Paper: 1324; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 32. PR 4 pounds or $8.00. JE H42, H72, L13, R13. KW Public Provision. Local Inputs. Firm Location. Oligopoly.
AB We develop a model in which two regional governments compete for a mobile oligopolistic firm by publicly providing local inputs. The central mechanism of our model is the interaction of an agglomeration advantage (partial non-rivalness of the local input) and an agglomeration disadvantage (fixed costs associated with the change of location of firms). We show that the central government provides an efficient level of local inputs and induces a spatially efficient allocation of firms. The decentralized provision of local inputs by regional governments, however, leads in most cases to an inefficient allocation.

Wascher, William
TI The Effect of New Jersey's Minimum Wage Increase On Fast-Food Employment: A Re-Evaluation Using Payroll Records. AU Neumark, David; Wascher, William.

Wasserfallen, Walter
TI Foreign Equity Investment Restrictions, Capital Flight, and Shareholder Wealth Maximization. AU Stulz, Rene M.; Wasserfallen, Walter.

Weale, Martin R.
TI Measurement Error With Accounting Constraints: Point and Interval Estimation for Latent Data With an Application to UK Gross Domestic Product. AU Smith, Richard J.; Weale, Martin R.; Satchell, Steven E.

Wei, Shang-Jin
PD September 1995. TI Open Regionalism In a World of Continental Trade Blocs. AU Wei, Shang-Jin; Frankel, Jeffrey A. AA Wei: Harvard University and National Bureau of Economic Research. Frankel: University of California, Berkeley and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 5272; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 27. PR $5.00. JE F13, F15. KW Trade Blocs. Welfare. Non-Tariff Barriers.
AB Continental trade blocs are emerging in many parts of the world almost in tandem. If trade blocs are required to satisfy the McMillan criterion of not lowering their trade volume with outside countries, they have to engage in a dramatic reduction of trade barriers against non-member countries. That may not be politically feasible. On the other hand, in a world of simultaneous continental trade blocs, an open regionalism in which trade blocs undertake relatively modest external

liberalization can usually produce Pareto improvement. In the bilateral trade data for the period 1970-92, there are indeed regions that, while exhibiting an inward trade bias, nevertheless are consistent with this notion of open regionalism.

Weil, D. N.
TI The Gender Gap, Fertility and Growth. AU Galor, Oded; Weil, D. N.

Weiss, Yoram
PD November 1995. TI Match Quality, New Information and Marital Dissolution. AU Weiss, Yoram; Willis, Robert J. AA Weiss: Tel-Aviv University and NORC. Willis: University of Chicago and NORC. SR Tel Aviv Sackler Institute of Economic Studies Working Paper: 33/95; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. PG 60. PR no charge. JE J12, C11, D91, J24. KW Divorce. Surprises. Husband. Wife. Predicted Earnings.
AB This paper investigates the role of surprises in marital dissolution. Surprises consists of changes in the predicted earning capacity of either spouse. Data from the National Longitudinal Study of the High School Class of 1972 is used. We find that: An unexpected increase in the husband's earnings capacity reduces the divorce hazard while an unexpected increase in the wife's earning capacity raises the divorce hazard. Couples sort into marriage according to characteristics which are likely to enhance the stability of the marriage. The divorce hazard is initially increasing with the duration of marriage, and the presence of children and high levels of property stabilizes the marriage.

TI Why Do We Care What Others Think About Us?
AU Fershtman, Chaim; Weiss, Yoram.

Weller, Paul A.
TI Endogenous Realignments and the Sustainability of a Target Zone. AU Corbae, P. Dean; Neely, Christopher J.; Weller, Paul A.

Wellisch, Dietmar
TI Strategic Public Provision of Local Inputs for Oligopolistic Firms in the Presence of Endogenous Location Choices. AU Walz, Uwe; Wellisch, Dietmar.

Widgren, Mika
PD January 1996. TI A Voting Power Analysis of Supranational and National Influence in the EU. AA Yrjo Jahnsson Foundation. SR Centre for Economic Policy Research, Discussion Paper: 1288; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG 20. PR 4 pounds or $8.00. JE C71, D71. KW European Union. Game Theory. Voting Power.
AB The paper deals with aspects of national and supranational influence in the European Union. The aim of this paper is three-fold. First, it deals with the relationship between the Council and Commission by applying the standard measures of voting power of cooperative games. It then extends the voting game of 15 countries in the Council of Ministers to a voting game of 16 actors: the Commission plus 15 member states. This is done by taking into account that a Commission proposal is always required for the Council to take a decision.

