ABSTRACTS OF WORKING PAPERS IN ECONOMICS

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

Aaronson, Stephanie

PD February 2001. **TI** Looking Ahead: Young Men, Wage Growth and Labor Market Participation. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/19; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 47. **PR** no charge. **JE** J22, J24, J31. **KW** Labor Supply. Wage Growth. Labor Force. Work Experience. Human Capital.

AB Despite the long economic expansion, employment among young men is lower today than it was in the late 1960s. This decline has been largely driven by a 17 percentage point reduction in the proportion of high school dropouts working even a single week per year. One common explanation for this trend, declining real wages, ignores the fact that the value of working today depends on future returns to experience. This paper estimates a model of labor supply with returns to experience as an explanatory variable, using data from the Current Population Survey. The classic myopic labor supply model (in which only the current wage matters) is rejected in favor of one that includes forward-looking considerations, embodied in returns to experience. For high school dropouts, decreasing returns to experience explain 30% of the decline in participation between 1967 and 1977. Changes in wages do not explain any of this trend. During the 1980s, declining wages result in an under-prediction in the annual participation of college graduates. Rising wage growth rates explain the higher rates of participation.

Abbink, Klaus

PD January 2000. **TI** Fair Salaries and the Moral Costs of Corruption. **AA** University of Bonn. **SR** University of Bonn, Bonn Graduate School of Economics Discussion Paper: 01/2000; Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland, Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 5. **PR** no charge. **JE** C91, D62, D72, D73, K42. **KW** Corruption. Reciprocity. Fairness. Public Sector Salaries. Experiments.

AB In a bribery experiment, we test the hypothesis that distributive fairness considerations make relatively well-paid public officials less corruptible. Corrupt decisions impose damages to workers whose wage is varied in two treatments. However, there is no apparent difference in behavior.

PD October 1999. **TI** An Experimental Bribery Game. **AU** Abbink, Klaus; Irlenbusch, Bernd; Renner, Elke. **AA** Abbink and Irlenbusch: University of Bonn. Renner: WHU. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: B/459; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 23. **PR** no charge. **JE** C91, D62, D72, D73, K42. **KW** Corruption. Experiments. Reciprocity. Fairness. Repeated Games.

AB Essential characteristics of corruption are (1) a reciprocity relationship between briber and public official, (2) negative welfare effects, and (3) high penalties when discovered. We separate the influences of these factors in an experiment. In a two-player game reciprocation is economically inefficient through negative externalities. A control treatment without externalities is also conducted. In a third, so-called sudden death treatment, corrupt pairs face a low probability of exclusion from the experiment without payment. The results show that reciprocity establishes bribery relationships, where negative externalities have no apparent effect. The penalty threat significantly reduces corruption, although discovery probabilities are typically underestimated.

PD October 1999. **TI** Staff Rotation: A Powerful Weapon Against Corruption? **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: B/460; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 15. **PR** no charge. **JE** C91, D62, D72, D73, K42. **KW** Corruption. Staff Rotation. Repeated Games. Bribery. Experiments.

AB The German federal government intends to introduce regular staff rotation as a precautionary measure against corruption in public administrations. To test the effectiveness of this instrument, we conduct an experiment using the bribery game by Abbink, Irlenbusch, and Renner (1999), in which pairs of potential bribers and public officials are randomly re-matched in every round. The data are compared to the analogous treatment with fixed pairs. The results provide strong evidence for the effectiveness of staff rotation in the experimental environment. The level of bribes as well as the frequency of inefficient decisions caused by bribery are reduced significantly.

Abellan-Perpinan, Jose-Maria

TI Equity Considerations in Health Care: An Axiomatic Bargaining Approach. **AU** Cuadras-Morato, Xavier; Pinto, Jose Luis; Abellan-Perpinan, Jose-Maria.

Abrams, Richard K.

PD December 2000. **TI** Issues in the Unification of

Financial Sector Supervision. **AU** Abrams, Richard K.; Taylor, Michael W. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/213; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 32. **PR** not available. **JE** G18, G28, K23, L52. **KW** Financial Services Regulation. Prudential Supervision. Regulatory Agencies.

AB The paper considers the generic arguments for and against the creation of a unified regulatory agency, covering each of the main types of financial institutions (banks, insurers and securities firms). The strongest arguments for unification are the enhanced oversight of financial conglomerates and the economies of scale they can potentially deliver. However, there are also a number of potentially serious disadvantages to unification, especially the risk that the change process will be mismanaged and will result in a reduction in regulatory capacity. The issue requires careful deliberation and ultimately depends on a matrix of factors which vary in importance from country to country.

Abul Naga, Ramses

PD July 1999. **TI** Panel Data Estimation of the Intergenerational Correlation of Incomes. **AU** Abul Naga, Ramses; Krishnakumar, Jaya. **AA** Abul Naga: University of Lausanne. Krishnakumar: Universite de Geneve. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9910; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 27. **PR** no charge. **JE** C23, C33, D31, J31, J62. **KW** Intergenerational Mobility. Panel Data. Income Transmission. Children.

AB We consider the problem of estimating the intergenerational correlation of incomes in the context of a panel data framework with measurement errors. We present single equation estimation methods as well as system methods under various assumptions regarding the serial correlation of the error term and taking into account possible correlations among children of the same family. Application to a sample of US parents and children leads to estimates of the order of 0.42 to 0.60 for the coefficient of income transmission.

Acemoglu, Daron

PD September 2000. **TI** Credit Market Imperfections and Persistent Unemployment. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/20; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 12. **PR** \$7.00 US, Canada, Mexico; \$10.00 other international. **JE** E24, J64, O16, O31, O40. **KW** Technological Change. Employment Growth. Unemployment. Credit Markets. Job Creation.

AB This paper develops the thesis that credit market frictions may be an important contributor to high unemployment in Europe. When a change in the technological regime necessitates the creation of new firms, this can happen relatively rapidly in the U.S. where credit markets function efficiently. In contrast, in Europe, job creation is constrained by credit market imperfections, so unemployment rises and remains high for an extended period. The data show that there has not been slower growth in the most credit dependent industries in Europe relative to the U.S., but the share of employment in these industries is lower than in the U.S. This suggests that although credit market imperfections are unlikely to have been the major cause of the increase in European unemployment, they may have played some role in limiting European employment growth.

PD September 2000. **TI** The Colonial Origins of Comparative Development: An Empirical Investigation. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A. **AA** Acemoglu and Johnson: Massachusetts Institute of Technology. Robinson: University of California, Berkeley. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/22; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 42. **PR** \$7.00 US, Canada, Mexico; \$10.00 other international. **JE** N10, O11, O19, O20, P10. **KW** Colonizing Institutions. Income Per Capita. Africa. Mortality. Development.

AB We exploit differences in the mortality rates faced by European colonialists to estimate the effect of institutions on economic performance. Our argument is that Europeans adopted very different colonization policies in different colonies, with different associated institutions. The choice of colonization strategy was, at least in part, determined by whether Europeans could settle in the colony. In places where Europeans faced high mortality rates, they could not settle and they were more likely to set up worse (extractive) institutions. These early institutions persisted to the present. We document evidence supporting these hypotheses. Exploiting differences in mortality rates faced by soldiers, bishops and sailors in the colonies in the 17th, 18th, and 19th centuries as an instrument for current institutions, we estimate large effects of institutions on income per capita. Our estimates imply that differences in institutions explain approximately three-quarters of the income per capita differences across former colonies. Once we control for the effect of institutions, we find that countries in Africa or those closer to the equator do not have lower incomes.

PD September 2000. **TI** Changes in the Wage Structure, Family Income, and Children's Education. **AU** Acemoglu, Daron; Pischke, Jorn-Steffen. **AA** Acemoglu: Massachusetts Institute of Technology. Pischke: London School of Economics. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/29; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 9. **PR** \$7.00 US, Canada, Mexico; \$10.00 other international. **JE** D31, J24, I21, J31. **KW** Enrollment. Four-year Colleges. Income Distribution. Education. Wages.

AB We exploit the changes in the distribution of family income to estimate the effect of parental resources on college education. Our strategy exploits the fact that families at the bottom of the income distribution were much poorer in the 1990s than they were in the 1970s, while the opposite is true for families in the top quartile of the distribution. Our estimates suggest large effects of family income on enrollments. For example, we find that a 10 percent increase in family income is associated with a 1.4 percent increase in the probability of attending a four-year college.

PD December 2000. **TI** The World Income Distribution. **AU** Acemoglu, Daron; Ventura, Jaume. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/01;

Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 32. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** D31, F12, F13, F43, O41. **KW** Income Distribution. Endogenous Growth. International Trade. Specialization. Terms of Trade.

AB The authors show that even in the absence of diminishing returns in production and technological spillovers, international trade leads to a stable world income distribution. This is because specialization and trade introduce de facto diminishing returns: Countries that accumulate capital faster than average experience declining export prices, depressing the rate of return to capital and discouraging further accumulation. Because of constant returns to capital accumulation at the country level, the cross-sectional behavior of the world economy is similar to that of existing exogenous growth models: Cross-country variation in economic policies, savings, and technology translate into cross-country variation in incomes, and country dynamics exhibit conditional convergence as in the Solow-Ramsey model. The dispersion of the world income distribution is determined by the forces that shape the strength of the terms of trade-effects -- the degree of openness to international trade and the extent of specialization. Finally, the authors provide evidence that those countries accumulating faster experience a worsening in their terms of trade.

Affuso, Luisa

PD July 2000. **TI** Intra-Firm Retail Contracting: Survey Evidence from the UK. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0022; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 24. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** C35, D82, L14, L22, L42. **KW** Firm Organization. Vertical Integration. Franchise Contracts. Asymmetric Information. Retail.

AB This paper looks at intra-firm contractual practices in retailing. It examines existing explanations, illustrates some limitations and proposes a new hypothesis to explain the adoption of both vertical integration and delegation within firms. This focuses on the human capital of potential retailers, i.e. on the existence of a 'workers' selection mechanism' to determine the contract choice. This hypothesis is supported by evidence from a survey of UK companies conducted for the purpose of this study. Further hypotheses are tested by means of econometric analysis.

PD November 2000. **TI** Comparing Investments on New Transport Infrastructure: Roads vs. Railways? **AU** Affuso, Luisa; Masson, Julien; Newbery, David. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0021; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 36. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D61, L92, L98, R42, R48. **KW** Transport Systems. Investment. Surface Transportation. Infrastructure. Cost-Benefit Analysis.

AB This paper contributes to the debate on investment in transport infrastructure and the allocation of public funds between road and railway projects. We use a consistent social cost-benefit methodology to appraise investment in typical new inter-urban road and rail projects. Our results suggest that road improvements have substantially higher returns than railway schemes. These findings cast doubt on the rationale of the new transport policy for the UK which proposes to allocate more public funds to the (private) railways than total new investment in strategic roads.

Aghion, Philippe

PD September 1999. **TI** A Simple Model of Monetary Policy and Currency Crises. **AU** Aghion, Philippe; Bacchetta, Philippe; Banerjee, Abhijit V. **AA** Aghion: University College London, EBRD and CEPR. Bacchetta: University of Lausanne and CEPR. Banerjee: Massachusetts Institute of Technology. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9914; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 10. **PR** no charge. **JE** E42, E43, E52, F31, F32. **KW** Monetary Policy. Foreign Currency Debt. Currency Crises. Interest Rates. Development.

AB This paper analyzes the optimal interest rate policy in currency crises. Firms are credit constrained and have debt in domestic and foreign currency, a situation that may easily lead to a currency crisis. An interest rate increase has an ambiguous effect on firms since it both makes it more difficult to borrow and may decrease the foreign currency debt burden. In some cases it is actually best to decrease the interest rate. We also show how these issues are related to development of the financial system.

Ahearne, Alan G.

PD December 2000. **TI** Information Costs and Home Bias: An Analysis of U.S. Holdings of Foreign Equities. **AU** Ahearne, Alan G.; Griever, William L.; Warnock, Francis E. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 691; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 44. **PR** no charge. **JE** G11, G14, G15, K22, M40. **KW** Asymmetric Information. Investor Protection. Accounting Standards. Portfolio Choice. Information Costs.

AB The authors aim to provide insight into the observed equity home bias phenomenon by analyzing the determinants of U.S. holdings of equities across a wide range of countries. In particular, they explore the role of information costs in determining the country distribution of U.S. investors' equity holdings using a comprehensive new data set on U.S. ownership of foreign stocks. They find that U.S. holdings of a country's equities are positively related to the share of that country's stock market that is listed on U.S. exchanges. The authors attribute this finding to the fact that foreign firms that list on U.S. exchanges are obliged to provide standardized, credible financial information, thereby reducing information costs incurred by U.S. investors. This obligation stems from U.S. investor protection regulations, which include stringent disclosure requirements, reconciliation of financial statements to U.S. standards, and an investor-friendly regulatory environment. The results support the hypothesis that information costs are an important source of home bias: Foreign countries whose firms do not alleviate information costs by listing on a U.S. exchange are more severely underweighted in U.S. equity portfolios.

Aidt, Toke Skovsgaard

PD November 2000. **TI** The Rise of Environmentalism, Pollution Taxes and Intra-Industry Trade. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0017; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 31. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D62, D72, F12, Q23, Q28. **KW** Externalities. Pollution Taxes. Lobby Groups. International Trade. Environment.

AB Many industrialized countries have experienced an increase in environmental awareness and support to green lobby groups in past decades. This paper develops a political-economy model to investigate to what extent a rise of environmentalism, via the induced change in political power structures, can successfully encourage higher pollution taxes and reduce pollution. The model focuses on special-interest group politics, intra-industry trade and a transnational environmental externality. The main finding is that a rise of environmentalism is not sufficient to protect the environment when pollution is relatively immobile and environmentalists are sufficiently concerned with environmental damage in other countries than their own.

Albers, Wulf

PD December 1999. **TI** Experimental Evidence for Attractions to Chance. **AU** Albers, Wulf; Pope, Robin; Selten, Reinhard; Vogt, Bodo. **AA** Albers and Vogt: University of Bielefeld. Pope and Selten: University of Bielefeld and University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: B/461; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni- bonn.de/bgse/liste.html. **PG** 12. **PR** no charge. **JE** C91, D81. **KW** Attractions to Chance. Decision Making. Tension. Post-Outcome Elation. Regret.

AB Divide the decisionmaker's future into: (i) a pre-outcome period (lasting from the decision until the outcome of that decision is known), and (ii) a sequel post-outcome period (beginning when the outcome becomes known). Anticipated emotions in both periods may influence the decision, in particular, with regard to an outcome that matters to the person, the enjoyable tension from not yet knowing what this outcome will be. In the experiments presented, lottery choice can be explained by this attraction to chance, and cannot be explained by either convex von Neumann-Morgenstern utility, or by rank dependent risk loving weights: attraction to chance is a separate motivator.

Almond, Douglas

TI Capital, Wages and Growth: Theory and Evidence. **AU** Ciccone, Antonio; Peri, Giovanni; Almond, Douglas.

Aloi, Marta

PD June 2000. **TI** Endogenous Business Cycles and Stabilization Policies. **AU** Aloi, Marta; Jorgen Jacobsen, Hans; Lloyd-Braga, Teresa. **AA** Aloi: University of Nottingham. Jorgen Jacobsen: University of Copenhagen. Lloyd-Braga: Universidad Catolica Portuguesa. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 476; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 22. **PR** papers only available on web page; no hard copies. **JE** E32, E52, E61, E63. **KW** Endogenous Business Cycles. Stabilization Policy.

AB The paper reports results on the effects of stylized stabilization policies on endogenously created fluctuations. A simple monetary model with intertemporally optimizing agents is considered. Fluctuations in output may occur due to fluctuations in labor supply which are again caused by volatile expectations which are "self fulfilling", i.e. correct given the model. It turns out that stabilization policies that are sufficiently countercyclical in the sense that government spending (on transfers or demand) depends sufficiently strongly negatively on GNP-increases can stabilize the economy at a monetary steady state for an arbitrarily low degree of distortion of that steady state. Such stabilization has unambiguously good welfare effects and can be achieved without features such as positive lump sum taxation or negative income taxation as part of the stabilization policy.

Altissimo, Filippo

PD November 2000. **TI** Strong Rules for Detecting the Number of Breaks in a Time Series. **AU** Altissimo, Filippo; Corradi, Valentina. **AA** Altissimo: Bank of Italy. Corradi: University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 00/11; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 45. **PR** no charge. **JE** C12, C22. **KW** FLIL. Iterated Logarithm. Multiple Structural Breaks. Sequential Hypothesis Testing.

AB This paper proposes a new approach for detecting the number of structural breaks in a time series when estimation of the breaks is performed one at the time. We consider the case of shifts in the mean of a possibly nonlinear process, allowing for dependent and heterogeneous observations. This is accomplished through a simple, sequential, almost sure rule ensuring that, in large samples, both the probabilities of overestimating and underestimating the number of breaks are zero. A new estimator for the long run variance which is consistent also in the presence of neglected breaks is proposed. The finite sample behavior is investigated via a simulation exercise. The sequential procedure, applied to the weekly Eurodollar interest rate, detects multiple breaks over the period 1973-1995.

PD November 2000. **TI** Bounds for Inference With Nuisance Parameters Present Only Under the Alternative. **AU** Altissimo, Filippo; Corradi, Valentina. **AA** Altissimo: Bank of Italy. Corradi: University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 00/13; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 42. **PR** no charge. **JE** C12, C22. **KW** Inference Bounds. Nuisance Parameters.

AB In hypothesis testing with nuisance parameters present only under the alternative two issues typically arise: (i) critical values are date dependent and so cannot be tabulated; (ii) we need to choose a functional over the nuisance parameter space. We address the first issue by providing easily computable

https://doi.org/10.1017/S0951007900005337 Published online by Cambridge University Press

bounds for the case of dependent and heterogeneous observations. We tackle the second issue by suggesting a weighted average statistic with weights given by the (quasi) likelihood over the nuisance parameter space. The small sample behavior of our procedure is analyzed via few Monte Carlo simulations: we consider conditional moment tests and tests for nonlinearities in the SETAR model. For samples of 200-400 observations, the behavior of the suggested weighted average statistic is rather satisfactory. An empirical illustration using date on U.S. male unemployment is provided.

Amel, Dean F.

PD February 2001. **TI** Market Definition in Banking: Recent Evidence. **AU** Amel, Dean F.; Starr-McCluer, Martha. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/16; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 26. **PR** no charge. **JE** G21, G28, G34, K21, L41. **KW** Market Definition. Antitrust. Banking. Mergers.

AB Antitrust analysis of bank mergers defines banking markets to be geographically local and to consist of the cluster of financial products supplied by commercial banks. This definition is based on assumptions about households' and small businesses' behavior in purchasing banking services. This article utilizes data from the Survey of Consumer Finances to examine how households' use of financial services and institutions changed between 1989 and 1998. We investigate the extent to which households still focus their purchases of financial services at local depository institutions, as opposed to non-depository or distant institutions, and examine the extent to which purchases are clustered at a single institution. Overall, the results indicate that households continue, to a substantial degree, to obtain certain key asset services, notably checking accounts, at local depository institutions.

Andersson, Fredrik

TI Tax Competition and Economic Geography. **AU** Forslid, Rikard; Andersson, Fredrik.

Angeletos, George-Marios

PD December 2000. **TI** Fiscal Policy with Non-Contingent Debt and the Optimal Maturity Structure. **AA** Harvard University and Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/32; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 37. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** D52, E43, E62, H21, H63. **KW** Fiscal Policy. Debt Management. Maturity Structure. Term Structure. Incomplete Markets.

AB Two puzzling observations have motivated this paper: First, the standard paradigm of optimal fiscal policy, following Lucas and Stokey (1983), assumes counterfactually that public debt is held in state- contingent securities. Is the existing theory as irrelevant as it is silent about fiscal policy with non-contingent debt? Second, when debt is assumed state-contingent, the maturity structure is irrelevant for tax smoothing and thus indeterminate. Are we left with no theory for the optimal maturity structure? The resolution we propose to both puzzles is reassuring: We show that the maturity structure can substitute for state-contingent debt. Our argument exploits the endogenous state dependence of the equilibrium term structure of interest rates. In general equilibrium we can implement almost every Arrow-Debreu allocation with just non-contingent debt. This in turn provides us with a novel theory for the optimal maturity structure of public debt.