Second, the paper analyzes the impact of alternative rules and compares the problems they have with the current rule. Third, the paper investigates how these problems could be avoided.

Wilkinson, David

TI Trade Unions and Training Practices in British Workplaces. **AU** Green, Francis; Machin, Stephen; Wilkinson, David.

Williams, Iestyn

PD March 1996. **TI** Project Development, Liquidation Values and Multiple Creditor Borrowing. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9613; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 43. **PR** no charge. **JE** G32, G33. **KW** Incomplete Contracts. Debt Structure. Liquidation Values. Renegotiation.
AB In this paper we consider the debt financing of an entrepreneurial project. To encourage asset-specific investment and loan repayment by the entrepreneur, debt should be structured to minimize both (voluntary) strategic default, and liquidation following (unavoidable) liquidity default. Liquidation incentives are critical and depend crucially on creditor characteristics. In general, borrowing from multiple creditors with contrasting attributes is found to be optimal. The benefits of borrowing from a creditor who also undertakes project trade are also explored.

PD March 1996. **TI** Integration and Investment Specificity. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9614; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. website: www.soton.ac.uk/discp.html. **PG** 39. **PR** no charge. **JE** D23, L12, L22. **KW** Incomplete Contracts. Asset Specificity. Integration. Industry. Structure.
AB In this paper the relationship between asset ownership and investment specificity is examined. In an incomplete contract environment, asset control encourages efficient, asset-specific investment by owners. However, lock-in fears lead non-owners to choose widely applicable but less effective investment. The endogenous interactions between asset ownership, firms' technology choices and worker human capital investment are explored. The specificity of a given investment is found to depend on industry-wide integration patterns. Consequently, the costs and benefits of individual integration decisions are sensitive to overall industry structure.

TI Investment Specificity, Vertical Integration and Market Foreclosure. **AU** Bickenbach, Frank; Williams, Iestyn.

Williamson, Jeffrey G.

TI The Impact of Immigration on American Labor Markets Prior to the Quotas. **AU** Hatton, Timothy J.; Williamson, Jeffrey G.

TI Around the European Periphery 1870-1913: Globalization, Schooling and Growth. **AU** O'Rourke, Kevin H.; Williamson, Jeffrey G.

Willis, Robert J.

TI Match Quality, New Information and Marital Dissolution. **AU** Weiss, Yoram; Willis, Robert J.

Wilson, Moira

PD September 1995. **TI** Earnings Distributions From the Family Expenditure Survey and the New Earnings Survey Compared. **AA** University of Cambridge. **SR** University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9534; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **PG** 46. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C42, D31, J31. **KW** Earnings Distribution. Survey. UK. Income Inequality.
AB This paper provides an assessment of the individual earnings data for full-time employees based on comparison of the Family Expenditure Survey with the New Earnings Survey, a much larger survey, for the years 1991, 1992 and 1993. The differences observed in the first two years compared are not of a size or nature that suggests that they cannot be explained by the contrasting survey methods and measures. The similarities are sufficiently impressive to suggest that the Family Expenditure Survey provides reliable data on the distribution of individual earnings. In 1993, however, the comparison is quite altered. Median earnings are substantially lower than those from the New Earnings Survey and the relative dispersion of earnings is greater. It remains to be seen whether this the beginning of a permanent shift in the relationship between Family Expenditure Survey and New Earnings Survey earnings.

Winship, Christopher

TI A Reanalysis of the Bell Curve. **AU** Korenman, Sanders; Winship, Christopher.

Winter-Ebmer, Rudolf

TI East European Trade and the Austrian Labour Market. **AU** Aiginger, Karl; Winter-Ebmer, Rudolf; Zweimuller, Josef.

PD February 1996. **TI** Immigration, Trade, and Austrian Unemployment. **AU** Winter-Ebmer, Rudolf; Zweimuller, Josef. **AA** Winter-Ebmer: University of California, Berkeley. Zweimuller: University of Linz. **SR** Centre for Economic Policy Research, Discussion Paper: 1346; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. **PG** 32. **PR** 4 pounds or $8.00. **JE** F14, J61, J64. **KW** Trade. Immigration. Labor Market. Unemployment.
AB In this paper we look at the effects of immigration and trade with Eastern Europe on unemployment in Austria. Using individual data over the period 1989-92 of male blue-collar workers employed in the Austrian manufacturing sector, we decompose possible detrimental impacts in unemployment entry effects and unemployment duration effects. We find that unemployment entry does not seem to be strongly affected by the recent increase in the flow of immigrants. This is different from the immigration effect on unemployment duration. Within almost all subgroups there is a significant increase in the length of unemployment spells as a result of increased immigration. Increased trade with Central and East European Countries (CEECs) seems to have increased the risk of unemployment entry, and to a lesser extent also the duration of unemployment.

This is different from trade with the rest of the world, where export increases have an unemployment reducing effect.

Winters, L Alan

PD   January 1996. TI   Regionalism and the Rest of the World: The Irrelevance of the Kemp- Wan Theorem. AA   The World Bank. SR   Centre for Economic Policy Research, Discussion Paper: 1316; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   20. PR   4 pounds or $8.00. JE   F15, F13. KW   Regional Integration. Kemp-Wan. Terms of Trade.
AB   Many commentators purport to use the Kemp-Wan Theorem to discuss the effects of regional integration schemes on non-member countries, and to operationalize the theorem in terms of the share of member countries' imports from non-members. This paper shows that Kemp and Wan (1976) say nothing about changes in non-member welfare and that the latter is more closely related to non-members' imports than to their shares of members' markets. The paper suggests that a new approach to this issue is required.

TI   Deepening of Regional Integration and Multilateral Trade Agreements. AU   Bond, Eric W.; Syropoulos, Constantinos; Winters, L Alan.

Winton, Andrew

TI   Bank Capital Regulation in General Equilibrium. AU   Gorton, Gary; Winton, Andrew.

Wise, David A.

TI   Why Are Retirement Rates So High At Age 65? AU   Lumsdaine, Robin L.; Stock, James H.; Wise, David A.

Wizman, Thierry A.

TI   Asset Pricing Models with and without Consumption: An Empirical Evaluation. AU   Hardouvelis, Gikas A.; Kim, Dongcheol; Wizman, Thierry A.

Wolpin, Kenneth I.

TI   Estimating the Effect of Labor Market Discrimination on Black-White Differences in Wage Offers Using a Search-Matching Bargaining Model. AU   Eckstein, Zvi; Wolpin, Kenneth I.

Woodford, Michael

PD   August 1995. TI   Price Level Determinacy Without Control of a Monetary Aggregate. AA   Princeton University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 5204; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG   36. PR $5.00. JE   E42, E31, E62. KW   Inflation. Free Banking. Monetary Policy.
AB   It is shown that the price level remains determinate even in the case of two kinds of radical money supply endogeneity -- an interest rate peg by the central bank, and a "free banking" regime -- that are commonly supposed to imply loss of control of the price level. Price level determination under such regimes can be understood in terms of a "fiscal theory of the price level," according to which the equilibrium price level is that level that makes the real value of nominally denominated government liabilities equal to the present value of expected future government budget surpluses. The application of the fiscal theory of the price level to exogenous-money regimes is

sketched as well.

Wooton, Ian

TI   Reciprocal Anti-Dumping and the Location of Firms. AU   Haaland, Jan I.; Wooton, Ian.

Wright, Stephen

PD   June 1995. TI   Forecasting the Bond Market. AA   University of Cambridge. SR   University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9515; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG   26. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE   E43, E52, G14. KW   Efficiency. Trading Rules. Interest Rates. Monetary Policy.
AB   Jensen (1978) describes a market as efficient if it is impossible to make economic profits by trading on the basis of available information. On this criterion, the bond markets of the United States, the United Kingdom and Germany are all inefficient. Trading rules which switch between bonds and cash on the basis of recursive econometric forecasts of bond price changes are shown to earn rates of return higher than bonds, and comparable to the return on equities, with lower volatility of returns than either. Underlying this inefficiency is an apparent tendency to understate the stabilizing impact of monetary policy.

Xiaoqiang, Wang

PD   January 1996. TI   Transcending the Logic of Private Ownership: Chinese Enterprise Reform Vs. Privatisation. AA   University of Cambridge. SR   University of Cambridge, Department of Applied Economics Working Paper, Amalgamated Series: 9602; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. PG   73. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE   C11, O17, O53, P21. KW   China. Transition. Enterprise Reform.
AB   How are state-owned enterprises to be reformed? Privatization seems to be the obvious solution. This paper argues that enterprise reform in the transition should focus on enhancing managerial autonomy. In China, the state sector has been withdrawing from downstream industries and concentrating on upstream industries. There have been four types of enterprise reform in China, the "contract responsibility system", the enterprise group, the joint-venture and the joint-stock company. There are leading to enhanced managerial autonomy rather than privatization. The "ownership maze" in China leaves a huge space for the state to intervene. Therefore, reform of the government is another core of the transition.