PD December 2000. **TI** Incomplete Markets, Growth and the Business Cycle. **AU** Angeletos, George-Marios; Calvet, Laurent. **AA** Angeletos: Harvard University and Massachusetts Institute of Technology. Calvet: Harvard University. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/33; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 39. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** C60, D52, D91, E32, O40. **KW** Incomplete Markets. Idiosyncratic Risk. Precautionary Motive. Growth. Endogenous Fluctuations.

AB We introduce a Ramsey growth model with incomplete markets, decentralized production, and idiosyncratic technological risk. The combination of uninsurable shocks with the precautionary motive can slow down capital accumulation or give rise to persistent fluctuations, even when agents are very patient and technology is strictly convex. The model generates closed-form expressions for the equilibrium dynamics under a finite or infinite horizon. Multiple steady states and poverty traps can arise from the endogeneity of the interest rate instead of the usual wealth effect. Depending on the economy's parameters, the local dynamics around a steady state are locally unique, totally unstable or locally undetermined, and the equilibrium path can be attracted to a limit cycle. In calibrated examples, financial incompleteness substantially slows down convergence to the steady state and thus increases the persistence of aggregate shocks.

Antras, Pol

PD September 2000. **TI** Productivity Growth During the English Industrial Revolution: A Dual Approach. **AU** Antras, Pol; Voth, Hans-Joachim. **AA** Antras: MIT. Voth: Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 495; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 31. **PR** papers only available on web page; no hard copies. **JE** N13, O47, O52. **KW** Industrial Revolution. Productivity Growth. Dual Measurement. Economic History. Technological Change.

AB This paper presents new estimates of total factor productivity growth in Britain for the period 1770-1860. We use a dual technique recently popularized by Hsieh (1999), and argue that the estimates we derive from factor prices are of similar quality to quantity-based calculations. Our results provide further evidence, derived from this independent set of sources, that productivity growth during the British Industrial Revolution was relatively slow. During the years 1770-1800, TFP growth was close to zero, according to our estimates. The period 1800-1830 experienced an acceleration of productivity growth. The Crafts-Harley view of the Industrial Revolution is thus reinforced. We also consider alternative explanations of slow productivity growth, and reject the interpretation that focuses on the introduction of steam as a general purpose technology.

Arad, Nir

PD November 2000. **TI** An Explanation of Hyperbolic Marginal Utility from Money. **AA** Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 25/2000; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 15. **PR** no charge. **JE** D80, D91. **KW** Hyperbolic Discounting. Cognitive Procedure. Intertemporal Choice.

AB "Hyperbolic discount functions are characterized by a relatively high discount rate over short horizons and a relatively low discount rate over long horizons" (Laibson 1997, p. 445). In this theoretical note, the authors show that individuals hyperbolically discount marginal utility from money when they follow a cognitive procedure in which they believe that their wealth might increase or decrease in each future period under the constraint of a small perceived probability that wealth will deteriorate below its current level.

Aragones, Enriqueta

PD June 2001. **TI** Rhetoric and Analogies. **AU** Aragones, Enriqueta; Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David. **AA** Aragones: Universitat Pompeu Fabra. Gilboa and Schmeidler: Tel Aviv University. Postlewaite: University of Pennsylvania. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 15/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 24. **PR** no charge. **JE** A12, C60, C70, D80. **KW** Rhetoric. Analogy. Similarity. Case-Based Reasoning.

AB The art of rhetoric may be defined as changing other people's minds (opinions, beliefs) without providing them new information. One technique heavily used by rhetoric employs analogies. Using analogies, one may draw the listener's attention to similarities between cases and may reorganize existing information in a way that highlights certain regularities. In this paper the authors offer two models of analogies, discuss their theoretical equivalence, and show that finding good analogies is a computationally hard problem.

Arrunada, Benito

PD July 2000. **TI** Gestion de la competencia en el sector publico. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 490; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 36. **PR** papers only available on web page: no hard copies. **JE** H11, H42, H50, K23, M10. **KW** Public Management. Asymmetric Information. Regulation. Expense Centers. Bureaucracy.

AB To introduce competition in public management, users and providers must be given freedom and made responsible for their decisions, so they mutually control each other. The presence of monopolies and information asymmetries may provoke serious distortions, however. It usually calls for active regulation, which is costly and generates rent seeking. The relevance of these interactions is shown here by analyzing twelve public services in the fields of health, education and justice, in which the avoidance of monopolies, information asymmetries and rent seeking appear as important factors of organizational design. The solutions adopted either constrain decision rights or apply low-powered incentives, diluting participants' freedom and responsibility. With their weak incentives, these forms of attenuated competition settle for lower standards of performance but can be easily regulated with the standard tools of Public Administration, based on standardization of procedures and hierarchical supervision of the few decisions that remain discretionary. (This paper is written in a language other than English.).

Artis, Michael J.

PD August 1999. **TI** Fiscal Forecasting: The Track Record of the IMF, OECD, and EC. **AU** Artis, Michael J.; Marcellino, Massimiliano. **AA** Artis: European University Institute. Marcellino: Universita Bocconi. **SR** Centre for Economic Policy Research Discussion Paper: 2206; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 40. **PR** 5 pounds, 8 euros, or $8. **JE** C53, E17, H62. **KW** Fiscal Forecasting. Forecast Encompassing.

AB We analyze the relative performance of the IMF, OECD and EC in forecasting the government deficit, as a ratio to GDP, for the G7 countries. Interesting differences across countries emerge, sometimes supporting the hypothesis of an asymmetric loss function (i.e., of a preference for under prediction or over prediction), and potential benefits from forecast pooling.

Athey, Susan

PD August 2000. **TI** Identification of Standard Auction Models. **AU** Athey, Susan; Haile, Philip A. **AA** Athey: Massachusetts Institute of Technology. Haile: University of Wisconsin-Madison. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/18; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 35. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** C14, C52, D44, D80. **KW** Auctions. Nonparametric Methods. Values. Asymmetric Bidders. Unobserved Bids.

AB We present new identification results for models of first-price, second-price, ascending (English), and descending (Dutch) auctions. We analyze a general specification of bidders' preferences and the underlying information structure, nesting as special cases the pure private values and pure common values models, and allowing both ex ante symmetric and asymmetric bidders. We address identification of a series of such models and propose strategies for discriminating between them on the basis of observed data. In the simplest case, the symmetric independent private values model is nonparametrically identified even if only the transaction price from each auction is observed. For more complex models, we provide conditions for identification and testing when additional information of one of the following types is available: (i) one or more bids in addition to the transaction price; (ii) exogenous variation in the number of bidders; (iii) bidder-specific covariates that shift the distribution of valuations; (iv) the ex post realization of the value of the object sold. Our results include new tests that distinguish between private and common values models.

PD November 2000. **TI** Investment and Information Value for a Risk Averse Firm. **AA** Massachusetts Institute of Technology and NBER. **SR** Massachusetts Institute of

Technology, Department of Economics Working Paper: 00/30; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 28. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** C44, C60, D21, D81, G11. **KW** Portfolio Problem. Information. Investment. Risk Aversion. Stochastic Orderings.

AB This paper analyzes the problem faced by a risk-averse firm considering how much to invest in a risky project. The firm receives a signal about the value of the project. We derive necessary and sufficient conditions on the signal distribution such that (i) the agent's investment is non-decreasing in the realization of the signal and (ii) different signals can be ranked according to their ex-ante information value. Finally, we provide conditions under which it is possible to compare the incentive to acquire information across agents with different risk preferences, and we identify a class of utility functions for which agents who are less risk averse purchase more information.

PD March 2001. **TI** Organizational Design: Decision Rights and Incentive Contracts. **AU** Athey, Susan; Roberts, D. John. **AA** Athey: Massachusetts Institute of Technology, NBER. Roberts: Stanford University. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/12; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 10. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** D20, D82, G31, L20. **KW** Asymmetric Information. Corporate Finance. Contracts. Principal Agent. Investment.

AB We explore the interaction between the allocation of decision rights over investment opportunities and the design of incentive contracts to induce unobservable effort in a multitasking agency framework. These are linked in our model because the only available performance measures confound the two: the returns to investments are not directly observed by the principal, but instead affect the means of the signals on effort. In our model, the optimal effort-inducing incentives give very bad incentives for selecting investments, while providing incentives to make the right investment decisions is costly in terms of inducing effort. In this set-up, hierarchy can emerge endogenously with one agent being given authority to decide about implementing projects developed by another. The agents then get very different incentive contracts. Other solutions may involve each agent being empowered to adopt projects he has developed or both having to agree before a project is accepted. Bringing in a third agent to make investment decisions may also be optimal.

Auerbach, Alan

TI Organisational Values as "Attractors of Chaos": An Emerging Cultural Change to Manage Organisational Complexity. **AU** Dolan, Shimon; Garcia, Salvador; Diegoli, Samantha; Auerbach, Alan.

Auernheimer, Leonardo

PD October 2000. **TI** International Debt and the Price of Domestic Assets. **AU** Auernheimer, Leonardo; Garcia-Saltos, Roberto. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/177; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 28. **PR** not available. **JE** E32, E43, F34, G12, G15. **KW** Collateral. Asset Pricing. International Debt. Financial Accelerators. Capital.

AB This paper examines the behavior of indebtedness, consumption, and asset prices in a small open economy in which the foreign real interest rate depends not only on an exogenous world interest rate and on indebtedness, but also on the value of the capital stock, viewed as an implicit "collateral," and hence on the price of capital. The paper finds that the collateral effect magnifies the intensity of shocks to the economy and the duration of their impact. The collateral effect also generates additional distortions that could lead to overborrowing. The paper discusses the policy responses to these distortions.

Autor, David H.

PD September 2000. **TI** Upstairs, Downstairs: Computer-Skill Complementarity and Computer- Labor Substitution on Two Floors of a Large Bank. **AU** Autor, David H.; Levy, Frank; Murnane, Richard J. **AA** Autor: Massachusetts Institute of Technology and NBER. Levy: Harvard University and Massachusetts Institute of Technology. Murnane: Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/23; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 21. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** J31, J41, O32, O33. **KW** Technological Change. Banking. Skill. Organization of Production. Production Management.

AB We describe how a single technological innovation, the introduction of image processing of checks, led to distinctly different changes in the structure of jobs in two departments of a large bank overseen by one group of managers. In the downstairs deposit-processing department, image processing led to the substitution of computers for high school educated labor in accomplishing core tasks and in greater specialization in the jobs that remained. In the upstairs exceptions- processing department, image processing led to the integration of tasks, with an associated increase in the demand for particular skills. The case illustrates the interdependence of technological change and organizational change. It suggests that "seeing the whole picture" and associated conceptual and problem-solving skills are made more valuable by information technologies. Finally, it underscores that the short- term consequences of technological changes may depend importantly on regulatory forces.

PD September 2000. **TI** Wiring the Labor Market. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/25; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 20. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** D83, J41, O33. **KW** Internet. Technological Change. Job Search. Electronic Labor Market. Labor Demand.

AB Workers and jobs are naturally heterogeneous and the quality of their interaction when paired is difficult to forecast. The Internet promises to open new channels for worker-firm communications. What are the consequences of this opening? I discuss three labor market features that may be altered: how worker-firm matches are made; how labor services are delivered; and how local markets shape labor demand. Theory predicts these developments will produce social benefits. But

https://doi.org/10.1017/S0951007900005337 Published online by Cambridge University Press

the gains are unlikely to be uniform and realizing them will generate novel problems. One result may be the formation of new institutions to address issues accompanying these opportunities.

PD January 2001. **TI** Why Do Temporary Help Firms Provide Free General Skills Training? **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/03; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 31. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** D82, J31, J41. **KW** Asymmetric Information. Private Information. Wages. Wage Differentials. Training. Occupation.

AB The majority of U.S. temporary help supply firms (THS) offer nominally free, unrestricted computer skills training, a practice inconsistent with the competitive model of training. I propose and test a model in which firms offer general training to induce self-selection and perform screening of worker ability. The model implies, and the data confirm, that firms providing training attract higher ability workers yet pay them lower wages after training. Thus, beyond providing spot market labor, THS firms sell information about worker quality to their clients. The rapid growth of THS employment suggests that demand for worker screening is rising.

Bacchetta, Philippe

TI A Simple Model of Monetary Policy and Currency Crises. **AU** Aghion, Philippe; Bacchetta, Philippe; Banerjee, Abhijit V.

PD September 1999. **TI** Does Exchange Rate Stability Increase Trade and Welfare? **AU** Bacchetta, Philippe; van Wincoop, Eric. **AA** Bacchetta: University of Lausanne and CEPR. van Wincoop: Federal Reserve Bank of New York. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9917; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 28. **PR** no charge. **JE** D61, E42, F31, F33, F41. **KW** Exchange Rate Regimes. International Trade. Welfare. Purchasing Power Parity. Monetary Policy.

AB We develop a simple general equilibrium framework to study the effect of the exchange rate system on trade and welfare. An important feature of the model is deviations from purchasing power parity, caused by rigid price setting in buyers' currency. We find the following. First, exchange rate stability is not necessarily associated with more trade. In a simple benchmark model with separable preferences and only monetary shocks, trade is unaffected by the exchange rate system, consistent with most evidence. Second, both trade and welfare can be higher under either exchange rate system, depending on preferences and on the monetary policy rules followed under each system. Finally, in general there is no one-to-one relationship between the levels of trade and welfare across exchange rate systems.

Bai, Chong-en

TI Anonymous Banking and Financial Repression: How Does China's Reform Limit Government Predation without Reducing Its Revenue? **AU** Li, David; Qian, Yingyi; Wang, Yijiang; Bai, Chong-en.

Bakshi, Gurdip

PD February 2001. **TI** Investigating the Sources of Default Risk: Lessons from Empirically Evaluating Credit Risk Models. **AU** Bakshi, Gurdip; Madan, Dilip; Zhang, Frank. **AA** Bakshi and Madan: University of Maryland. Zhang: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/15; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 52. **PR** no charge. **JE** G12, G13. **KW** Credit Risk. Bond Valuation. Hedging. Defaultable Coupons.

AB From a credit risk perspective, little is known about the distress factors -- economy-wide or firm-specific -- that are important in explaining variations in defaultable coupon yields. This paper proposes and empirically tests a family of credit risk models. Empirically, we find that firm-specific distress factors play a role (beyond treasuries) in explaining defaultable coupon bond yields. Credit risk models that take into consideration leverage and book-to-market are found to reduce out-of-sample yield fitting errors (for the majority of firms). Moreover, the empirical evidence suggests that interest rate risk may be of first-order prominence for pricing and hedging. Measured by both out-of-sample pricing and hedging errors, the credit risk models perform relatively better for high grade bonds. Controlling for credit rating, the model's performance is generally superior for longer maturity bonds compared to their shorter maturity counterparts. Using equity as an instrument reduces hedging errors. This paper provides an empirical investigation of credit risk models using observable economic factors.

Balk, Bert M.

PD October 2000. **TI** A Characterization of the Tornqvist Price Index. **AU** Balk, Bert M.; Diewert, W. Erwin. **AA** Balk: Statistics Netherlands, Voorburg, The Netherlands. Diewert: University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/16; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 5. **PR** International. **JE** C43, E31, O47. **KW** Index Numbers. Axiomatic Approach. Tornqvist. Price Indexes.

AB This note provides an axiomatic characterization of the Tornqvist price index.

Ballart, Xavier

PD March 2000. **TI** Forest Fires: Evaluation of Government Intervention Measures. **AU** Ballart, Xavier; Riba, Clara. **AA** Ballart: Universitat Autonoma de Barcelona. Riba: Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 463; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 23. **PR** papers only available on web page; no hard copies. **JE** Q23, Q28. **KW** Forest Fires. Policy Evaluation. Prevention Measures. Extinction Measures.

AB The purpose of this paper is to examine the relation between government measures, volunteer participation, climate variables and forest fires. A number of studies have related forest fires to causes of ignition, to fire history in one area, to the type of vegetation and weather characteristics or to community institutions, but there is little research on the relation between fire production and government prevention and extinction measures from a policy evaluation perspective. An observational approach is first applied to select forest fires in the north east of Spain. Taking a selection of fires with a certain size, a multiple regression analysis is conducted to find significant relations between policy instruments under the control of the government and the number of hectares burned in each case, controlling at the same time the effect of weather conditions and other context variables. The paper brings evidence on the effects of simultaneity and the relevance of recurring to army soldiers in specific days with extraordinarily high simultaneity. The analysis also sheds light on the effectiveness of two preventive policies and of helicopters for extinction tasks.

Balsam, Ayelet

PD January 2001. **TI** Real Business Cycles in a Small Open Economy with Non-Traded Goods. **AU** Balsam, Ayelet; Eckstein, Zvi. **AA** Balsam: Tel Aviv University. Eckstein: Tel Aviv University and Boston University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 03/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 38. **PR** no charge. **JE** E21, E22, E32, F41. **KW** Real Business Cycles. Open Economy. Traded Goods. Non-Traded Goods. CES Utility.

AB The Israeli economy business cycle properties are different from those of most OECD countries in four main dimensions. Aggregate consumption is twenty percent more volatile than output, the trade balance is much more volatile than output and is procyclical, investment is almost five times more volatile than output, and the auto-correlation in output is low. The puzzle that these observations imply is explained in this paper by the result that with three parameters of a CES utility function and the share of non-traded goods in government expenditures, one can get almost any volatility in consumption, holding constant the production side parameters. Alternative values of the CES utility parameters drastically affect the consumer decision on shifting the traded goods consumption in response to shocks in both the traded and non-traded goods sectors. The main result is that the model fits all the main business cycle properties of the Israeli economy. This result is based on empirical properties of the Israeli economy. In particular, the data show that the non-traded goods are a large fraction of aggregate consumption, traded and non- traded goods are relatively complementary goods in consumer's preferences and the relative risk aversion parameter is low.

Banerjee, Abhijit V.

PD June 2000. **TI** Networks, Migration and Investment: Insiders and Outsiders in Tirupur's Production Cluster. **AU** Banerjee, Abhijit V.; Munshi, Kaivan D. **AA** Banerjee: Massachusetts Institute of Technology. Munshi: University of Pennsylvania. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/08; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 33. **PR** $7.00 US, Canada, Mexico; $10.00 all other international; make checks payable to MIT, Dept of Economics. **JE** G32, L67, O12, O15, O16. **KW** Lending. Social Networks. Migration. Investment. Corporate Finance.

AB This paper studies the effects of social network based lending. This is a pervasive phenomenon in most of the developing world. Access to such network capital has an obvious influence on investment. It also influences the pattern of migration since, ceteris paribus, migrants would prefer to be in locations where they have access to their community's lending network. The authors show that under reasonable conditions such lending will generate a rather specific pattern of migration and investment. In particular, migrants to locations where they do not have access to their community's lending networks will tend to have higher ability than the traditional residents of that location, but will invest less relative to their ability. The authors test this implication using data from the knitted garment industry in the South Indian town of Tirupur. Comparing the growth rate of output with investment between garment firms owned by migrants to Tirupur and local people, the authors find that local people have slower output growth but invest substantially more at all levels of experience. They also find a positive correlation between investment and growth within any single community, consistent with the view that capital access does not vary within each group.

PD June 2000. **TI** Inequality and Growth: What Can the Data Say? **AU** Banerjee, Abhijit V.; Duflo, Esther. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/09; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 30. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** C14, D31, D63, O41, P16. **KW** Income Distribution. Wealth Distribution. Inequality. Growth. Political Economy.

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

TI A Simple Model of Monetary Policy and Currency Crises. **AU** Aghion, Philippe; Bacchetta, Philippe; Banerjee, Abhijit V.

Bangura, Sheku

PD December 2000. **TI** External Debt Management in Low-Income Countries. **AU** Bangura, Sheku; Kitabire, Damoni; Powell, Robert. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/196; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 34. **PR** not available. **JE** F41, H63. **KW** External Debt. Debt Management. HIPCs. Low-Income Countries.

AB Improving debt management capacity in Heavily Indebted Poor Countries (HIPCs) is a key element of the international community's strategy for ensuring a robust and sustained exit from unsustainable debt burdens. External debt management is a multi-facetted task involving the formulation of a transparent strategy for managing the level of debt, and establishing an appropriate institutional framework that supports effective implementation. This paper brings together the essential elements of effective debt management practices to guide those assessing debt management capacity and advising on its improvement in low-income countries.

Bar-Gill, Oren

PD February 2001. **TI** The Limit of Public Policy: Endogenous Preferences. **AU** Bar-Gill, Oren; Fershtman, Chaim. **AA** Bar-Gil: Harvard University. Fershtman: Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 05/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 27. **PR** no charge. **JE** A13, C70, H24, H31, P50. **KW** Endogenous Preferences. Public Policy. Social Values. Behavior. Public Goods.

AB In designing public policy it is not enough to consider the possible reaction of individuals to the chosen policy. Public policy may also affect the formation of preferences and norms in a society. The endogenous evolution of preferences, in addition to introducing a conceptual difficulty in evaluating policies, may also eventually affect actual behavior. In order to demonstrate the implications of endogenous preferences on the design of optimal public policy, we present a model in which a subsidy policy is set to encourage contributions towards a public good. However, this policy triggers an endogenous preference change that results in a lower level of contribution towards the public good despite the explicit monetary incentives to raise that level.

Barajas, Adolfo

PD December 2000. **TI** Depositor Behavior and Market Discipline in Colombia. **AU** Barajas, Adolfo; Steiner, Roberto. **AA** Barajas: International Monetary Fund. Steiner: Universidad de los Andes. **SR** International Monetary Fund Working Paper: WP/00/214; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 33. **PR** not available. **JE** G21, G22. **KW** Banking System. Market Discipline. Deposit Insurance. Colombia.

AB This study examines how depositors choose among different banks and over time in Colombia, focusing on whether they discipline bank behavior. By controlling for a more comprehensive set of risk/return factors, the study improves upon conventional market discipline tests. Panel data estimations for 1985-99 show that depositors prefer banks with stronger fundamentals, and that banks tend to improve their fundamentals after being "ditched" by depositors. Banks with stronger fundamentals benefit from lower interest costs and higher lending rates. Market (or "regulatory") discipline therefore appears to exist in Colombia, perhaps thanks to certain key design features of the deposit insurance scheme.

Barnhill, Theodore M., Jr.

PD December 2000. **TI** Measuring Integrated Market and Credit Risks in Bank Portfolios: An Application to a Set of Hypothetical Banks Operating in South Africa. **AU** Barnhill, Theodore M., Jr..; Papapanagiotou, Panagiotis; Schumacher, Liliana. **AA** Barnhill and Papapanagiotou: George Washington University. Schumacher: International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/212; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 49. **PR** not available. **JE** G21, G33. **KW** VAR. Market Risk. Credit Risk.

AB The banking crises of the 1990s emphasize the need to model the connections between volatility and the potential losses faced by financial institutions due to correlated market and credit risks. We present a simulation model that explicitly links changes in the financial environment and the distribution of future bank capital ratios. This forward-looking quantitative risk assessment methodology allows banks and regulators to identify risks before they materialize and make appropriate adjustments to banks' portfolios. This model was applied to the study of the risk profile of the largest South African banks in the context of the Financial System Stability Assessment (FS SA) (1999).

Bartelsman, Eric J.

TI Understanding Productivity: Lessons from Longitudinal Microdata. **AU** Doms, Mark E.; Bartelsman, Eric J.

Bartolini, Leonardo

PD December 2000. **TI** Day-to-Day Monetary Policy and the Volatility of the Federal Funds Interest Rate. **AU** Bartolini, Leonardo; Bertola, Giuseppe; Prati, Alessandro. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/206; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 28. **PR** not available. **JE** E43, E52, E58, G21. **KW** Monetary Policy. Volatility. Interest Rate.

AB We propose a model of the interbank money market with an explicit role for central bank intervention and periodic reserve requirements, and study the interaction of profit-maximizing banks with a central bank targeting interest rates at high frequency. The model yields predictions on biweekly patterns of the federal funds rate's volatility and on its response to changes in target rates and in intervention procedures, such as those implemented by the Federal Reserve in 1994. Theoretical results are consistent with empirical patterns of interest rate volatility in the U.S. market for federal funds.

Beaudry, Paul

PD August 2000. **TI** Recent Technological Progress and Wage-Employment Trade-Offs: Learning from the US and German Experiences. **AU** Beaudry, Paul; Green, David A. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/12; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 56. **PR** International. **JE** J21, J23, J24, J31, O33. **KW** Wage Structure. Technological Change. Human Capital. Physical Capital. Organizational Form.

AB Over the last twenty years the wage-education relationships in the US and Germany have evolved very differently, while the education composition of employment has evolved in a surprisingly parallel fashion. In this paper, we show how these patterns shed light on the nature of recent technological change, which in turn reveals new insights into the relevant tradeoffs between wages and employment. In particular, we show that the US and German experiences: (1)

support the view that recent technological change is mainly in the form of the endogenous adoption of a new organizational form (as opposed to technological progress which is entirely in factor augmenting form); and (2) highlight the importance of taking into account movements in physical capital when assessing the aggregate tradeoff between the wages and the employment of workers of different skills. In particular, we find that changes in physical capital intensities are key to reconciling the US and German experiences and that, ceteris paribus, the US could have prevented much of its 1980s increase in wage inequality by a faster accumulation of physical capital.

Benkwitz, Alexander

PD August 1999. **TI** Comparison of Bootstrap Confidence Intervals for Impulse Responses of German Monetary Systems. **AU** Benkwitz, Alexander; Lutkepohl, Helmut; Wolters, Jurgen. **AA** Benkwitz and Lutkepohl: Humboldt University. Wolters: Freie Universitat. **SR** Centre for Economic Policy Research Discussion Paper: 2208; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 28. **PR** 5 pounds, 8 euros, or $8. **JE** C32, E52. **KW** Impulse Response. Bootstrap. Money Demand. Monetary Policy.

AB It is argued that standard impulse response analysis based on vector autoregressive models has a number of shortcomings. Although the impulse responses are estimated quantities, measures for sampling variability such as confidence intervals are often not provided. If confidence intervals are given they are often based on bootstrap methods with poor theoretical properties. These problems are illustrated using two German monetary systems. Proposals are made for improving current practice. Special emphasis is placed on systems with cointegrated variables.

Berger, Allen N.

PD June 2000. **TI** The Integration of the Financial Services Industry: Where are the Efficiencies? **AA** Board of Governors of the Federal Reserve System and Wharton Financial Institutions Center. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/36; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 39. **PR** no charge. **JE** G21, G22, G24, G34, F36. **KW** Banking. Insurance. Securities Firms. Mergers. International Finance.

AB We examine the efficiency effects of the integration of the financial services industry and suggest directions for future research. We also propose a relatively broad working definition of integration and employ U.S. and European data on financial service industry M&As to illustrate several types of integration. The analysis suggests that there is a large potential for efficiency gains from integration, but only a relatively small part of this potential may be realized. Integration appears to bring about larger revenue efficiency gains than cost efficiency gains, and most of the gains appear to be linked to benefits from risk diversification.

PD June 2000. **TI** Efficiency Barriers to the Consolidation of the European Financial Services Industry. **AU** Berger, Allen N.; DeYoung, Robert; Udell, Gregory F. **AA** Berger: Board of Governors of the Federal Reserve System and Wharton Financial Institutions Center. DeYoung: Federal Reserve Bank of Chicago. Udell: Indiana University. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/37; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 18. **PR** no charge. **JE** G21, G28, G34, F23, F36. **KW** Banking. Mergers. Efficiency. Financial Institutions. International Finance.

AB Cross-border consolidation of financial institutions within Europe has been relatively limited, possibly reflecting efficiency barriers to operating across borders, including distance; differences in language, culture, currency, and regulatory/supervisory structures; and explicit or implicit rules against foreign competitors. EU policies such as the Single Market Programme and European Monetary Union attenuate some but not all of these barriers. The evidence is consistent with the hypothesis that these barriers offset most of any potential efficiency gains from cross-border consolidation. Banks headquartered in other EU nations have slightly lower average measured efficiency than domestic banks and non-EU-based foreign banks.

PD June 2000. **TI** Did U.S. Bank Supervisors Get Tougher During the Credit Crunch? Did They Get Easier During the Banking Boom? Did It Matter to Bank Lending? **AU** Berger, Allen N.; Kyle, Margaret K.; Scalise, Joseph M. **AA** Berger: Board of Governors of the Federal Reserve System and Wharton Financial Institutions Center. Kyle: Massachusetts Institute of Technology. Scalise: Bain & Company. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/39; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 54. **PR** no charge. **JE** E44, E58, G21, G28, G38. **KW** Banking. Lending. Supervision. Regulation. Credit Crunch.

AB We test three hypotheses regarding changes in supervisory "toughness" and their effects on bank lending. The data provide modest support for all three hypotheses that there was an increase in toughness during the credit crunch period (1989-1992), that there was a decline in toughness during the boom period (1993-1998), and that changes in toughness, if they occurred, affected bank lending. However, all of the measured effects are small, with 1% or less of loans receiving harsher or easier classification, about 3% of banks receiving better or worse CAMEL ratings, and bank lending being changed by 1% or less of assets.

PD November 2000. **TI** The Effects of Geographic Expansion on Bank Efficiency. **AU** Berger, Allen N.; DeYoung, Robert. **AA** Berger: Board of Governors of the Federal Reserve System and Wharton Financial Institutions Center. DeYoung: Federal Reserve Bank of Chicago. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/03; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 42. **PR** no charge. **JE** G21, G28, G34, G38, R38. **KW** Banking. Efficiency. Mergers. Financial Institutions. Spatial Distribution.

AB We assess the effects of geographic expansion on bank efficiency using cost and profit efficiency for over 7,000 U.S. banks, 1993-1998. We find that parent organizations exercise some control over the efficiency of their affiliates, although this control tends to dissipate with distance to the affiliate.

However, on average, distance-related efficiency effects tend to be modest, suggesting that some efficient organizations can overcome any effects of distance. The results imply there may be no particular optimal geographic scope for banking organizations: some may operate efficiently within a single region, while others may operate efficiently on a nationwide or international basis.

PD December 1999. **TI** Globalization of Financial Institutions: Evidence from Cross-Border Banking Performance. **AU** Berger, Allen N.; DeYoung, Robert; Genay, Hesna; Udell, Gregory F. **AA** Berger: Board of Governors of the Federal Reserve System and Wharton Financial Institutions Center. DeYoung and Genay: Federal Reserve Bank of Chicago. Udell: Indiana University. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/04; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 113. **PR** no charge. **JE** E58, F36, G21, G28, G34. **KW** Banking. Mergers. Small Businesses. Economic Integration. International Finance.

AB We address the causes, consequences, and implications of the cross- border consolidation of financial institutions by reviewing several hundred studies, providing comparative international data, and estimating cross-border banking efficiency in France, Germany, Spain, the U.K., and the U.S. during the 1990s. We find that, on average, domestic banks have higher profit efficiency than foreign banks. However, banks from at least one country (the U.S.) appear to operate with relatively high efficiency both at home and abroad. If these results continue to hold, they do not preclude successful international expansion by some financial firms, but they do suggest limits to global consolidation.

Berglof, Erik

PD April 2000. **TI** An Incomplete Contracts Approach to Corporate Bankruptcy. **AU** Berglof, Erik; Roland, Gerard; von Thadden, Ernst-Ludwig. **AA** Berglof: SITE, Stockholm, CEPR and WDI. Roland: ECARE, Brussels, CEPR and WDI. Von Thadden: University of Lausanne and CEPR. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 00/12; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 26. **PR** no charge. **JE** D82, G33, G38, K22. **KW** Bankruptcy. Debt Structure. Incomplete Contracts. Strategic Default.

AB This paper integrates the problem of designing corporate bankruptcy rules into a theory of optimal debt structure. We show that, in an incomplete contract framework, having multiple creditors increases a firm's debt capacity while increasing, instead of decreasing, its incentives to default strategically. The optimal debt contract involves giving creditors claims that are jointly inconsistent in case of default. Bankruptcy rules, therefore, are a necessary part of the overall financing contract, to make claims consistent and to prevent a value reducing run for the assets of the firm.

TI The Changing Corporate Governance Paradigm: Implications for Transition and Developing Countries. **AU** von Thadden, Ernst-Ludwig; Berglof, Erik.

Berkowitz, Jeremy

PD December 1999. **TI** On Identification of Continuous Time Stochastic Processes. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/07; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 16. **PR** no charge. **JE** C13. **KW** Identification. Continuous Time. Stochastic Processes.

AB In this note we delineate conditions under which continuous time stochastic processes can be identified from discrete data. The identification problem is approached in a novel way. The distribution of the observed stochastic process is expressed as the underlying true distribution, f, transformed by some operator, T. Using a generalization of the Taylor series expansion, the transformed function T f can often be expressed as a linear combination of the original function f. By combining the information across a large number of such transformations, the original measurable function of interest can be recovered.

Bertaut, Carol

PD April 2000. **TI** Household Portfolios in the United States. **AU** Bertaut, Carol; Starr-McCluer, Martha. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/26; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 41. **PR** no charge. **JE** D12, D91, E21, G11. **KW** Household Portfolios. Portfolio Choice. Household Wealth. Saving.

AB This paper investigates the composition of households' assets and liabilities in the United States. Using aggregate and survey data, we document major trends in household portfolios in the past 15 years. We show that, despite the broad array of financial products available, the portfolio of the typical household remains fairly simple and safe, consisting of a checking account, savings account, and tax-deferred retirement account; in 1998, less than half of all households owned some form of stock. We use pooled data from the Survey of Consumer Finances to investigate determinants of portfolio choice, finding significant effects of age, wealth, income risk, and entry/information costs.

Bertola, Giuseppe

TI Day-to-Day Monetary Policy and the Volatility of the Federal Funds Interest Rate. **AU** Bartolini, Leonardo; Bertola, Giuseppe; Prati, Alessandro.

Bertrand, Marianne

PD January 2000. **TI** Agents With and Without Principals. **AU** Bertrand, Marianne; Mullainathan, Sendhil. **AA** Bertrand: University of Chicago and NBER. Mullainathan: Massachusetts Institute of Technology and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/31; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 10. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** D21, D31, D82, G30, J33. **KW** Executive Compensation. Contracts. Skimming. Asymmetric Information. Corporate Governance.

AB Who sets CEO pay? Our answer has been shaped by principal agent theory: shareholders set CEO pay. They use pay to limit the moral hazard problem caused by the low ownership stakes of CEOs. Through bonuses, options, or long-term contracts, shareholders can motivate the CEO to maximize firm wealth. In other words, shareholders use pay to provide incentives, a view we refer to as the contracting view. An alternative view, championed by practitioners such as Crystal (1991), argues that CEOs set their own pay. They manipulate the compensation committee to pay themselves what they can. The only constraints they face may be the availability of funds or more general fears, such as not wanting to be singled out in the Wall Street Journal as being overpaid. We refer to this second view as the skimming view. In this paper, we investigate the relevance of these two views.

PD September 2000. **TI** Do CEOs Set Their Own Pay? The Ones Without Principals Do. **AU** Bertrand, Marianne; Mullainathan, Sendhil. **AA** Bertrand: University of Chicago and NBER. Mullainathan: Massachusetts Institute of Technology and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/26; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 38. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** D82, G30, J33, J41, L21. **KW** Contracts. Skimming. Options. Executive Compensation. Corporate Governance.

AB We empirically examine two competing views of CEO pay. In the contracting view, the compensation committee optimally chooses pay contracts that give the CEO incentives to maximize shareholder wealth. In the skimming view, CEOs have managed to capture the pay process so that they set their own pay. To distinguish these views, we first examine how CEO pay responds to luck. Using several measures of luck, such as changes in oil price for the oil industry, we find substantial pay for luck. Most importantly, we find that better governed firms pay their CEOs less for luck. Our second test examines how much CEOs are charged for the options they are granted. CEOs in better-governed firms are charged more for the options they are given. These results suggest that both views of CEO pay matter. In poorly governed firms, the skimming view fits better while in well-governed firms, the contracting view fits better.

PD September 2000. **TI** Ferreting Out Tunneling: An Application to Indian Business Groups. **AU** Bertrand, Marianne; Mehta, Paras; Mullainathan, Sendhil. **AA** Bertrand: University of Chicago, NBER and CEPR. Mehta: Massachusetts Institute of Technology. Mullainathan: Massachusetts Institute of Technology and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/28; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 36. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** C51, G30, K42. **KW** Pyramids. Tunneling. Minority Shareholders. Corporate Governance. Development.

AB In many countries, controlling shareholders are accused of tunneling, transferring resources from companies where they have few cash flow rights to ones where they have more cash flow rights. Quantifying the extent of such tunneling, however, has proven difficult because of its illicit nature. This paper develops a general empirical technique for quantifying tunneling. We use the responses of different firms to performance shocks to map out the flow of resources within a group of firms and to quantify the extent to which the marginal dollar is tunneled. We apply our technique to data on Indian business groups. The results suggest a significant amount of tunneling between firms in these groups.

PD January 2001. **TI** Do People Mean What They Say? Implications for Subjective Survey Data. **AU** Bertrand, Marianne; Mullainathan, Sendhil. **AA** Bertrand: University of Chicago. Mullainathan: Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/04; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 11. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** C81, D12, J10. **KW** Subjectivity. Surveys. Measurement Error. Data Estimation.

AB Many surveys contain a wealth of subjective questions that are at first glance rather exciting. Yet despite easy availability, this is one data source that economists rarely use. In fact, the unwillingness to rely on such questions marks an important divide between economists and other social scientists. This neglect does not come from disinterest. Most economists would probably agree that the variables these questions attempt to uncover are interesting and important. But they doubt whether these questions elicit meaningful answers. These doubts are, however, based on a priori skepticism rather than on evidence. This ignores a large body of experimental and empirical work that has investigated the meaningfulness of answers to these questions. The authors' primary objective in this paper is to summarize this literature for an audience of economists, thereby turning a vague implicit distrust into an explicit position grounded in facts. Having summarized the findings, the authors integrate them into a measurement error framework so as to understand what they imply for empirical research relying on subjective data. Finally, the authors perform some simple empirical work using specific subjective questions.

Bhattacharya, Rina

PD October 2000. **TI** Trade and Domestic Financial Market Reform Under Political Uncertainty: Implications for Investment, Savings, and the Real Exchange Rate. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/175; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 33. **PR** not available. **JE** E21, E22, F13, F32, F21. **KW** Investment. Uncertainty. Political Economy. Financial Liberalization. Trade Liberalization.

AB This paper presents a model that incorporates uncertainty about trade reform and analyzes the effects of trade and financial liberalization on domestic investment and savings, the current account balance and the real exchange rate, both when the capital account is open and when it is closed. Under certain assumptions financial liberalization leads to a movement of resources in the opposite direction to that implied by trade liberalization and to real exchange rate appreciation, thus defeating one of the objectives of tariff reform, when the capital account is open. When political economy linkages are taken into account, however, the indirect effects of financial liberalization may offset the direct effects, encouraging a movement of resources in the desired direction. With a closed capital account these results should still hold unless there are strong negative income effects from trade reform.

Bijapur, Mohan

PD November 2000. **TI** Borrower and Lender Reputation Effects: A New Theory of Financial Intermediation. **AA** University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 00/18; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 55. **PR** no charge. **JE** D82, G21. **KW** Financial Intermediation. Reputation Effects. Liquidation. Credit History.

AB This paper formulates a new theory of financial intermediation and explains the general structure of credit markets. Borrowers without established credit histories have incentives to repudiate their debt obligations, and are therefore unable to issue debt directly. Banks exist in order to provide finance for this class of borrowers. Banks can curtail borrowers' incentives to default on debt by building a reputation for liquidating defaulters. However, over time, borrowers' concerns about reputation improve their incentives, such that they are able to issue debt directly.

PD November 2000. **TI** The Dynamics of Firms' Credit Ratings. **AA** University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 00/19; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 32. **PR** no charge. **JE** D82, G19. **KW** Strategic Default. Reputation Effects. Liquidation. Credit Ratings.