Yafeh, Yishay

PD   May 1995. TI   Large Shareholders and Banks: Who Monitors and How? AU   Yafeh, Yishay; Yosha, Oved. AA   Yafeh: Hebrew University. Yosha: Tel Aviv University. SR   Centre for Economic Policy Research, Discussion Paper: 1178; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom. PG   44. PR   4 pounds or $8.00. JE   G21, G32, D82, M14. KW   Banking. Japan. Large Shareholders. Moral Hazard. Monitoring.
AB   We investigate the nature of monitoring by stake holders using data on Japanese manufacturing firms. Shareholders and

bank-centered corporate groups monitor firms by reducing activities with scope for managerial moral hazard such as advertising, research and development and entertainment expenses. Monitoring of this type takes place even when the monitored firm is not in financial distress. Although in Japan it is difficult to distinguish empirically between monitoring motivated by debt and monitoring motivated by equity stake, the data indicate that shareholders monitor firms continuously, while debt holders may intervene when firm performance is poor.

Yosha, Oved
TI   Large Shareholders and Banks: Who Monitors and How? AU   Yafeh, Yishay; Yosha, Oved.

Young, Alwyn
PD   August 1995. TI   Growth Without Scale Effects. AA   Boston University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 5211; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG   39. PR $5.00.   JE   O31, O41, L15.   KW   Innovation. Research. Product Quality. Variety.
AB   An increase in the size (scale) of an economy increases the total quantity of rents that can be captured by successful innovators which, in equilibrium, should lead to a rise in innovative activity. Conventional wisdom and the theoretical predictions of models of endogenous innovation suggest that this increased research effort should lead to more rapid growth. As noted by Jones (1993), this prediction is at odds with the postwar experience of the OECD, where the growth of the market has indeed led to an increased Research and Development (R&D) effort which, however, has been translated into stagnant or declining growth rates. Drawing upon the remarkable insights of the museum curator S.C. Gilfillan (1935), this paper modifies models of endogenous innovation to allow for the possibility that a rise in the profitability of innovative activity could lead to an increased variety of differentiated solutions to similar problems. An increased variety of technologies (e.g. an increase in the number and types of contraceptives) will increase the level of utility of the average consumer. If, however, continued improvement of this increased variety of technologies requires increased research input, a rise in the scale of the market could raise the equilibrium quantity of R&D, without increasing the economy's growth rate. Furthermore, increased product variety, brought about by increases in market size, might reduce the returns to improving product quality, paradoxically lowering an economy's growth rate while increasing the total resources devoted to R&D.

Yuen, Chi-Wa
TI   Can Capital Controls Alter the Inflation-Unemployment Tradeoff? AU   Razin, Assaf; Yuen, Chi-Wa.

TI   Can Capital Controls Alter the Inflation-Unemployment Trade-Off? AU   Razin, Assaf; Yuen, Chi-Wa.

TI   Labour Mobility and Fiscal Coordination: Setting Growth Agenda for an Economic Union. AU   Razin, Assaf; Yuen, Chi-Wa.

Zenou, Yves
TI   Labour   Specialization   and   City   Formation.

AU   Berliant, Marcus; Zenou, Yves.

Zhang, W.
TI   International Business Cycles and the ERM: Is there a European Business Cycle? AU   Artis, M. J.; Zhang, W.