AB This paper analyzes the dynamics of firms' credit ratings, in the context of a multi-period moral hazard problem, in which borrowers have incentives to repudiate their debt obligations. Borrowers with short credit histories face the poorest incentives, and (depending on initial conditions) for these borrowers debt repayment can only be enforced by the threat of liquidation. However, over time if borrowers repay debt on all dates, they will establish a good credit history. This may improve their incentives, such that they will repay debt because they are concerned about their reputations for being a good credit risk, even if they face no threat of liquidation if they do default. The model generates predictions which explain two stylized observations on the dynamics of firms' credit ratings.

Bisig, Brigitte

TI Health Effects of Job Insecurity among Employees in Swiss General Population. **AU** Domenighetti, Gianfranco; d'Avanzo, Barbara; Bisig, Brigitte.

Blackorby, Charles

PD February 2000. **TI** Population Principles with Number-Dependent Critical Levels. **AU** Blackorby, Charles; Bossert, Walter; Donaldson, David. **AA** Blackorby: University of British Columbia and GREQAM. Bossert: University of Nottingham and Rice University. Donaldson: University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/04; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 44. **PR** International. **JE** A13, D11, D63, R23. **KW** Population Ethics. Number Sensitive. Critical Levels. Value Functions. Utilitarianism.

AB This paper introduces and characterizes the number-sensitive critical-level generalized-utilitarian family of population principles which is a generalization of the critical-level generalized-utilitarian family. Number-sensitive critical-level utilitarian principles rank alternatives by using a value function that is equal to total utility minus a sum of critical levels that may depend on population size but not on individual utilities, and number-sensitive critical-level generalized-utilitarian principles use transformed utilities and critical levels. Ethical properties of the principles are investigated and the new family is compared to number-dampened generalized utilitarianism whose value functions are equal to transformed representative utility (average utility in the utilitarian case) multiplied by a function of population size.

PD May 2000. **TI** Population Ethics and the Existence of Value Functions. **AU** Blackorby, Charles; Bossert, Walter; Donaldson, David. **AA** Blackorby: University of British Columbia and GREQAM. Bossert: Universite de Montreal. Donaldson: University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/07; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 8. **PR** International. **JE** A13, D63, R23. **KW** Population Ethics. Value Functions. Representations.

AB This note provides a corrected version of a classical result in population ethics. While it is true that the fixed-population axioms continuity and weak Pareto are sufficient for the existence of an ordering of population-size-representative-utility pairs that can be used to rank social alternatives, we show that, in order to obtain the existence of a real-valued representation, continuity must be strengthened.

PD September 2000. **TI** Capital Taxation in a Simple-Finite Horizon OLG Model. **AU** Blackorby, Charles; Brett, Craig. **AA** Blackorby: University of British Columbia and GREQAM. Brett: University of London. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/11; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 29. **PR** International. **JE** D51, D61, D91, H21, H25. **KW** Overlapping Generations. Capital Taxes. Tax Reform. General Equilibrium. Optimal Taxation.

AB In a simple overlapping-generations model where the government has the power to levy commodity taxes and to implement intertemporal transfers, we seek to characterize conditions under which capital taxation (or subsidization) does not form part of the optimal tax mix. It turns out that it can never be the case that capital taxes are identically zero along the Pareto frontier. Along the way, we derive and interpret the optimal tax formulae in the economy.

PD November 2000. **TI** Production Efficiency and the Direct-Indirect Tax Mix. **AU** Blackorby, Charles; Brett, Craig. **AA** Blackorby: University of British Columbia and GREQAM. Brett: University of London. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/17; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 19. **PR** International. **JE** D61, E23, H21, H24. **KW** Direct-Indirect Tax Mix. Production Efficiency. Optimal Taxation. Income Tax. Commodity Taxes.

AB In the design of the optimal direct/indirect tax mix, the canonical view was laid by Atkinson and Stiglitz [1976] who showed that commodity taxes are unnecessary in an economy in which there is an optimal nonlinear income tax provided that commodities are separable from labor in the utility functions of all taxpayers, that the aggregators over these commodities are ordinarily equivalent and that wages are fixed. When wages are endogenous, Naito [1999] showed that this result may not hold and in addition that production efficiency may not be Pareto optimal. Given an optimal nonlinear income tax, we show that production inefficiency is Pareto optimal if the aggregate technology set is strictly concave. The Atkinson/Stiglitz condition is neither necessary nor sufficient for zero commodity taxation and commodity taxes are part of almost all Pareto optima.

PD November 2000. **TI** Social Aggregation Without the Expected Utility Hypothesis. **AU** Blackorby, Charles; Donaldson, David; Mongin, Philippe. **AA** Blackorby: University of British Columbia and GREQAM. Donaldson: University of British Columbia. Mongin: Universite de Cergy-Pontoise. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/18; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 28. **PR** International. **JE** D63, D71, D81. **KW** Social Aggregation. Expected Utility. Value Functions. Welfare. Social Choice.
AB This paper investigates the possibilities for satisfaction of both the ex-ante and ex-post Pareto principles in a general model in which neither individual nor social preferences necessarily satisfy the Expected Utility Hypothesis. If probabilities are subjective and allowed to vary, three different impossibility results are presented. If probabilities are 'objective' (identical across individuals and the observer), necessary and sufficient conditions on individual and social value functions are found (Theorem 4). The resulting individual value functions are consistent not only with Subjective Expected Utility Theory, but also with some versions of Prospect Theory, Subjectively Weighted Utility Theory and Anticipated Utility Theory. Social preferences are Weighted Generalized Utilitarian and, in the case in which individual preferences satisfy the Generalized Bernoulli Hypothesis, they are Weighted Utilitarian. The objective-probability results for social preferences cast a new light on Harsanyi's Social Aggregation Theorem, which assumes that both individual and social preferences satisfy the Expected Utility Hypothesis.

PD March 2001. **TI** The Axiomatic Approach to Population Ethics. **AU** Blackorby, Charles; Bossert, Charles; Donaldson, David. **AA** Blackorby: University of British Columbia and GREQAM. Bossert: Universite de Montreal and CRDE. Donaldson: University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/03; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 40. **PR** International. **JE** A13, D63, R23. **KW** Population Ethics. Repugnant Conclusion. Sadistic Conclusion. Critical Levels. Value Functions.
AB This paper examines several families of population principles in the light of a set of axioms. In addition to the critical-level utilitarian, number-sensitive critical-level utilitarian and number- dampened families and their generalized counterparts, we consider the restricted number-dampened family (suggested by Hurka) and introduce two new families: the restricted critical-level and restricted number-dependent critical-level families. Subsets of the restricted families have nonnegative critical levels and avoid both the repugnant and sadistic conclusions but fail to satisfy an important independence condition. We defend the critical-level principles with positive critical levels.

PD June 2001. **TI** A Representation Theorem for Domains with Discrete and Continuous Variables. **AU** Blackorby, Charles; Bossert, Walter; Donaldson, David. **AA** Blackorby: University of British Columbia and GREQAM. Bossert: Universite de Montreal and CRDE. Donaldson: University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/22; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 14. **PR** International. **JE** C60, D11, D50. **KW** Continuous Variables. Discrete Variables. Representation Theorems. Domains. General Equilibrium.
AB This paper proves a new representation theorem for domains with both discrete and continuous variables. The result generalizes Debreu's well-known representation theorem on connected domains. A strengthening of the standard continuity axiom is used in order to guarantee the existence of a representation. A generalization of the main theorem and an application of the more general result are also presented.

Blanchard, Olivier

PD January 2000. **TI** Macroeconomic Effects of Regulation and Deregulation in Goods and Labor Markets. **AU** Blanchard, Olivier; Giavazzi, Francesco. **AA** Blanchard: Massachusetts Institute of Technology. Giavazzi: Universita Bocconi. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/02; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 41. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** E25, E24, J50, L16, L51. **KW** Regulation. Deregulation. Rents. Bargaining Power. Labor Markets.
AB Product and labor market deregulation reduce and redistribute rents, leading economic players to adjust to this new distribution. It typically comes with distribution and dynamic effects. It may imply the decline of incumbent firms. Unemployment may increase for a while. Real wages may decrease before recovering, and so on. We build a model based on two central assumptions: Monopolistic competition in the goods market, which determines the size of rents, and bargaining in the labor market, which determines the distribution of rents. We think of product market regulation as determining both the entry costs faced by firms, and the degree of competition between firms. We think of labor market regulation as determining the bargaining power of workers. We then use our results to study two specific issues: first, the large decline in the labor share in Europe since 1980, and second, political economy interactions between product and labor market deregulation.

PD July 2000. **TI** Federalism With and Without Political Centralization: China Versus Russia. **AU** Blanchard, Olivier; Shleifer, Andrei. **AA** Blanchard: Massachusetts Institute of

https://doi.org/10.1017/S0951007900005337 Published online by Cambridge University Press

Technology. Shleifer: Harvard University. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/15; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 12. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** H70, O57, P21, P30, P52. **KW** Economic Transition. Decentralization. Federalism. Local Governments. Corruption.
AB In China, local governments have contributed to the growth of new firms. In Russia, local governments have stood in the way. The question then is why this has happened. We argue that the answer lies in the degree of political centralization present in China. Transition in China has taken place under the tight control of the communist party. Transition in Russia has come with the emergence of a partly dysfunctional democracy. The central government has been neither strong enough to impose its views, nor strong enough to set rules about the sharing of proceeds of growth. As a result, local governments have had few incentives either to resist capture by old firms or to rein in competition for rents.

PD March 2001. **TI** The Perverse Effects of Partial Labor Market Reform: Fixed Duration Contracts in France. **AU** Blanchard, Olivier; Landier, Augustin. **AA** Blanchard: Massachusetts Institute of Technology and NBER. Landier: Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/14; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 41. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** J20, J63, J64, J68. **KW** Labor Market Reform. Temporary Employment. Unemployment. Turnover. Employment Protection.
AB Rather than decrease firing costs across the board, a number of European countries have allowed firms to hire workers on fixed-duration contracts. At the end of a given duration, these contracts can be terminated at little or no cost. If workers are kept on however, the contracts become subject to regular firing costs. We argue in this paper that the effects of such a partial reform of employment protection may be perverse. The main effect may be high turnover in fixed-duration jobs, leading in turn to higher, not lower, unemployment. And, even if unemployment comes down, workers may actually be worse off, going through many spells of unemployment and fixed-duration jobs, before obtaining a regular job. Looking at French data for young workers since the early 1980s, we conclude that the reforms have substantially increased turnover, without a substantial reduction in unemployment duration. If anything, their effect on the welfare of young workers appears to have been negative.

PD July 1999. **TI** An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output. **AU** Blanchard, Olivier; Perotti, Roberto. **AA** Blanchard: Massachusetts Institute of Technology and NBER. Perotti: Columbia University. **SR** National Bureau of Economic Research Working Paper: 7269; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 25. **PR** $5.00. **JE** E22, E32, E62. **KW** Government Expenditures. Taxation. Fiscal Shocks. Business Fluctuations. Investment.
AB This paper characterizes the dynamic effects of shocks in government spending and taxes on economic activity in the United States in the post-war period. It does so by using a mixed structural VAR/event study approach. Identification is achieved by using institutional information about the tax and transfer systems and the timing of tax collections to identify the automatic response of taxes and spending to activity, and, by implication, to infer fiscal shocks. The results consistently show positive government spending shocks as having a positive effect on output, and positive tax shocks as having a negative effect. The multipliers for both spending and tax shocks are typically small. Turning to the effects of taxes and spending on the components of GDP, one of the results has a distinctly non-standard flavor: Both increases in taxes and increases in government spending have a strong negative effect on investment spending.

PD August 1999. **TI** The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence. **AU** Blanchard, Olivier; Wolfers, Justin. **AA** Blanchard: Massachusetts Institute of Technology and NBER. Wolfers: Harvard University. **SR** National Bureau of Economic Research Working Paper: 7282; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 32. **PR** $5.00. **JE** E24, E29, E32, J64. **KW** Unemployment. Labor Market Institutions. Macroeconomic Shocks. Business Fluctuations.
AB Two key facts about European unemployment must be explained: the rise in unemployment since the 1960s, and the heterogeneity of individual country experiences. While adverse shocks can potentially explain much of the rise in unemployment and labor market institutions can explain cross-country differences, neither cause in itself accounts for both facts. Based on a panel of institutions and shocks for OECD nations since the 1960s, the authors find that the interaction between shocks and institutions is crucial to explaining both stylized facts. The authors test two specifications, and each offers significant support for their interactions hypothesis. The first specification assumes that there are common but unobservable shocks across countries, and that these shocks have a larger and more persistent effect in countries with poor labor market institutions. The second constructs series for the macro shocks, and again finds evidence that the same size shock has differential effects on unemployment when labor market institutions differ. The authors interpret this as suggesting that institutions determine the relevance of the unemployed to wage-setting, thereby determining the evolution of equilibrium unemployment rates following a shock.

Bleichrodt, Han

PD May 2000. **TI** An Experimental Test of Loss Aversion and Scale Compatibility. **AU** Bleichrodt, Han; Pinto, Jose Luis. **AA** Bleichrodt: Erasmus University. Pinto: Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 467; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 20. **PR** papers only available on web page; no hard copies. **JE** C91, D12, D81, I10. **KW** Decision Analysis. Utility Theory. Loss Aversion. Scale Compatibility. Health Care.
AB This paper studies two important reasons why people violate procedure invariance, loss aversion and scale compatibility. The paper extends previous research on loss aversion and scale compatibility by studying loss aversion and

scale compatibility simultaneously, by looking at a new decision domain, medical decision analysis, and by examining the effect of loss aversion and scale compatibility on "well-contemplated preferences". We find significant evidence both of loss aversion and scale compatibility. However, the sizes of the biases due to loss aversion and scale compatibility vary over trade-offs and most participants do not behave consistently according to loss aversion or scale compatibility. In particular, the effect of loss aversion in medical trade-offs decreases with duration. These findings are encouraging for utility measurement and prescriptive decision analysis. There appear to exist decision contexts in which the effects of loss aversion and scale compatibility can be minimized and utilities can be measured that do not suffer from these distorting factors.

Bloem, Adriaan M.

PD December 2000. **TI** Comprehensive Measures of GDP and the Unrecorded Economy. **AU** Bloem, Adriaan M.; Shrestha, Manik L. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/204; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 35. **PR** not available. **JE** C42, C82, O47. **KW** National Accounts. Unrecorded Activities. Hidden Activities. Informal Activities.

AB Comprehensive coverage of national accounts estimates is important; however, it is often thwarted by gaps in the recording of economic activity -- the so-called "unrecorded economy". This paper sets out pragmatic statistical approaches for incorporating the unrecorded economy in the national accounts. It describes sources and methods to capture the unrecorded economy and discusses specific issues that arise from the use of indirect sources and techniques. Furthermore, the paper elaborates approaches for collecting data on the unrecorded economy, particularly on economic activities of the household sector.

Blonigen, Bruce A.

TI The Effects of Direct Foreign Investment on Local Communities. **AU** Figlio, David N.; Blonigen, Bruce A.

PD July 1999. **TI** Size and Growth of Japanese Plants in the United States. **AU** Blonigen, Bruce A.; Tomlin, KaSaundra. **AA** Blonigen: University of Oregon and NBER. Tomlin: University of Central Florida. **SR** National Bureau of Economic Research Working Paper: 7275; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 21. **PR** $5.00. **JE** D83, F23, L11, L60. **KW** Multinational Firms. Plant Size. Manufacturing. Learning. Firm Growth.

AB Using a unique database on all Japanese manufacturing plants in the United States, we examine the relationship between plant size and growth for these foreign-owned plants. These plants average sizes are three times larger than comparable U.S. plants and experienced 30 percent growth from 1987 through 1990, while U.S. average plant sizes declined over the same period. Our estimates strongly reject Gibrat's Law for these plants, and suggest that smaller plants grow faster. We also find learning affects plant-level growth. Newer plants grow quicker and previous investments by the parent firm mean slower growth, particularly for automobile-related plants. Both are consistent with inexperienced firms growing faster than they learn.

Bomfim, Antulio N.

PD January 2000. **TI** Heterogeneous Forecasts and Aggregate Dynamics. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/16; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 18. **PR** no charge. **JE** C61, D50, D82, D84, E32. **KW** Expectations. Business Cycles. Strategic Complementarity. Propagation. Bounded Rationality.

AB Motivated by issues raised in both the finance and economics literatures, I construct a dynamic general equilibrium model where agents use differing degrees of sophistication when forecasting future economic conditions. All agents solve standard dynamic optimization problems and face strategic complementarity in production, but some solve their inference problems based on simple forecasting rules of thumb. Assuming a hierarchical information structure similar to the one in Townsend's (1983) model of informationally dispersed markets, I show that even a minority of rule-of-thumb forecasters can have a significant effect on the aggregate properties of the economy. For instance, as agents try to forecast each others' behavior they effectively strengthen the internal propagation mechanism of the economy. The quantitative results are obtained by calibrating the model and running a battery of sensitivity tests on key parameters. The analysis highlights the role of strategic complementarity in the heterogeneous expectations literature and quantifies many qualitative claims about the aggregate implications of expectational heterogeneity.

PD March 2000. **TI** Making News: Financial Market Effects of Federal Reserve Disclosure Practices. **AU** Bomfim, Antulio N.; Reinhart, Vincent R. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/14; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 39. **PR** no charge. **JE** D84, E58, G12, G14. **KW** Monetary Policy. Transparency. Expectations. Asset Prices.

AB As recently as early 1994, market participants had to infer the stance of U.S. monetary policy according to the type and size of the open market operations conducted by the Federal Reserve's Trading Desk. Thus, investors were exposed to uncertainty about both the timing and the motivation for monetary policy actions. Since then, changes in disclosure practices regarding monetary policy decisions have potentially mitigated both types of uncertainty. We examine the effects of the greater openness and transparency of these new practices on the way a wide array of financial market instruments responds to unanticipated policy decisions. In general, the financial markets' response to policy does not seem to be related to what the Federal Reserve says after a surprise decision is announced or to when it decides to act. The invariance of the response of asset prices to policy across time and announcement regimes suggests that what the Federal Reserve says when it acts is of second-order importance to the act itself.

PD October 2000. **TI** Pre-Announcement Effects, News, and Volatility: Monetary Policy and the Stock Market. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/50; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 33. **PR** no charge. **JE** C32, E44, E52, G12, G14. **KW** Uncertainty. Information. Financial Markets. Expectations. Monetary Policy.

AB I examine pre-announcement and news effects on the stock market in the context of public disclosure of monetary policy decisions. The results suggest that the stock market tends to be relatively quiet -- conditional volatility is abnormally low -- on days preceding regularly scheduled policy announcements. Although this calming effect is routinely reported in anecdotal press accounts, it is statistically significant only over the past four to five years, a result that I attribute to changes in the Federal Reserve's disclosure practices in early 1994. The paper also looks at how the actual interest rate decisions of policy makers affect stock market volatility. The element of surprise in such decisions tends to boost stock market volatility significantly in the short run, and positive surprises -- higher-than- expected values of the target federal funds rate -- tend to have a larger effect on volatility than negative surprises. The implications of the results for broader issues in the finance literature are also discussed.

PD January 2001. **TI** Optimal Portfolio Allocation in a World without Treasury Securities. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/11; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 26. **PR** no charge. **JE** E62, G11, G12, G18. **KW** CAPM. Asset Pricing. Corporate Securities. Government Debt. Portfolio Choice.

AB If current projections of future budget surpluses materialize, investing in Treasury securities -- an asset class with which investors have long been familiar -- could eventually become a thing of the past. In this paper, I examine the extent to which investors' portfolio allocation decisions are likely to be affected by the retirement of all federal government debt. The analysis suggests only small effects for most investors, especially, as is effectively the case for many institutional investors, when a no short sale constraint is in place. Under such circumstances, highly conservative investors -- whose portfolios have risk-return characteristics akin to money market instruments -- and very aggressive investors -- who hold mostly equities -- stand to be the least affected by the removal of Treasuries from the pool of investable assets. The analysis abstracts from indirect beneficial effects on investors from a Treasury debt payoff, such as the potential for greater productivity growth (and faster wealth accumulation) as more resources are freed up for investment in the private sector.

Bontemps, Christophe

PD January 2001. **TI** Congruence and Encompassing. **AU** Bontemps, Christophe; Mizon, Grayham E. **AA** Bontemps: INRA. Mizon: University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0107; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. **PG** 22. **PR** annual subscription 40 pounds ($80); individual copies on application. **JE** C12, C51, C52. **KW** Data Generating Process. Empirical Models. Encompassing. Misspecification. Specification.

AB This paper considers the relationship between congruence and encompassing. Congruence is defined formally, and though it is not testable directly, it can be tested indirectly via tests of misspecification. Empirically more than one model can appear congruent, but that which encompasses its rivals is dominant, will encompass all models nested within it, and accurately predict the misspecifications of non-congruent models. These results are consistent with a general-to- specific modeling strategy being successful in practice. An empirical example illustrates these points.

Booth, Alison L.

PD August 1999. **TI** Training, Rent-Sharing and Unions. **AU** Booth, Alison L.; Zoega, Gylfi; Francesconi, Marco. **AA** Booth: University of Essex. Zoega: Birkbeck College. Francesconi: ESRC Research Centre on Micro-Social Change. **SR** Centre for Economic Policy Research Discussion Paper: 2200; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 48. **PR** 5 pounds, 8 euros, or $8. **JE** J24, J31, J41. **KW** General Training. Human Capital. Labor Unions. Quitting Externalities.

AB We investigate two dimensions of investment in general human capital on-the-job: the number of workers trained and the intensity of training for each worker. In the benchmark case, we consider wage and training decisions made by firms in an imperfectly competitive labor market. The benchmark case generates two types of market failure: too few workers are trained, and the workers who are hired receive too little training. This is caused by the firms' discount rate exceeding the social discount rate, due to a "quitting externality". We show that the presence of labor unions can increase social welfare by increasing training intensity, while reducing welfare by lowering the number of workers trained. Using the British Household Panel Survey, we confirm the predictions of the model.

Borensztein, Eduardo R.

PD December 2000. **TI** A Panic-Prone Pack? The Behavior of Emerging Market Mutual Funds. **AU** Borensztein, Eduardo R.; Gelos, Gaston R. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/198; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 35. **PR** not available. **JE** F21, G15. **KW** Mutual Funds. Contagion. Emerging Markets. Foreign Investment. Portfolio Investment. Herding. Financial Crises.

AB This paper explores the behavior of emerging market mutual funds using a novel database covering the holdings of individual funds over the period January 1996 to March 1999. An examination of individual crises shows that, on average, funds withdrew money one month prior to the events. The degree of herding among funds is statistically significant, but moderate. Herding is more widespread among open-ended funds than among closed-end funds, but not more prevalent during crises than during tranquil times. Funds tend to follow momentum strategies, selling past losers and buying past winners, but their overall behavior is more complex than often suggested.

Bossert, Charles

TI The Axiomatic Approach to Population Ethics.

AU Blackorby, Charles; Bossert, Charles; Donaldson, David.

Bossert, Walter

TI Population Principles with Number-Dependent Critical Levels. AU Blackorby, Charles; Bossert, Walter; Donaldson, David.

TI Population Ethics and the Existence of Value Functions. AU Blackorby, Charles; Bossert, Walter; Donaldson, David.

TI A Representation Theorem for Domains with Discrete and Continuous Variables. AU Blackorby, Charles; Bossert, Walter; Donaldson, David.

Bostic, Raphael W.

PD April 2000. TI Have the Doors Opened Wider? Trends in Homeownership Rates by Race and Income. AU Bostic, Raphael W.; Surette, Brian J. AA Bostic: Board of Governors of the Federal Reserve System. Surette: Federal Home Loan Mortgage Corporation. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/31; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. PG 29. PR no charge. JE D12, R11, R21, R31, R38. KW Homeownership. Community Reinvestment Act. HMDA. Credit Scoring. Housing Markets.

AB Homeownership among U.S. families increased notably in recent years, from 63.9% in 1989 to 66.2% in 1998. This paper examines this trend and the factors contributing to it. We find that (1) homeownership has risen for all racial, ethnic, and income groups, (2) the differences in homeownership between minority and non-minority families and between middle-income and lower-income families declined significantly, and (3) changes in family-related characteristics explain homeownership trends among only the top two income quintiles. Among the lower two income quintiles, family-related characteristics explain almost none of the increase in homeownership. This pattern of results suggests that changes in mortgage and housing markets and changes in the regulations that govern those markets, such as CRA and HMDA, account for the increase in homeownership among lower-income families.

Boughton, James M.

PD December 2000. TI Northwest of Suez: The 1956 Crisis and the IMF. AA International Monetary Fund. SR International Monetary Fund Working Paper: WP/00/192; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 28. PR not available. JE F33, F34, N25, N27. KW Suez. IMF. Financial Crises.

AB Egypt's nationalization of the Suez Canal in 1956 and the failed attempt by France, Israel, and Britain to retake it by force constituted a serious political crisis with significant economic consequences. For the United Kingdom, it engendered a financial crisis as well. That all four of the combatants sought and obtained financial assistance from the IMF was highly unusual for the time and had a profound effect on the development of the Fund. This case study illustrates the complexities in isolating the current account as the basis for determining a balance of payments "need" and shows that the speculative attack on sterling -and the Fund's response to it were remarkably similar to financial crises in the 1990s.

Brandts, Jordi

PD September 2000. TI Do Market Conditions Affect Preferences? Evidence from Experimental Markets with Excess Supply and Excess Demand. AU Brandts, Jordi; Charness, Gary. AA Brandts: Instituto de Analisis Economico (CSIC). Charness: Universitat Pompeu Fabra. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 491; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. PG 24. PR papers only available on web page; no hard copies. JE A13, C78, C91, C92, J41. KW Experiments. Unbalanced Markets. Cooperation. Gift Exchange. Preferences.

AB We study whether people's preferences in an unbalanced market are affected by whether they are on the excess supply side or the excess demand side of the market. Our analysis is based on the comparison of behavior between two types of experimental gift exchange markets, which vary only with respect to whether first or second movers are on the long side of the market. The direction of market imbalance could influence subjects' motivation, as second movers, workers, might react differently to favorable actions by first movers, firms, in the two cases. Our data show strong deviations from the standard game-theoretic prediction. However, we only find secondary treatment effects. First movers are not more generous when they are in excess supply and second movers do not respond less favorably when they are in excess demand. Competition has only minor psychological effects in our data.

Brett, Craig

TI Capital Taxation in a Simple-Finite Horizon OLG Model. AU Blackorby, Charles; Brett, Craig.

TI Production Efficiency and the Direct-Indirect Tax Mix. AU Blackorby, Charles; Brett, Craig.

Breuer, Peter

PD December 2000. TI Measuring Off-Balance-Sheet Leverage. AA International Monetary Fund. SR International Monetary Fund Working Paper: WP/00/202; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 36. PR not available. JE G13, G21, G32. KW Off-Balance-Sheet. Leveraged Positions. Derivatives. Capital Adequacy.

AB The simultaneous unwinding of leveraged positions can trigger financial market turbulence. Although balance-sheet measures of leverage are available, it is useful to construct a measure of leverage that incorporates both on- and off-balance-sheet activities. This paper provides measures of leverage implicit in derivative contracts by decomposing the contracts into cash market equivalent components. A leverage ratio can then be calculated for this replicating portfolio, which consists of own funds (equity) and borrowed funds equivalents (debt). Methods for aggregating leverage by institution and by markets are presented. The interaction between leverage and risk is discussed, and a modified capital adequacy ratio is calculated, which captures off-balance-sheet exposure.

Brocas, Isabelle

TI Entry Mistakes, Entrepreneurial Boldness and Optimism. AU Carrillo, Juan D.; Brocas, Isabelle.

Brown, Jeffery R.

PD July 1999. **TI** Taxing Retirement Income: Nonqualified Annuities and Distributions from Qualified Accounts. **AU** Brown, Jeffery R.; Mitchell, Olivia S.; Poterba, James M.; Warshawsky, Mark J. **AA** Brown: Harvard University and NBER. Mitchell: University of Pennsylvania and NBER. Poterba: Massachusetts Institute of Technology and NBER. Warshawsky: TIAA-CREF Institute and NBER. **SR** National Bureau of Economic Research Working Paper: 7268; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 30. **PR** $5.00. **JE** H24, H55, J14. **KW** Taxation. Retirement Plans. Annuities. Elderly. Personal Income Taxes.

AB This paper explores the current tax treatment of nonqualified immediate annuities and distributions from tax-qualified retirement plans in the United States. First, the authors describe how immediate annuities held outside retirement accounts are taxed. They conclude that the current income tax treatment of annuities does not substantially alter the incentive to purchase an annuity rather than a taxable bond. They nevertheless find differences across different individuals in the effective tax burden on annuity contracts. Second, the authors examine an alternative method of taxing annuities that would avoid changing the fraction of the annuity payment that is included in taxable income as the annuitant ages, but would still raise the same expected present discounted value of revenues as the current income tax rule. The authors find that a shift to a constant inclusion ratio increases the utility of annuitants, and that this increase is greater for more risk adverse individuals. Third, the authors examine how payouts from qualified accounts are taxed, focusing on both annuity payouts and minimum distribution requirements that constrain the feasible time path of nonannuitized payouts.

Brulhart, Marius

PD March 2000. **TI** Evolving Geographical Specialisation of European Manufacturing Industries. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 00/08; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 30. **PR** no charge. **JE** F14, F15, O52, R12, R32. **KW** Industrial Specialization. European Single Market. Economic Geography. Manufacturing. Firm Location.

AB This paper analyzes the geographical specialization of 32 manufacturing sectors over the 1972-1996 period, based on annual employment and export data for 13 European countries. Specialization has increased continuously over the sample period in employment terms, while remaining roughly unchanged in export terms. On average, increases in specialization were stronger prior to the launch of the Single Market than afterwards. The sectors most sensitive to the Single Market, however, showed an acceleration in specialization after 1986. There is also evidence that low-tech industries are the most strongly specialized, and that center-periphery gradients across countries are losing importance for industrial location in the EU.

PD October 1999. **TI** Home-Biased Demand and International Specialisation: A Test of Trade Theories. **AU** Brulhart, Marius; Trionfetti, Federico. **AA** Brulhart: University of Lausanne. Trionfetti: London School of Economics. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9918; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 33. **PR** no charge. **JE** F11, F12, R30. **KW** Specialization. Home-Market Effect. Increasing Returns. International Trade. Home Bias.

AB We develop and apply a discriminating criterion to distinguish the two principal paradigms of international trade theory: constant-returns perfectly competitive models on the one hand, and increasing-returns monopolistically competitive models on the other. Our criterion rests on the existence of home-biased demand. It predicts a positive relationship between countries' relative output and their relative home bias in increasing-returns sectors, and no relationship in constant-returns sectors. In implementing the test on data for OECD countries we find that industries accounting for up to two thirds of manufacturing output conform to the increasing-returns monopolistically competitive model.

Brunner, Allan D.

PD December 2000. **TI** El Nino and World Primary Commodity Prices: Warm Water or Hot Air? **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/203; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 34. **PR** not available. **JE** C32, F41, Q11. **KW** ENSO. El Nino. Commodity Prices. Climate Effects.

AB This paper examines the historical effects of the El Nino-Southern Oscillation (ENSO) cycle on world prices and economic activity. The analysis indicates that ENSO has economically-important and statistically-significant effects on world real commodity prices. A one-standard-deviation positive surprise in ENSO, for example, raises real commodity price inflation about 3-1/2 to 4 percentage points. Moreover, ENSO appears to account for almost 20 percent of commodity price inflation movements over the past several years. ENSO also has some explanatory power for world consumer price inflation and world economic activity, accounting for about 10 to 20 percent of movements in those variables.

Buiter, Willem H.

PD August 1999. **TI** Liquidity Traps: How to Avoid Them and How to Escape Them. **AU** Buiter, Willem H.; Panigirtzoglou, Nikolaus. **AA** Buiter: University of Cambridge. Panigirtzoglou: Bank of England. **SR** Centre for Economic Policy Research Discussion Paper: 2203; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 76. **PR** 5 pounds, 8 euros, or $8. **JE** B22, E31, E32, E51, E52, E58, N12, N13, N14. **KW** Liquidity Trap. Gesell. Stamp Scrip. Inflation Targeting. Multiple Equilbria.

AB The paper considers ways of avoiding a liquidity trap and ways of getting out of one. Unless lower short nominal interest rates are associated with significantly lower interest volatility, a lower average rate of inflation, which will be associated with lower expected nominal interest rates, increases the odds that the zero nominal interest rate floor will become a binding constraint. The empirical evidence on this issue is mixed. Once in a liquidity trap, there are two means of escape. The first is to use expansionary fiscal policy. The second is to lower the zero nominal interest rate floor. This second option involves paying negative interest on government "bearer bonds" -- coin and currency, that is "taxing money", as advocated by Gesell. This would also reduce the likelihood of ending up in a liquidity trap. Taxing currency amounts to having periodic "currency reforms", that is, compulsory conversions of "old" currency into "new" currency, say by stamping currency. The terms of the conversion can be set to achieve any positive or negative interest rate on currency.

PD August 1999. **TI** The Fallacy of the Fiscal Theory of the Price Level. **AA** University of Cambridge. **SR** Centre for Economic Policy Research Discussion Paper: 2205; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 80. **PR** 5 pounds, 8 euros, or $8. **JE** E31, E62. **KW** Fiscal Theory. Price Level. Seigniorage Plans.
AB The "fiscal theory of the price level", recently re-developed by Woodford, Cochrane, Sims and others, is an example of a fatally flawed research program. The source of the fallacy is an economic misspecification, that is they do not accept the fundamental proposition that the government's intertemporal budget constraint is a constraint on the government's instruments that must be satisfied for all admissible values of the economy-wide endogenous variables. Instead they require it to be satisfied only in equilibrium. This economic misspecification has many implications which are discussed in the paper, including anomalous behavior of the "equilibrium" price sequences, such as behavior that will ultimately violate physical resource constraints. The fiscal theory of the price level implies that a government could exogenously fix its real spending, revenue and seigniorage plans, and that the general price level would adjust the real value of its contractual nominal debt obligations so as to ensure government solvency. When reality dawns, the result could be painful fiscal tightening, government default or unplanned recourse to the inflation tax.

Bulkley, George

PD November 2000. **TI** Individually-Rational Union Membership. **AU** Bulkley, George; Myles, Gareth D. **AA** Bulkley: University of Exeter. Myles: IFS and University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 00/08; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 27. **PR** no charge. **JE** D71, J51. **KW** Unions. Membership. Rationality.
AB The analysis of the determination of union membership has typically met difficulties with the fact that union membership is not individually rational and free-riding is the dominant strategy. We assume that workers differ in their reservation wages and hence in their preferred choice of contract, so preventing free-riding on the contract choice of others. This implies that joining a union is equivalent to buying a vote on the contract and provides an individual incentive to join the union. An equilibrium trade union membership is characterized in which membership is taken up by those with relatively "extreme" tastes. The union achieves a centralist objective even though no member precisely supports such a view.

PD November 2000. **TI** On the Membership of Decision-Making Committees. **AU** Bulkley, George; Myles, Gareth D.; Pearson, Bernard R. **AA** Bulkley and Pearson: University of Exeter. Myles: IFS and University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 00/09; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 22. **PR** no charge. **JE** D61, D71, D74. **KW** Committees. Membership. Voting.
AB The decision of a committee is determined jointly by the voting process it adopts and the composition of its membership. The paper analyses the process through which committee members emerge from the eligible population and traces the consequences of this for the decisions of the committee. It is shown that the equilibrium committee will be composed of representatives from the extremes of the taste distribution. These extremes balance each other and the committee reaches a moderate decision. However, this mutual negation by the extremes is a socially wasteful use of time. Data from the UK House of Lords is used to illustrate these results.

Burda, Michael C.

PD August 1999. **TI** European Labour Markets and the Euro: How Much Flexibility Do We Really Need? **AA** Humboldt Universitat zu Berlin. **SR** Centre for Economic Policy Research Discussion Paper: 2217; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 44. **PR** 5 pounds, 8 euros, or $8. **JE** E52, J51. **KW** Euro. European Integration. EMU. Transmission Mechanism.
AB Widespread concern over real effects of EMU is consistent with new Keynesian approaches to macroeconomic fluctuations, but more difficult to reconcile with a real business cycle (RBC) paradigm. Using a model with frictions as a point of departure, I speculate that nominal price rigidity in Europe is likely to increase, while real rigidities are likely to decrease, as a consequence of monetary union. This logic implies a new European macroeconomic regime in which monetary policy is increasingly "effective" in influencing output in the short run. Similarly, changes in the nature of real and nominal price determination are likely to increase the volatility of the European business cycle. Empirical evidence of increasing covariation of price inflation and declining correlation of wage inflation and real wage growth within EMU countries in the last decade is consistent with this conjecture. Calls for additional labor market flexibility, given the magnitude of what is already in store for Europe, may be unwarranted.

Butler, Monika

PD February 2000. **TI** The WTO Dispute Settlement System: A First Assessment from an Economic Perspective. **AU** Butler, Monika; Hauser, Heinz. **AA** Butler: University of Lausanne, CentER, Tilburg University and CEPR. Hauser: University of St. Gallen, Switzerland. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 00/02; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 29. **PR** no charge. **JE** D74, F13, K33, K41. **KW** World Trade Organization. Dispute Settlement. Trade Restrictions. Litigation. International Trade.
AB We explore the incentives countries face in trade litigation within the new WTO Dispute Settlement System. Our analysis yields a number of interesting predictions. First,

https://doi.org/10.1017/S0951007900005337 Published online by Cambridge University Press

because sanctions are ruled out during the litigation process, the Dispute Settlement System does not preclude all new trade restrictions. However, the agenda-setting capacity of the complainant, including its right to force a decision, make trade restrictions less attractive than under the WTO's predecessor GATT. Second, the system's appellate review provides the losing defendant with strong incentives to delay negative findings, and both parties with a possibility to signal their determinacy in fighting the case. Third, a relatively weak implementation procedure potentially reinforces incentives to violate WTO trade rules. Fourth, bilateral settlements are more likely at an early stage in the process and are biased towards the expected outcome of the formal dispute settlement procedure. Empirical evidence based on a first data set of cases at an advanced stage of the litigation process provides qualitative support for our claims.

PD May 2000. **TI** Aging Anxiety: Much Ado About Nothing? **AU** Butler, Monika; Kirchsteiger, Georg. **AA** Butler: University of Lausanne, CentER, Tilburg University and CEPR. Kirchsteiger: University of Vienna and CentER, Tilburg University. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 00/11; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 32. **PR** no charge. **JE** H55, I38, J14, J18, O40. **KW** Social Security. Aging. Technological Change. Living Standards. Demographic Trends.
AB Social security systems in most industrialized countries face severe financial problems due to adverse demographic changes. The increase in old-age dependency, however, will be spread over a period of approximately 50 years. The degree of technological progress necessary to offset the negative effects of aging might therefore be small. Using models with endogenous labor supply and with capital accumulation, we demonstrate that under plausible assumptions, current living standards can be maintained with a moderate rate of technological progress. The necessary rate of growth increases both in the size of the program and in the fraction of agents who exclusively depend on public pensions in retirement.

Caballe, Jordi

PD February 2000. **TI** Pay-As-You-Go Social Security and the Distribution of Bequests. **AU** Caballe, Jordi; Fuster, Luisa. **AA** Caballe: Universitat Autonoma de Barcelona. Fuster: Universitat Pompeu Fabra and University of Western Ontario. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 468; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 30. **PR** papers only available on web page; no hard copies. **JE** D31, D64, D91, H55. **KW** Social Security. Altruism. Bequests. Saving. Life Cycle Models.
AB This paper studies the impact of an unfunded social security system on the distribution of bequests in a framework where savings are due to both life cycle and random altruistic motivations. We show that the impact of social security on the distribution of bequests depends crucially on the importance of the bequest motive in explaining savings behavior. If the bequest motive is strong, then an increase in the social security tax raises the bequests left by altruistic parents. On the other hand, when the importance of bequests in motivating savings is sufficiently low, the increase in the social security tax could result in a reduction of the bequests left by altruistic parents under some conditions on the attitude of individuals toward risk and on the relative returns associated with private saving and social security. Some implications concerning the transitional effects of introducing an unfunded social security scheme are also discussed.

Caballero, Ricardo J.