Zilcha, Itzhak
PD   August 1996.   TI   Intergenerational   Transfers, Economic Growth and Income Distribution. AA   Tel-Aviv University. SR   Tel Aviv Sackler Institute of Economic Studies Working Paper: 27/96; Department of Economics, Tel Aviv University, Ramat Aviv 69978, ISRAEL. PG   30. PR   no   charge.   JE   D11,   D31,   D91,   E21,   H23. KW   Intergenerational Transfers. Economic Growth. Income Distribution. Altruism.
AB   We consider an Overlapping-generations economy where the aggregative production process uses physical capital and human capital. The human capital level of each individual is determined by the direct investment in education and some random "ability". The parents' investment in the education of their offspring is motivated by altruism. We distinguish between two types of transfers: Investment of parents in the education of their offspring, which affects her future income, and the direct capital transfer (the 'bequest motive'). We show that the intensity of each type of altruism plays an important role on the equilibrium growth and the income distributions, but the results differ significantly. Comparing competitive equilibria from the same initial capital and human capital distributions we derive the following results: (a) When altruism is more 'education-inclined', then economic growth is higher and the intragenerational income distributions are more equal (less equal), in all periods, if the aggregate production function's elasticity of substitution is larger (smaller) than 1; (b) When altruism is more "bequest-inclined", the growth rate is lower and the impact on the intragenerational distributions of income depends on the size of the elasticity of substitution. Public provision of education (financed by taxing wage incomes) reverses the results in (b).

Zilibotti, Fabrizio
TI   Was   Prometheus   Unbound   by   Chance?   Risk, Diversification and Growth. AU   Acemoglu, Daron; Zilibotti, Fabrizio.

Zimmermann, Klaus F.
TI   Integrating the East: The Labour Market Effects of Immigration. AU   Bauer, Thomas; Zimmermann, Klaus F.

TI   Wage and Mobility Effects of Trade and Migration. AU   Haisken-De New, John P.; Zimmermann, Klaus F.

Zingales, Luigi
TI   Why Do Companies Go Public? An Empirical Analysis. AU   Pagano, Marco; Panetta, Fabio; Zingales, Luigi.

Zoega, Gylfi
TI   Hiring   Risk   and   Labour   Market   Equilibrium. AU   Orszag, J. Michael; Zoega, Gylfi.

Zucker, Lynne G.
PD   July 1995.   TI   Collaboration   Structure   and Information Dilemmas in Biotechnology: Organization Boundaries As Trust Production. AU   Zucker, Lynne G.;

Brewer, Marilynn B.; Darby, Michael R.; Peng, Yusheng.
AA   Zucker and Darby: University of California, Los Angeles and National Bureau of Economic Research. Brewer: Ohio State University. Peng: Chinese University of Hong Kong.
AB   Scientists who make breakthrough discoveries can receive above- normal returns to their intellectual capital, with returns depending on the degree of natural excludability -- that is, whether necessary techniques can be learned through written reports or instead require hands-on experience with the discovering scientists or those trained by them in their laboratory. Privatizing discoveries, then, only requires selecting trusted others as collaborators, most often scientists working in the same organization. Within organizational boundaries, incentives become aligned based on repeat and future exchange, coupled with third-party monitoring and enforcement. We find that high value intellectual capital paradoxically predicts both a larger number of collaborators and more of that network contained within the same organization. Specifically, same-organization collaboration pairs are more likely when the value of the intellectual capital is high: both are highly productive "star" scientists, both are located in top quality bioscience university departments, or both are located in a firm (higher ability to capture returns). Collaboration across organization boundaries, in contrast, is negatively related to the value of intellectual capital and positively related to the number of times the star scientist has moved. Organizational boundaries act as information envelopes: The more valuable the information produced, the more its dissemination is limited. In geographic areas where a higher proportion of co-author pairs come from the same organization, diffusion of new collaborators is retarded.

AB   This paper is a case of study of the transformation in research methods which occurred in a large U.S. pharmaceutical firm as a result of the biotechnology revolution. This transformation is inconsistent with the hypothesis that technological revolutions make existing firms obsolete (because of rigidity of core task routines) and consistent with our wealth-maximization hypothesis under which valuable assets (such as delivery know-how and other complementary technologies) will not be wasted if technological change in part of the organization is necessary for the remainder to maintain its competitiveness. While the transformation was achieved through a variety of methods, the primary route was hiring new personnel possessing the new technology and incorporating them into the existing structure. While the technological transformation has been profound, biotechnology applications in this large incumbent firm are more likely to be used in combination with other technologies than in the new biotechnology firms (NBF's) which tend to use biotechnology for both discovery and production of new therapeutic entities. This difference in emphasis may result in value- enhancing synergies because of the wealth of related knowledge which makes for more effective applications of the new technologies, but it could also retard full adoption of biotechnology. Resolution of this empirical question is the subject of future research. It appears that this firm was somewhat slower than the dedicated biotech firms to adopt the new technology, but once the decision was made to transform the technological identity of the firm massive resources were provided to recruit the intellectual human capital required to make it happen.

Zweimuller, Josef