PD May 2000. **TI** Aggregate Volatility in Modern Latin America: Causes and Cures. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/11; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 35. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** E44, F30, F41, G10, O54. **KW** Volatility. Financial Constraints. Capital Flows. Terms of Trade. Emerging Markets.
AB Latin America has experienced deep transformations during the 1990s. In many countries of the region traditional imbalances have been largely abated, privatizations are widespread, openness of both trade and financial accounts has been largely accomplished, and so on. Symptoms of success abound. An important exception is the untamed and widespread volatility of real and financial variables. Rather than attempting to characterize every possible shock and amplification mechanism, this paper offers a parsimonious account of volatility in countries that have already tamed most of the traditional sources of macroeconomic instability in Latin America. It builds on two widely observed weaknesses: (i) weak links with international financial markets, and (ii) underdeveloped domestic financial markets. Once interacting, these two ingredients not only explain the observed volatility but they also generate clear externalities that require policy intervention. This framework thus provides a clear foundation for policy analysis. Most other shocks and deficiencies are leveraged by these two factors. Moreover, to the frustration of highly competent policymakers, the environment becomes intolerant of policy mistakes.

PD June 2000. **TI** Macroeconomic Volatility in Latin America: A View and Three Case Studies. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/10; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 42. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** F30, F41, G15, O54. **KW** Financial Constraints. Capital Flows. Banking Crises. Emerging Markets. Macroeconomic Policy.
AB After decades of trial, error, and occasional regress, the pieces of a successful Latin American economic model can be seen scattered among the leading economies of the region. The most traditional macroeconomic maladies of the emerging world -- such as chronic fiscal imbalances and monetary gimmicks -- are gradually being left behind. Many of these economies have made significant progress in their regulatory and supervisory frameworks and, at times, have been leaders beyond Latin American boundaries in allowing private sector co-participation in a wide array of ex-public sector activities. Despite these significant efforts, several structural sources of

volatility remain, and new ones have emerged as a result of the new and otherwise better economic environment. In this paper I review these sources through the recent experiences of Argentina, Chile and Mexico.

PD June 2000. **TI** Dollarization of Liabilities: Underinsurance and Domestic Financial Underdevelopment. **AU** Caballero, Ricardo J.; Krishnamurthy, Arvind. **AA** Caballero: Massachusetts Institute of Technology. Krishnamurthy: Kellogg Graduate School of Management, Northwestern University. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/14; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 27. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** F31, F32, F34, G15, G38. **KW** Currency Mismatch. Balance Sheets. Financial Constraints. International Liquidity. Capital Flows.
AB One factor that most observers have agreed upon as an underlying cause of recent emerging markets' crises is that contracting "dollar" (foreign currency) denominated external debt created balance sheet mismatches that led to bankruptcies and dislocations that amplified downturns. Much of the analysis of the "currency-balance sheet channel" hinges on the assumption that companies contract dollar denominated debt. Yet there has been little systematic inquiry into why companies must or choose to take on dollar debt. In this paper the authors cast the problem as one of microeconomic underinsurance with respect to country-wide aggregate shocks. Denominating external debt in domestic currency is equivalent to contracting the same amount of dollar-debt, complemented with insurance against shocks that depreciate the equilibrium exchange rate. The presence of country-level international financial constraints justify the purchase of such insurance even if all agents are risk neutral. However, if domestic financial constraints also exist, domestics will undervalue the social contribution of contracting insurance against country-wide shocks. Foreign lenders will reinforce the underinsurance problem by reducing their participation in domestic financial markets.

PD August 2000. **TI** Creative Destruction and Development: Institutions, Crises, and Restructuring. **AU** Caballero, Ricardo J.; Hammour, Mohamad L. **AA** Caballero: Massachusetts Institute of Technology. Hammour: DELTA and CEPR. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/17; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 28. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** E22, E32, O11, O31, O40. **KW** Creative Destruction. Development. Business Cycles. Restructuring. Growth.
AB There is increasing empirical evidence that creative destruction, driven by experimentation and the adoption of new products and processes when investment is sunk, is a core mechanism of development. Obstacles to this process are likely to be obstacles to the progress in standards of living. Generically, underdeveloped and politicized institutions are a major impediment to a well-functioning creative destruction process, and result in sluggish creation, technological "sclerosis," and spurious reallocation. Those ills reflect the macroeconomic consequences of contracting failures in the presence of sunk investments. Recurrent crises are another major obstacle to creative destruction. The common inference that increased liquidations during crises result in increased restructuring is unwarranted. Indications are, to the contrary, that crises freeze the restructuring process and that this is associated with the tight financial-market conditions that follow. This productivity cost of recessions adds to the traditional costs of resource under-utilization.

PD September 2000. **TI** International and Domestic Collateral Constraints in a Model of Emerging Market Crises. **AU** Caballero, Ricardo J.; Krishnamurthy, Arvind. **AA** Caballeo: Massachusetts Institute of Technology. Krishnamurthy: Kellogg Graduate School of Management, Northwestern University. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/21; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 32. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** E44, F32, F34, G20, G30. **KW** Capital Flows. Fire Sales. Financial Constraints. Collateral. Banks.
AB The authors build a model of emerging markets crises that features two types of collateral constraints. Firms in a domestic economy have limited borrowing capacity from international investors. They also have limited borrowing capacity with respect to each other. The authors study how the presence of and changes in these collateral constraints affect financial and real variables. A binding international constraint in the aggregate leads to a sharp rise in interest rates and fire sales of domestic assets, while limited domestic collateral can lead to wasted international collateral. These two collateral constraints can interact in important ways. The first is disintermediation: a fire sale of domestic assets causes banks to fail in their function of reallocating resources across the economy leading to wasted international collateral. The second is a dynamic effect. The authors show that firms in an economy with limited domestic collateral and a binding international collateral constraint will not adequately precaution against adverse shocks, increasing the severity of these shocks. The authors argue that the static and dynamic interactions of collateral deficiencies have important consequences for emerging markets' performance.

PD February 2001. **TI** International Liquidity Illusion: On the Risks of Sterilization. **AU** Caballero, Ricardo J.; Krishnamurthy, Arvind. **AA** Caballero: Massachusetts Institute of Technology and NBER. Krishnamurthy: Northwestern University. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/06; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 24. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** E50, F31, F34, F41, G38. **KW** Capital Flows. Sterilization Policy. Monetary Policy. Financial Constraints. Illiquidity.
AB During the booms that precede crises in emerging economies, policymakers struggle to limit capital flows and their expansionary consequences. The main policy tool for this task is a sterilization of capital inflows. Despite its widespread use, sterilization is often criticized for its ineffectiveness and potential backfiring. We argue that these concerns are justified when countries experience occasional external crises and domestic financial markets are illiquid. In this context, while standard Mundell-Fleming considerations may determine the impact of the sterilization on short-term interest rates, a potentially more powerful and offsetting mechanism is

triggered by the anticipated reversal of this policy in the event of an external crisis. If the instruments used in the sterilization are illiquid or result in fiscal deficits that reduce the liquidity of the private sector, then the perceived dollar cost of capital may be (inefficiently) lowered rather than raised by this policy.

Cabrales, Antonio

PD June 2000. **TI** Optimal Contracts, Adverse Selection, and Social Preferences: An Experiment. **AU** Cabrales, Antonio; Charness, Gary. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 478; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 28. **PR** papers only available on web page; no hard copies. **JE** C91, C92, D21, D82, J41. **KW** Adverse Selection. Contract Theory. Experiments. Principal Agent. Agency Theory.

AB We devise an experiment to explore optimal contracts in an adverse- selection context. A principal proposes one of three contract menus, each of which offers a choice of two incentive-compatible contracts, to two agents whose types are unknown to the principal. The agents know the set of possible menus, and choose to either accept one of the two contracts offered in the proposed menu or to reject the menu altogether; a rejection by either agent leads to lower (and equal) reservation payoffs for all parties. We observe numerous rejections of the more lopsided menus, and approach an equilibrium where one of the more equitable contract menus (which one depends on the reservation payoffs) is proposed and agents accept a contract, selecting actions according to their types. Behavior is largely consistent with all recent models of social preferences, strongly suggesting there is value in considering nonpecuniary utility in agency theory.

Calem, Paul S.

PD March 2000. **TI** Anatomy of a Fair-Lending Exam: The Uses and Limitations of Statistics. **AU** Calem, Paul S.; Longhofer, Stanley D. **AA** Calem: Board of Governors of the Federal Reserve System. Longhofer: Wichita State University. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/15; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 35. **PR** no charge. **JE** G21, G28, K30. **KW** Banking. Depository Institutions. Mortgages. Fair Lending.

AB In this paper, we consider the role of statistical analysis in fair lending compliance examinations. We present a case study of an actual examination of a large mortgage lender, demonstrating how statistical techniques can be a valuable tool focusing examiner efforts to either uncover illegal discrimination or exonerate an institution so accused. Importantly, our case also highlights the limitations of such statistical techniques. The study suggests that statistical analysis combined with comparative file review offer a balanced and thorough approach to enforcement of fair lending laws.

Calvet, Laurent

TI Incomplete Markets, Growth and the Business Cycle. **AU** Angeletos, George-Marios; Calvet, Laurent.

Cannon, Sandra A.

PD April 2000. **TI** Has Compensation Become More Flexible? **AU** Cannon, Sandra A.; Fallick, Bruce C.; Lettau, Michael; Saks, Raven. **AA** Cannon, Fallick and Saks: Board of Governors of the Federal Reserve System. Lettau: Bureau of Labor Statistics. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/27; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 31. **PR** no charge. **JE** E24, J31. **KW** Wage Inequality. Wage Compression. Pay Equity. Compensation.

AB In recent years, numerous observers have argued that global competition, increased reliance on contingent workers, and the breakdown of implicit contracts have made compensation practices in the United States more flexible; in particular, employers have become more concerned with how an employee's pay compares to that in other firms and less concerned with considerations of equity or relative pay within the firm. This paper uses establishment-level data from the Bureau of Labor Statistics' Employment Cost Index program to examine this claim by asking whether the variances of compensation within and between establishments have moved in a more "flexible" direction over the 1980s and 1990s.

Canova, Fabio

PD August 1999. **TI** Testing for Convergence Clubs in Income Per-Capita: A Predictive Density Approach. **AA** Universitat Pompeu Fabra. **SR** Centre for Economic Policy Research Discussion Paper: 2201; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 44. **PR** 5 pounds, 8 euros, or $8. **JE** C11, D91, O47. **KW** Heterogeneities. Panel Data. Predictive Density. Income Inequality.

AB The paper proposes a technique to test jointly for groupings of unknown size in the cross-sectional dimension of a panel and estimates the parameters of each group, applying it to identifying convergence clubs in income per-capita. The approach uses the predictive density of the data, conditional on the parameters of the model. The steady state distribution of European regional data clusters around four poles of attraction with different economic features. The distribution of income per-capita of OECD countries has two poles of attraction and each group has clearly identifiable economic characteristics.

Carey, Mark

PD March 2000. **TI** Dimensions of Credit Risk and Their Relationship to Economic Capital Requirements. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/18; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 40. **PR** no charge. **JE** G11, G21, G28. **KW** Risk Management. Credit Risk. Bank Regulation. Capital Requirements. International Finance.

AB Now in prospect is a major revision of international bank capital regulations that would embody recent advances in credit risk measurement and management. Previous regulations have been simpler in structure, with a primary goal of getting capital requirements right on average, and thus have largely ignored the difference between average and marginal. This paper presents evidence that explicit treatment in new regulations of several important dimensions of credit risk is necessary to limit banks' incentives to engage in capital arbitrage activities. Such activities, if unchecked, may lead to an increase in bank failure rates over time.

PD October 2000. **TI** Parameterizing Credit Risk Models With Rating Data. **AU** Carey, Mark; Hrycay, Mark. **AA** Carey: Board of Governors of the Federal Reserve System. Hrycay: Advertising.com. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/47; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 93. **PR** no charge. **JE** C52, G11, G20, G31, G33. **KW** Credit Risk. Value at Risk. Credit Ratings. Debt Default. Capital Regulation.
AB Estimates of average default probabilities for borrowers assigned to each of a financial institution's internal credit risk rating grades are crucial inputs to portfolio credit risk models. Such models are increasingly used in setting financial institution capital structure, in internal control and compensation systems, in asset-backed security design, and are being considered for use in setting regulatory capital requirements for banks. This paper empirically examines properties of the major methods currently used to estimate average default probabilities by grade. Evidence of potential problems of bias, instability, and gaming is presented. With care, and perhaps judicious application of multiple methods, satisfactory estimates may be possible. In passing, evidence is presented about other properties of internal and rating-agency ratings.

Carranza, Luis

PD December 2000. **TI** Explaining Economic Growth and Imperfect Credit Markets. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/193; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 28. **PR** not available. **JE** E44, G19, O11. **KW** Growth. Credit. Market Imperfections.
AB The purpose of this paper is to explain the humped-shaped behavior of the growth rate. Within a dynamic general equilibrium framework, it is found that, in the early stages of development, the source of growth is the reallocation of resources from sectors low-productivity sectors to high-productivity sectors ("extensive growth"), resulting in increasing growth rates. In the middle and mature stages of development, the source of growth is the higher average productivity achieved by the competition among entrepreneurs ("intensive growth"). As a result, the growth rate could be increasing in the middle stage and then displays a decreasing pattern during the mature stage.

Carrillo, Juan D.

PD August 1999. **TI** Entry Mistakes, Entrepreneurial Boldness and Optimism. **AU** Carrillo, Juan D.; Brocas, Isabelle. **AA** Carrillo: Columbia Business School. Brocas: Columbia Business School and Universite Libre de Bruxelle. **SR** Centre for Economic Policy Research Discussion Paper: 2213; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 44. **PR** 5 pounds, 8 euros, or \$8. **JE** A12, D81, D92, G39. **KW** Time Inconsistency. Behavioral Finance. Investment. Boldness. Optimism.
AB We analyze the investment decision of a population of time inconsistent entrepreneurs who overweight current payoffs relative to future returns. We show that, in order to avoid inefficient procrastination, agents may find it optimal to keep optimistic priors about their chances of success and "blindly invest". This explains entrepreneurial boldness and entry mistakes (or an excessive level of investment in the economy) without assuming the existence of boundedly rational, "intrinsically optimistic" managers. We also prove that: (i) there is a negative correlation between the risk free rate and the proportion of bold entrepreneurs in the economy, (ii) realist and bold agents can coexist and achieve the same payoff and (iii) entrepreneurs with highest ability are most likely to keep optimistic prospects and make entry mistakes.

Casella, Alessandra

PD August 1999. **TI** Tradable Deficit Permits: Efficient Implementation of the Stability Pact in the European Monetary Union. **AA** Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 7278; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 36. **PR** \$5.00. **JE** F33, F42, H61, H62, H87. **KW** Tradable Permits. Deficits. European Monetary Union. Stabilization. Fiscal Policy.
AB Borrowing from the experience of environmental markets, this paper proposes a system of tradable deficit permits as an efficient mechanism for implementing fiscal constraints in the European Monetary Union: having chosen an aggregate target for the Union and an initial distribution of permits, EMU countries could be allowed to trade rights to deficit creation. The scheme exploits countries' incentives to minimize their costs, is transparent, flexible in accommodating idiosyncratic shocks and allows for adjustments in case of Europe-wide recessions. In addition, it need not treat all countries identically and can be designed to penalize countries with higher debt to GDP ratios. Finally, the scheme rewards countries for reducing their deficit below the initial allowance, lending credibility to the Stability Pact's goal of a balanced budget in the medium run.

Caselli, Francesco

PD July 1999. **TI** How Regions Converge. **AU** Caselli, Francesco; Coleman, Wilbur John, III.. **AA** Caselli: University of Chicago. Coleman: Duke University. **SR** Centre for Economic Policy Research Discussion Paper: 2191; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 60. **PR** 5 pounds, 8 euros, or \$8. **JE** O14, O18, O41. **KW** Structural Transformation. Regional Convergence. Skill Acquisition.
AB We present a joint study of the US structural transformation (the decline of agriculture as the dominating sector) and regional convergence (of Southern to Northern average wages). We find that empirically most of the regional convergence is attributable to the structural transformation: the nation-wide convergence of agricultural wages to non-agricultural wages, and the faster rate of transition of the Southern labor force from agricultural to non-agricultural jobs. To explain these observations, we construct a model in which the South (Mid-West) has a comparative advantage in producing unskilled-labor intensive agricultural goods. Over time, declining education/training costs induce an increasing proportion of the labor force to move out of the (unskilled)

agricultural sector and into the (skilled) non- agricultural sector which leads to an increase in relative agricultural wages. With the addition of a less-than-unit income-elasticity of demand for farm goods and faster technological progress in farming than outside of farming this model successfully matches the quantitative features of the U.S. structural transformation and regional convergence, as well as several other stylized facts on U.S. economic growth in the last century.

Celentani, Marco

PD March 2000. **TI** Corruption and Competition in Procurement. **AU** Celentani, Marco; Ganuza, Juan Jose. **AA** Celentani: Universidad Carlos III de Madrid. Ganuza: Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 464; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 23. **PR** papers only available on web page; no hard copies. **JE** C72, D73, D78, H57, K42. **KW** Corruption. Competition. Public Procurement. Private Information. Bribes.

AB We consider a procurement problem in which the procurement agent is supposed to allocate the realization of a project according to a competitive mechanism that values bids in terms of the proposed price and quality. Potential bidders have private information about their production costs. Since the procurement agent is also in charge of verifying delivered quality, in exchange for a bribe, he can allow an arbitrary firm to be awarded the realization of the project and to produce a quality level lower than the announced. We compute the equilibrium level of corruption and we study the impact on corruption of the competitiveness of the environment, and in particular of: i) an increase in the number of potential suppliers of the good or service to be procured, ii) competitive (rather than collusive) behavior of procurement agents, and iii) an increase of competition in the market for procurement agents. We identify the effects that influence the equilibrium level of corruption and show that, contrary to conventional wisdom, corruption may well be increasing in competition.

Cerisola, Martin

PD October 2000. **TI** Tales from Two Neighbors: Productivity Growth in Canada and the United States. **AU** Cerisola, Martin; Chan-Lau, Jorge A. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/169; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 22. **PR** not available. **JE** D24, E13, O30, O47, O51. **KW** Productivity. Equipment Investment. General Equilibrium. Growth. Technological Change.

AB This paper assesses productivity trends in Canada vis-a-vis the United States from two perspectives. The first one is based on estimates of total factor productivity. The second one decomposes productivity growth into two sources: investment-specific technical change, associated with improvements in the quality of the capital stock, and neutral technical change, associated with the organization of productive activities. The results indicate that investment-specific technical change is the major underlying cause of the pickup in productivity in Canada and the narrowing of the productivity gap with the United States.

Chadha, Jagjit S.

PD December 2000. **TI** An Examination of UK Business Cycle Fluctuations: 1871-1997. **AU** Chadha, Jagjit S.; Janssen, Norbert; Nolan, Charles. **AA** Chadha: University of Cambridge. Janssen: Bank of England. Nolan: University of Reading. **SR** University of Cambridge, DAE Working Paper: 0024; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 29. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** C32, E20, E32, E43, N10. **KW** Business Cycles. Quantitative Theory. Spectral Analysis. Economic History.

AB This paper examines UK business cycle fluctuations in 22 complete cycles since 1871. We catalogue the incidence and typical duration of UK business cycles. The summary statistics of the economy are explored, including the spectral density, sample covariation and cross spectrum of macroeconomic time series. The real exchange rate, total factor productivity, consumption and investment show systematic pro- cyclicality whereas the current account and long-term interest rates show counter-cyclicality. Real wages are broadly countercyclical pre- war and procyclical post-war, conversely prices become countercyclical post-war. Consumption, investment and the current account show important leads over the business cycle and there is some evidence to suggest that real interest rates, real exchange rates and prices lag business cycles. Finally, there is some evidence to suggest that post- war fluctuations have displayed greater coherence and reduced volatility.

PD February 2001. **TI** Supply Shocks and the 'Natural Rate of Interest': An Exploration. **AU** Chadha, Jagjit S.; Nolan, Charles. **AA** Chadha: University of Cambridge. Nolan: Durham University. **SR** University of Cambridge, DAE Working Paper: 0103; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 24. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** E20, E32, F32, F41. **KW** Interest Rates. Productivity Shocks. General Equilibrium. Overlapping Generations. Total Factor Productivity.

AB We develop two variants of an open economy general equilibrium model employing Blanchard-Yaari finite life overlapping generations, which are shown to capture a number of important aspects of the UK economic cycle. We analyze the equilibrium stochastic processes of the model's endogenous variables in response to two primitive driving processes: total factor productivity and various measures of total factor productivity corrected for capacity utilization over the cycle. We find, following Vickers' (2000) suggestion, that the marginal product of capital is procyclical. Interestingly, we find that the difference between the procyclical real rate from the artificial economies and the observed real rate seems to play a role in explaining the UK inflation and output outcomes.

Chai, Jingqing

PD December 2000. **TI** An Incentive Approach to Identifying Financial System Vulnerabilities. **AU** Chai, Jingqing; Johnston, Barry R. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/211; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 19. **PR** not available. **JE** B41, G15, G38. **KW** Asymmetric Information. Market Structure. Incentive Assessments.

AB This paper underscores the importance of the assessment of incentives of the main agents in a financial system as a key element in the analysis of financial system vulnerability and the surveillance over the financial system. We outline a diagnostic approach for the assessment of incentives. This approach highlights the need for additional research on the relationship between institutional structures and financial vulnerabilities.

Chaloupka, Frank J.

TI Determinants of Smoking Cessation: An Analysis of Young Adult Men and Women. **AU** Tauras, John A.; Chaloupka, Frank J.

Chan-Lau, Jorge A.

TI Tales from Two Neighbors: Productivity Growth in Canada and the United States. **AU** Cerisola, Martin; Chan-Lau, Jorge A.

Chang, Roberto

PD July 1999. **TI** Liquidity Crises in Emerging Markets: Theory and Policy. **AU** Chang, Roberto; Velasco, Andres. **AA** Chang: Federal Reserve Bank of Atlanta. Velasco: New York University and NBER. **SR** National Bureau of Economic Research Working Paper: 7272; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E44, F31, F32, F34, F41. **KW** Illiquidity. Open Economy. Currency Crises. Financial Crises. International Finance.

AB We build a model of financial sector illiquidity in an open economy. Illiquidity -- defined as a situation in which a country's consolidated financial system has potential short-term obligations in foreign currency that exceed the amount of foreign currency it can have access to on short notice -- can be associated with self-fulfilling bank and/or currency crises. We focus on the policy implications of the model, and study the role of capital inflows and the maturity of external debt, the way in which real exchange rate depreciation can transmit and magnify the effects of bank illiquidity, options for financial regulation, the role of debt and deficits, and the implications of adopting different exchange rate regimes.

Charness, Gary

TI Optimal Contracts, Adverse Selection, and Social Preferences: An Experiment. **AU** Cabrales, Antonio; Charness, Gary.

TI Do Market Conditions Affect Preferences? Evidence from Experimental Markets with Excess Supply and Excess Demand. **AU** Brandts, Jordi; Charness, Gary.

PD September 2000. **TI** Bargaining on Networks: An Experiment. **AU** Charness, Gary; Corominas-Bosch, Margarida. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 492; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 27. **PR** papers only available on web page; no hard copies. **JE** B49, C78, C91, C92, D40. **KW** Bargaining. Experiments. Graph Theory. Networks.

AB While markets are often decentralized, in many other cases agents in one role can only negotiate with a proper subset of the agents in the complementary role. There may be proximity issues or restricted communication flows. For example, information may be transmitted only through word-of-mouth, as is often the case for job openings, business opportunities, and confidential transactions. Bargaining can be considered to occur over a network that summarizes the structure of linkages among people. We conduct an alternating-offer bargaining experiment using separate simple networks, which are then joined during the session by an additional link. The results diverge sharply depending on how this connection is made. Payoffs can be systematically affected even for agents who are not connected by the new link. We use a graph-theoretic analysis to show that any two-sided network can be decomposed into simple networks of three types, so that our result can be generalized to more complex bargaining environments. Participants appear to grasp the essential characteristics of the networks and we observe a rather consistently high level of bargaining efficiency.

Cheung, Yin-Wong

TI How Do UK-Based Foreign Exchange Dealers Think Their Market Operates? **AU** Marsh, Ian W.; Cheung, Yin-Wong; Chinn, Menzie David.

Chinn, Menzie David

TI How Do UK-Based Foreign Exchange Dealers Think Their Market Operates? **AU** Marsh, Ian W.; Cheung, Yin-Wong; Chinn, Menzie David.

Choi, Woon Gyu

PD November 2000. **TI** Endogenous Money Supply and Money Demand. **AU** Choi, Woon Gyu; Oh, Seonghwan. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/188; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 34. **PR** not available. **JE** C22, E41, E51, E52. **KW** Money Demand. Money Supply. Financial Innovations. Monetary Policy.

AB This paper explores the behavior of money demand by explicitly accounting for the money supply endogeneity arising from endogenous monetary policy and financial innovations. Our theoretical analysis indicates that money supply factors matter in the money demand function when the money supply partially responds to money demand. Our empirical results with U.S. data provide strong evidence for the relevance of the policy stance to the demand for M1 under a regime in which monetary policy is substantially endogenous. Specifically, we find that tighter monetary policy has substantial positive impacts on money demand under the recent Federal funds rate targeting.

PD December 2000. **TI** The Inverted Fisher Hypothesis: Inflation Forecastability and Asset Substitution. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/194; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 35. **PR** not available. **JE** C51, E43. **KW** Inverted Fisher Hypothesis. Asset Substitution. Inflation Forecasts. Regime Switching. Threshold Effect.

AB This paper examines the implications of inflation persistence for the inverted Fisher hypothesis that nominal interest rates do not adjust to inflation because of a high degree of substitutability between money and bonds. It is emphasized that the substitutability between nominal assets and capital renders the hypothesis inconsistent with the data when inflation persistence is high. Using a switching regression model, the analysis allows the reflection of inflation in interest rates to vary according to the degree of inflation persistence or forecastability. The hypothesis is supported by U.S. data only when inflation forecastability is below a certain threshold.

Christiano, Lawrence J.

PD August 2000. **TI** The Expectations Trap Hypothesis. **AU** Christiano, Lawrence J.; Gust, Christopher. **AA** Christiano: Northwestern University, NBER and Federal Reserve Bank of Chicago. Gust: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 676; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 40. **PR** no charge. **JE** D84, E31, E32, E52. **KW** Inflation. Arthur Burns. Monetary Policy. Taylor Rules. Expectations.
AB We explore a hypothesis about the take-off in inflation that occurred in the early 1970s. According to the expectations trap hypothesis, the Fed was pushed into producing the high inflation out of a fear of violating the public's inflation expectations. We compare this hypothesis with the Phillips curve hypothesis, according to which the Fed produced the high inflation as an unfortunate by-product of a conscious decision to jump-start a weak economy. Which hypothesis is more plausible has important implications for what needs to be done to prevent other inflation flare-ups.

Ciccone, Antonio

PD September 2000. **TI** Human Capital and Externalities in Cities. **AU** Ciccone, Antonio; Peri, Giovanni. **AA** Ciccone: Universitat Pompeu Fabra and CEPR. Peri: Bocconi University and IGIER. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 494; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 30. **PR** papers only available on web page; no hard copies. **JE** J24, J31, O15, O40, R11. **KW** Human Capital. Externalities. Substitution. Scale Externalities. Cities.
AB We combine growth theory with US Census data on individual schooling and wages to estimate the aggregate return to human capital and human capital externalities in cities. Our estimates imply that a one-year increase in average schooling in cities increases their aggregate labor productivity by 8 to 11 percent. We find no evidence for aggregate human capital externalities in cities however. Our main theoretical contribution is to show how aggregate human capital externalities can be identified when workers with different human capital are imperfect substitutes in production.

PD August 1999. **TI** Capital, Wages and Growth: Theory and Evidence. **AU** Ciccone, Antonio; Peri, Giovanni; Almond, Douglas. **AA** Ciccone: Universitat Pompeu Fabra. Peri: Universita Bocconi. Almond: University of California. **SR** Centre for Economic Policy Research Discussion Paper: 2199; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 60. **PR** 5 pounds, 8 euros, or $8. **JE** J31, O11, O47, R11. **KW** Capital RTS. Human Capital. Capital Externalities. Complementarities. Scale Effects. Cities.
AB Returns to scale to capital and the strength of capital externalities play a key role for the empirical predictions and policy implications of different growth theories. We show that both can be identified with individual wage data and implement our approach at the city-level using US Census data on individuals in 173 cities for 1970, 1980, and 1990. Estimation takes into account fixed effects, endogeneity of capital accumulation, and measurement error. We find no evidence for human or physical capital externalities and decreasing aggregate returns to capital. Returns to scale to physical and human capital are around 80 percent. We also find strong complementarities between human capital and labor and substantial total employment externalities.

Cipriani, Giam Pietro

PD May 2001. **TI** An OLG Model of Endogenous Growth and Ageing. **AU** Cipriani, Giam Pietro; Makris, Miltos. **AA** Cipriani: University of Bristol and University of Verona. Makris: University of Exeter, University of Bristol, Athens University. **SR** University of Exeter Department of Economics Discussion Paper: 01/02; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 29. **PR** no charge. **JE** E21, H21, H55. **KW** Ageing. Endogenous Growth. OLG Model.
AB To study fully endogenous ageing alongside growth and their implications, this paper sets up an OLG economy in which the life expectancy of agents is endogenous. Agents are bearers of children, investors in education and producers and consumers of output. Retirement decision in the last period of life is also endogenous and, when retired, agents receive a pension that is financed by a PAYG system. The model features a unique asymptotically stable steady state. Accordingly it supports a plethora of short and medium-run dynamic paths to a uniquely defined long-run equilibrium depending on the functional forms, parameters and initial conditions. The model is then calibrated and some comparative static experiments on the effect of policy variables changes are conducted.

Click, Reid W.

PD February 2000. **TI** Does Multinationality Matter? Evidence of Value Destruction in U.S. Multinational Corporations. **AU** Click, Reid W.; Harrison, Paul. **AA** Click: George Washington University. Harrison: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/21; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 41. **PR** no charge. **JE** F23, G12, G31, G32. **KW** Multinational Firms. Tobin's Q. Foreign Assets. Capital Ownership. Asset Pricing.
AB We document that capital markets penalize corporate multinationality by putting a lower value on the equity of multinational corporations than on otherwise similar domestic corporations. Using Tobin's q, the multinational discount is estimated to be in the range of 8.6% to 17.1%. The most important mechanism of value destruction is an asset channel in which multinationals have disproportionately high levels of assets in relation to the earnings they generate. Foreign assets are particularly associated with value destruction. In contrast, exporting from U.S. operations is associated with an export premium -- of approximately 3.9% -- resulting from both a

higher market value and a lower asset size. Given these findings, we ask why firms become multinationals. Evidence reveals that the portion of a firm owned by management is inversely related to the likelihood that the firm is a multinational, so we conclude that managers who do not own much of the firm may be building multinational empires for private gains at the expense of the shareholders.

Clouse, James

PD November 2000. **TI** Monetary Policy When the Nominal Short-Term Interest Rate is Zero. **AU** Clouse, James; Henderson, Dale; Orphanides, Athanasios; Small, David; Tinsley, Peter. **AA** Clouse, Henderson, Orphanides and Small: Board of Governors of the Federal Reserve System. Tinsley: University of Cambridge. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/51; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 79. **PR** no charge. **JE** E51, E52, E58. **KW** Monetary Policy. Liquidity Trap. Federal Reserve Act. Open Market Operations. Discount Window Lending.

AB In an environment of low inflation, the Federal Reserve faces the risk that it has not provided enough monetary stimulus even when it has pushed the short-term nominal interest rate to its lower bound of zero. Assuming the nominal Treasury-bill rate has been lowered to zero, this paper considers whether further open market purchases of Treasury bills could spur aggregate demand through increases in the monetary base that may stimulate aggregate demand by increasing liquidity for financial intermediaries and households; by affecting expectations of the future paths of short-term interest rates, inflation, and asset prices; or by stimulating bank lending through the credit channel. This paper also examines the alternative policy tools that are available to the Federal Reserve in theory, and notes the practical limitations imposed by the Federal Reserve Act. The tools the Federal Reserve has at its disposal include open market purchases of Treasury bonds and private-sector credit instruments (at least those that may be purchased by the Federal Reserve); unsterilized and sterilized intervention in foreign exchange; lending through the discount window; and, perhaps in some circumstances, the use of options.

Coe, Patrick

PD November 2000. **TI** The Transparency and Accountability of UK Debt Management: A Proposal. **AU** Coe, Patrick; Vahey, Shaun P.; Wakerly, Elizabeth C. **AA** Coe: University of Calgary. Vahey: University of Cambridge. Wakerly: University of East Anglia and University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0028; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 18. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** E61, E62, G11, H63. **KW** Government Debt. Transparency. Accountability. Benchmark Portfolio. Policy Objectives.

AB In this paper, we argue that UK debt management policy is insufficiently transparent and accountable. The debt management objectives are poorly understood and accountable, and partly as a consequence, there is no formal mechanism for performance measurement by the public. We propose a number of institutional reforms designed to improve transparency and accountability. These include the definition of more explicit objectives, an independent Debt Management Office and ex post evaluation of the government's domestic portfolio relative to a benchmark. To illustrate how ex post evaluation would work in practice we examine the efficiency of UK debt management policy over ten fiscal years, from April 1985 to March 1995. In a number of years the actual UK government domestic debt portfolio underperformed the benchmark in terms of standard measures of cost and risk.

Cohen, Darrel

PD June 2000. **TI** A Quantitative Defense of Stabilization Policy. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/34; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 17. **PR** no charge. **JE** E21, E32, E63, H11, O40. **KW** Stabilization Policy. Economic Growth. Truncated Distributions. Consumption.

AB In an analysis of the value of growth and stabilization of consumption, Robert Lucas presents a stunning set of calculations implying that a permanent increase in the growth rate of consumption of only one-tenth percentage point per year is worth nearly 50 times as much to consumers as complete elimination of consumption variability. This is because the higher growth of consumption is worth a lot while the reduced variability is worth virtually nothing (at least in the post-war United States). Taken at face value, such a result supports the pursuit of feasible growth policies but calls into serious question the study and practice of macroeconomic stabilization policy even if complete elimination of variance were feasible and costless. Primarily by considering alternative meanings of stabilization, this paper establishes that the value of stabilization relative to the value of higher growth is about 100 times larger than the corresponding figure in Lucas. The new quantitative estimates suggest, assuming feasibility, that even a small permanent increase in the growth rate of consumption is worth a lot, but so too is stabilization in the alternative senses considered here.

PD December 1999. **TI** The Automatic Stabilizers: Quietly Doing Their Thing. **AU** Cohen, Darrel; Follette, Glenn. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 1999/64; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 70. **PR** no charge. **JE** E21, E62, H31, H60. **KW** Automatic Stabilizers. Fiscal Policy. Household Behavior. High- Employment Budget. Spectral Analysis.

AB This paper presents theoretical and empirical analysis of automatic fiscal stabilizers, such as the income tax and unemployment insurance benefits. Using the modern theory of consumption behavior, the authors identify several channels through which the optimal reaction of household consumption plans to aggregate income shocks is tempered by the automatic fiscal stabilizers. The empirical importance of automatic stabilizers is addressed in several ways. The authors estimate elasticities of the various federal taxes with respect to their tax bases and responses of certain components of federal spending to changes in the unemployment rate. Such estimates are useful for analysts who forecast federal revenues and spending; the estimates also allow high-employment or cyclically-adjusted federal tax receipts and expenditures to be estimated. Using frequency domain techniques, the authors confirm that the relationships found in the time domain are strong at the business cycle frequencies. The automatic fiscal stabilizers are found to play a modest role at damping the short-run effect of aggregate demand shocks on real GDP. Very little stabilization is provided in the case of an aggregate supply shock.

Coleman, Wilbur John, III.

TI How Regions Converge. **AU** Caselli, Francesco; Coleman, Wilbur John, III..

Collins, William J.

PD August 1999. **TI** Race and Home Ownership, 1900 to 1990. **AU** Collins, William J.; Margo, Robert A. **AA** Vanderbilt University and NBER. **SR** National Bureau of Economic Research Working Paper: 7277; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 27. **PR** $5.00. **JE** G21, J15, N32, R21. **KW** Wealth. Minorities. Race. Housing. Mortgages.

AB The historical evolution of racial differences in income in the 20th century United States has been examined intensively by economists, but the evolution of racial differences in wealth has been examined far less. This paper uses IPUMS data to study trends in racial differences in home ownership since 1900. At the turn of the century approximately 20 percent of black adult males (ages 20 to 64) owned their homes, compared with 46 percent of white men, a gap of 26 percentage points. By 1990, the black home ownership rate had increased to 52 percent and the racial gap had fallen to 19.5 percentage points. All of the long- term rise in the rate of black home ownership, and almost all of the corresponding long-term decline in the racial gap occurred after 1940, with the majority of both changes concentrated in the 1960 to 1980 period. We also use the IPUMS to study trends in race differences in the incidence of mortgages, and in the value of owner-occupied housing.

Colombo, Emilio

PD September 1999. **TI** Restructuring as a Signal: A Simple Formalization. **AA** Universita Degli Studi di Milano. **SR** Centre for Economic Policy Research Discussion Paper: 2227; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 36. **PR** 5 pounds, 8 euros, or $8. **JE** C72, P31. **KW** Transitional Economy. Restructuring. Signaling.

AB Several studies stressed that contrary to initial expectations, state-owned firms at the beginning of transition undertook painful measures to adjust to the new economic environment. This paper investigates this behavior in a simple game-theoretic framework. It is argued that the massive amount of lay-offs created by state-owned firms during the initial phase of transition can be interpreted as a signal directed to the banking sector in order to obtain more favorable financing conditions for the subsequent process of restructuring. The conclusions are strongly supported by Polish firm level empirical evidence.

Colome, Rosa

PD June 2000. **TI** Supermarket Key Attributes and Location Decisions: A Comparative Study Between British and Spanish Consumers. **AU** Colome, Rosa; Serra, Daniel. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 469; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 53. **PR** papers only available on web page; no hard copies. **JE** C81, D12, L81, R12, R32. **KW** Distance. Firm Location. Consumer Choice. Supermarket Location. Surveys.

AB The Maximum Capture problem (MAXCAP) is a decision model that addresses the issue of location in a competitive environment. This paper presents a new approach to determine which store's attributes (other than distance) should be included in the new Market Capture Models and how they ought to be reflected using the Multiplicative Competitive Interaction model. The methodology involves the design and development of a survey, and the application of factor analysis and ordinary least squares. The methodology has been applied to the supermarket sector in two different scenarios: Milton Keynes (Great Britain) and Barcelona (Spain).

Colomer, Josep M.

PD July 2000. **TI** How Political Parties, Rather than Member-States, Are Building the European Union. **AA** Universitat Pompeu Fabra and CSIC. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 489; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 14. **PR** papers only available on web page; no hard copies. **JE** C71, D72, H77. **KW** Political Parties. Coalitions. Power Indices. Political Institutions. European Union.

AB Political party formation and coalition building in the European Parliament is a driving force for making governance of the highly pluralistic European Union relatively effective and consensual. In spite of successive enlargements and the very high number of electoral parties obtaining representation in the European Union institutions, the number of effective European Political Groups in the European Parliament has decreased from the first direct election in 1979 to the fifth in 1999. The formal analysis of national party's voting power in different European party configurations can explain the incentives for national parties to join large European Political Groups instead of forming smaller nationalistic groupings. Empirical evidence shows increasing cohesion of European Political Groups and an increasing role of the European Parliament in EU inter-institutional decision making. As a consequence of this evolution, intergovernmentalism is being replaced with federalizing relations. The analysis can support positive expectations regarding the governability of the European Union after further enlargements provided that new member states have party systems fitting the European Political Groups.

Committeri, Marco

PD November 2000. **TI** Effects of Volatile Asset Prices on Balance of Payments and International Investment Position Data. **AA** Banca d'Italia. **SR** International Monetary Fund Working Paper: WP/00/191; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 41. **PR** not available. **JE** C82, F21, F32, G11, G15. **KW** Balance of

Payments. International Investments. External Debt. Statistical Accuracy. Errors. Omissions. Volatility. Capital Flight.

AB This paper aims at clarifying, with the help of a simple formal model and numerical examples, several aspects of the relationship between international investment position (IIP) and balance of payments (BOP) statistics. Exact and approximated relations are compared to analyze the estimation accuracy of the most popular data model used to reconcile BOP transaction statistics with IIP and external debt stock statistics, and discuss (a) how such accuracy is affected by volatile asset prices and transactions and (b) how net errors and omissions are related to the model in question. Numerical examples based on equity prices and exchange rates actually observed in the 1990s suggest that the bias might have been especially large for estimates based on less detailed financial information. Serious consideration should be therefore given by national compilers to make use of more detailed financial information in compiling BOP and IIP statistics.

Conde Ruiz, Jose Ignacio

PD August 1999. **TI** Positive Arithmetic of the Welfare State. **AU** Conde Ruiz, Jose Ignacio; Galasso, Vincenzo. **AA** Conde Ruiz: Universitat Autonoma de Barcelona. Galasso: Universidad Carlos III de Barcelona. **SR** Centre for Economic Policy Research Discussion Paper: 2202; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 60. **PR** 5 pounds, 8 euros, or $8. **JE** D72, H53, H55. **KW** Social Security. Income Equality. Structure-Induced Equilibrium.

AB Why does the largest US welfare program select its recipients by their age, rather than by their earnings or wealth? In a dynamic efficient overlapping generation economy with earnings heterogeneity, we analyze a welfare system composed of a within-cohort redistribution scheme and an unfunded social security system. The programs' size is determined in a bidimensional majoritarian election. For enough income inequality and elderly in the population, both welfare programs are supported as a structure-induced political equilibrium of a voting game played by successive generation of voters. Social security is sustained by a voting coalition of retirees and low-income young, intragenerational redistribution by low-income young. Two features are crucial: the retirees' political power, deriving from their homogeneous voting, and the intragenerational redistribution component of the social security. Therefore, to assess how changes in inequality affect the welfare state, the income distribution should be decomposed by age groups.

Cook, William

PD July 1999. **TI** On the Matrix-Cut Rank of Polyhedra. **AU** Cook, William; Dash, Sanjeeb. **AA** Rice University. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: 99888; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 13. **PR** no charge. **JE** C45, C61, L91, R40. **KW** Polyhedra. Semi-Definite Operators. Linear Programming.

AB Lovasz and Schrijver (1991) described a semi-definite operator for generating strong valid inequalities for the 0-1 vectors in a prescribed polyhedron. Among their results, they showed that n iterations of the operator are sufficient to generate all valid inequalities for 0-1 vectors in n-space. We give a simple example, having Chvatal rank 1, that meets this worst case bound of n. We also describe an example requiring n iterations even when combining the semi-definite and Gomory-Chvatal operators. This second example is used to show that the standard linear programming relaxation of k-city traveling salesman problem requires at least [k/8] iterations of the combined operator.

Corchon, Luis

TI To Merge or Not To Merge: That is the Question. **AU** Fauli-Oller, Ramon; Corchon, Luis.

Corominas-Bosch, Margarida

TI Bargaining on Networks: An Experiment. **AU** Charness, Gary; Corominas-Bosch, Margarida.

Corradi, Valentina

TI Strong Rules for Detecting the Number of Breaks in a Time Series. **AU** Altissimo, Filippo; Corradi, Valentina.

PD November 2000. **TI** A Consistent Test for Nonlinear Out of Sample Predictive Accuracy. **AU** Corradi, Valentina; Swanson, Norman R. **AA** Corradi: University of Exeter. Swanson: Texas A&M University. **SR** University of Exeter Department of Economics Discussion Paper: 00/12; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 32. **PR** no charge. **JE** C22, C51. **KW** Conditional p-value. Nonlinear Causality. Out of Sample. Predictive Accuracy. Parameter Estimation Error.

AB In this paper, we draw on both the consistent specification testing and the predictive ability testing literatures and propose a test for predictive accuracy which is consistent against generic nonlinear alternatives. Broadly speaking, given a particular reference model, assume that the objective is to test whether there exists any alternative model, among an infinite number of alternatives, that has better predictive accuracy than the reference model, for a given loss function. We propose a statistic which is similar in spirit to that of White (2000). In addition, we allow for non vanishing parameter estimation error. In order to construct valid asymptotic critical values, we implement a conditional p- value procedure which extends the work of Inoue (1999) by allowing for non vanishing parameter estimation error. In a series of Monte Carlo experiments, we focus on a version of our test which can be interpreted as an out of sample nonlinear Granger causality test, and find that empirical size is very close to nominal, and power increases quite sharply when the sample size is increased from 400 to 600 observations.

TI Bounds for Inference With Nuisance Parameters Present Only Under the Alternative. **AU** Altissimo, Filippo; Corradi, Valentina.

PD February 2001. **TI** Bootstrap Specification Tests with Dependent Observations and Parameter Estimation Error. **AU** Corradi, Valentina; Swanson, Norman R. **AA** Corradi: University of Exeter. Swanson: Texas A&M University. **SR** University of Exeter Department of Economics Discussion Paper: 01/01; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 49. **PR** no charge. **JE** C12, C22. **KW** Diffusion Process. Parameter Estimation Error. Specification Test.

Stationary Bootstrap.
AB This paper introduces a parametric specification test for diffusion processes which is based on a bootstrap procedure that accounts for data dependence and parameter estimation error. The proposed bootstrap procedure additionally leads to straightforward generalizations of the conditional Kolmogorov test of Andrews (1997) and the conditional mean test of Whang (2000) to the case of dependent observations. The bootstrap hinges on a twofold extension of the Politis and Romano (1994) stationary bootstrap. One important feature of this new bootstrap is that one need not specify the conditional distribution given the entire history of the process when forming conditional Kolmogorov tests. Hence, the bootstrap, when used to extend Andrews (1997) conditional Kolmogorov test to the case of data dependence, allows for dynamic misspecification under both hypotheses. An example based on a version of the Cox, Ingersoll and Ross square root process is outlined and related Monte Carlo experiments are carried out. These experiments suggest that the bootstrap has excellent finite sample properties, even for samples as small as 500 observations when tests are formed using critical values constructed with as few as 100 bootstrap replications.

PD June 2001. **TI** A Randomized Procedure for Choosing Data Transformation. **AU** Corradi, Valentina; Swanson, Norman R. **AA** Corradi: University of Exeter. Swanson: Texas A&M University. **SR** University of Exeter Department of Economics Discussion Paper: 01/05; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 27. **PR** no charge. **JE** C12, C22. **KW** Deterministic Trend. Nonlinear Transformation. Nonstationarity. Randomized Procedure.
AB Standard unit root and stationarity tests assume linearity under both the null and the alternative hypotheses. Violation of this linearity assumption can result in severe size and power distortion, both in finite and large samples. In this paper we propose a simple randomized procedure, coupled with sample conditioning, for choosing between levels and log-levels specifications in the presence of deterministic and/or stochastic trends. In particular, we add a randomized component to a basic test statistic, proceed by conditioning on the sample, and show that for all samples except a set of measure zero, the statistic has a chi square limiting distribution under the null hypothesis (log linearity), while it diverges under the alternative hypothesis (level linearity). Once we have chosen the proper data transformation, we remain with the standard problem of testing for a unit root, either in levels or in logs. Monte Carlo findings suggest that the proposed test has good finite sample properties for samples of at least 300 observations. In addition, an examination of the King, Plosser, Stock and Watson (1991) data set is carried out, and evidence in favor of using logged data is provided.

Corrado, Luisa

PD November 2000. **TI** Piecewise Linear Feedback Rules in a Non Linear Model of the Phillips Curve: Evidence from the US and the UK. **AU** Corrado, Luisa; Holly, Sean. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0019; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 21. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** C31, C61, E31, E52, E61. **KW** Optimal Control. Feedback Rules. Non-Linear Models. Monetary Policy. Interest Rates.
AB Optimal nominal interest rate rules usually assume a linear world; we examine optimal rules when non-linearities are present -- in particular a non-linear inflation-output tradeoff. We propose a piecewise linear rule which reduces bias, but at the expense of an increase in the volatility of the nominal interest rate. Finally, we examine how a zero floor on a nominal interest rate affects output and inflation when both rules are adopted. With a linear feedback rule the output variability increases since nominal interest rates cannot be further reduced in the presence of adverse shocks, but a piecewise rule with a zero floor reduces output volatility. Significant differences in the transmission mechanism of monetary policy between the USA and the UK show up, both in the form of optimal feedback rules in the distribution of outcomes when there is a zero floor to nominal interest rates, and in non-linearities in the Phillips curve.

Cortavarria, Luis

PD December 2000. **TI** Loan Review, Provisioning, and Macroeconomic Linkages. **AU** Cortavarria, Luis; Dziobek, Claudia; Kanaya, Akihiro; Song, Inwon. **AA** Cortavarria: Bank of Peru. Dziobek and Song: International Monetary Fund. Kanaya: Bank of Japan. **SR** International Monetary Fund Working Paper: WP/00/195; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 31. **PR** not available. **JE** E51, G21, H25, K23, O16. **KW** Nonperforming Loans. Cyclical Bank. Behavior. Capital Ratios.
AB Loan review is a process routinely used by banks to assess the current value of loan portfolios. Provisioning is a technique to translate loan review results into the balance sheet. It allows for ongoing valuation of loans. Both are core elements of credit risk management and important to prudential oversight. As illustrated in this paper, valuation feeds into indicators of overall bank soundness and key macroprudential indicators. Country practices and recent moves to more forward-looking models are surveyed. Macroeconomic linkages are highlighted, including tax treatment of provisions, variables of the monetary survey, and procyclical aspects of loan valuation systems.

Covitz, Dan

PD September 1999. **TI** The Timing of Debt Issuance and Rating Migration: Theory and Evidence. **AU** Covitz, Dan; Harrison, Paul. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/10; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 43. **PR** no charge. **JE** D82, G31, G32. **KW** Debt Issuance. Rating Migrations. Adverse Selection. Signaling Games. Corporate Bonds.
AB This paper develops and tests a recursive model of debt issuance and rating migration. We examine a signaling game with firms who have private information about their probability distribution of future rating migration. A key assumption of the model is that rating agencies reveal information over time, creating a recursive information problem, which in turn generates an adverse selection problem in debt issuance similar to that for equity issuance in Myers and Majluf (1984). This

adverse selection model predicts that debt issuance provides a negative signal of rating migration, and that the signal strengthens with economic downturns. Another prediction regarding the maturity of debt issuance is that long maturity debt sends a negative signal relative to short maturity debt (Flannery 1986). Using data from 1980 to 1998 on straight bond issuance and Moody's ratings, and controlling for firm and issue specific factors, we find that debt issuance sends a negative signal of a firm's default probability, and that this signal intensifies with a decline in economic activity and with an increase in debt maturity.

Cuadras-Morato, Xavier

PD June 2000. **TI** Equity Considerations in Health Care: An Axiomatic Bargaining Approach. **AU** Cuadras-Morato, Xavier; Pinto, Jose Luis; Abellan-Perpinan, Jose-Maria. **AA** Cuadras-Morato and Pinto-Prades: Universitat Pompeu Fabra. Abellan- Perpinan: Universidad de Murcia. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 479; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 25. **PR** papers only available on web page; no hard copies. **JE** C78, D61, D63, I18. **KW** QALY. Equity. Axiomatic Bargaining. Resource Allocation. Health Care.

AB The general issues of equity and efficiency are placed at the center of the analysis of resource allocation problems in health care. We examine them using axiomatic bargaining theory. We study different solutions that have been proposed and relate them to previous literature on health care allocation. In particular, we focus on the solutions based on axiomatic bargaining with claims and suggest that they may be particularly appealing as distributive criteria in health policy. Finally, we present the results of a survey that tries to elicit moral intuitions of people about resource allocation problems and their different solutions.

PD June 2000. **TI** A Walrasian Theory of Commodity Money: Paradoxical Results. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 480; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 11. **PR** papers only available on web page; no hard copies. **JE** D50, D82, E41, E42. **KW** Money. Lemons. Production Costs. Allocative Efficiency. Asymmetric Information.

AB The objective of this note is to analyze some implications of the model of commodity money described in Banerjee and Maskin (1996) which may seem paradoxical. In order to do this, we incorporate a general production cost structure into the model. We focus on two different results. First, the existence of technologies that make counterfeiting a commodity more difficult may exclude it from being used as medium of exchange. Second, allocative distortions due to problems of asymmetric information may become larger in the presence of such technologies.

Cuddington, John

PD December 2000. **TI** Will the Emergence of the Euro Affect World Commodity Prices? **AU** Cuddington, John; Liang, Hong. **AA** Cuddington: Georgetown University. Liang: International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/208; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 31. **PR** not available. **JE** F33, F41, O13. **KW** Commodity Prices. Volatility. Exchange Rate Regimes. Euro.

AB This study provides evidence that episodes of internal stability of exchange rates among the 11 Euro countries during 1957-98 were associated with periods of lower real commodity price volatility. These stabilizing effects are statistically significant for fertilizer, metals, petroleum, and cereals. A reasonable inference, therefore, is that the establishment of the Euro on January 1, 1999, should be expected to contribute to reduced volatility of world commodity prices, other things equal, although the impacts are likely to be modest.

Cutler, David M.

PD January 2000. **TI** Generational Aspects of Medicare. **AU** Cutler, David M.; Sheiner, Louise. **AA** Cutler: Harvard University. Sheiner: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/09; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 10. **PR** no charge. **JE** H51, I11, I18, J11, J14. **KW** Medicare. Generational Aspects. Health Care. Elderly. Government Expenditures.

AB This paper examines the generational aspect of the current Medicare system and some stylized reforms. We find that the rates of return on Medicare for today's workers are higher than those for Social Security and that the Medicare system is shifting a greater share of the burden on future workers than is Social Security. Nonetheless, the rates of return on Medicare, using the Medicare Trustees assumptions, are still not that high -- roughly 2 percent for today's youngest workers. But forecasting future Medicare expenditures is quite difficult. Under an alternative higher-cost baseline, which we consider plausible, rates of return for today's youngest workers will exceed 3 percent. Putting Medicare on a sustainable basis by raising the payroll tax or reducing benefits would greatly reduce the rate of return for today's workers. Under the Trustees assumptions, for example, the payroll tax would have to be increased by 2.0 percent of payroll to put the Medicare system in balance in perpetuity. This policy would reduce the rate of return on today's youngest workers to about 1.3 percent.

PD August 1999. **TI** The Concentration of Medical Spending: An Update. **AU** Cutler, David M.; Meara, Ellen. **AA** Cutler: Harvard University and NBER. Meara: Harvard University. **SR** National Bureau of Economic Research Working Paper: 7279; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 15. **PR** $5.00. **JE** H51, I11, I12, J14. **KW** Medicare. Health Production. Elderly. Post-Acute Care.

AB In the last two decades, Medicare spending has doubled in real terms despite the fact that the health of Medicare beneficiaries improved over this period. The goals of this paper are to document how trends in spending by age have changed among elderly Medicare beneficiaries in the last decade and to reconcile the decline in disability rates with rapid increases in spending among the elderly. First, we conclude that the trend of disproportionate spending growth among the oldest old has continued between 1985 and 1995. Spending among the younger elderly, those 65-69, rose by two percent annually in real per person terms. In contrast, spending for those over age 85 rose by four percent. Second, we show that the reasons for the large increase in spending on the oldest elderly relative to the younger elderly is the rapid increase in the use of post-acute services such as home health care and skilled nursing care. Spending on post-acute care for the very old has risen 20 percent per year in the last decade.

d'Avanzo, Barbara

TI Health Effects of Job Insecurity among Employees in Swiss General Population. **AU** Domenighetti, Gianfranco; d'Avanzo, Barbara; Bisig, Brigitte.

Danthine, Jean-Pierre

PD February 2000. **TI** European Financial Markets After EMU: A First Assessment. **AU** Danthine, Jean-Pierre; Giavazzi, Francesco; von Thadden, Ernst-Ludwig. **AA** Danthine and von Thadden: University of Lausanne and CEPR. Giavazzi: Universita Bocconi, Milano and CEPR. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 00/03; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 40. **PR** no charge. **JE** E44, F21, F33, F36, G15. **KW** European Monetary Union. Capital Markets. International Finance. Financial Markets.

AB This paper reviews the first evidence on the impact of European Monetary Union on European capital markets, one year after the launch of the single currency. The assessment of this evidence is very favorable. On almost all counts EMU has either changed the European financial landscape drastically or has the potential to do so in the future. The authors argue that this is less due to the well-known direct effects of EMU, such as the elimination of intra-European currency risk, than to a number of indirect consequences through feedback mechanisms that seem to have been triggered by EMU.

PD November 1999. **TI** Macroeconomic Frictions: What Have We Learned from the Real Business Cycle Research Program? **AU** Danthine, Jean-Pierre; Donaldson, John B. **AA** Danthine: University of Lausanne and CEPR. Donaldson: Columbia University. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9919; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 26. **PR** no charge. **JE** B41, E13, E20, E32. **KW** Business Cycles. Neo-Classical Synthesis. Market Frictions. General Equilibrium. Macroeconomics.

AB One interpretation of the RBC research program is that it was meant to identify and incorporate into dynamic general equilibrium models those market imperfections which are most relevant for macroeconomic theory and policy. This paper reviews the methodological basis for this interpretation. It then discusses the empirical foundations for some of the many frictions that have found their way into RBC models including efficiency wages, labor contracts, nominal price rigidities, limited market participation, imperfect competition and expectational errors. We find that the 'necessity' of these frictions is better established in some cases than in others. While one is lead to the prediction that the "next neo-classical synthesis" will be a dynamic stochastic general equilibrium with frictions, it is premature to decide which specific friction will necessarily be taken on board.

Danziger, Leif

TI On the Age at Marriage: Theory and Evidence from Jews and Moslems in Israel. **AU** Neuman, Shoshana; Danziger, Leif.

Darsinos, Theofanis

PD January 2001. **TI** Bayesian Analysis of the Black-Scholes Option Price. **AU** Darsinos, Theofanis; Satchell, Stephen. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0102; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 37. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** C11, C22, C51, G13. **KW** Bayesian Analysis. Black-Scholes. Option Pricing. Posterior Density. Volatility.

AB This paper investigates the statistical properties of the Black- Scholes option price under a Bayesian approach. We incorporate randomness, both in the price process and in volatility, to derive the prior and posterior densities of a European call option. Expressions for the density of the option price conditional on the sample estimates of volatility and on the asset price respectively, are also derived. Numerical results are presented to compare how the dispersion of the option price changes in the transition from prior to posterior information, where information may be price or sample variance or both. The derived expression for the posterior density is of considerable interest since it can be straightforwardly combined with a loss function to produce optimal estimates of options prices.

Dash, Sanjeeb

TI On the Matrix-Cut Rank of Polyhedra. **AU** Cook, William; Dash, Sanjeeb.

Davis, Morris A.

TI A Primer on the Economics and Time Series Econometrics of Wealth Effects. **AU** Palumbo, Michael G.; Davis, Morris A.

Davoodi, Hamid R.

TI Corruption, Growth, and Public Finances. **AU** Tanzi, Vito; Davoodi, Hamid R.

De Grauwe, Paul

PD July 1999. **TI** Social Conflict and Growth in Euroland. **AU** De Grauwe, Paul; Skudelny, Frauke. **AA** Katholieke Universiteit Leuven. **SR** Centre for Economic Policy Research Discussion Paper: 2186; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 36. **PR** 5 pounds, 8 euros, or $8. **JE** D74, F33, F43, O52. **KW** EMU. Economic Growth. Transmission Process.

AB This paper contributes to the literature on the differences in the transmission processes within Euroland. We start from the proposition that there are "deep" differences in the nature of social conflicts and in the way countries deal with these conflicts. We empirically test this effect for the EU-growth and introduce several proxies for social conflicts and conflict management. We then analyze an EU wide shock and find that

https://doi.org/10.1017/S0951007900005337 Published online by Cambridge University Press

differences in the social conflict and the conflict management institutions contribute to different effects on economic growth. We conclude by presenting a model giving a theoretical foundation of the empirical results.

de Mello, Luiz

PD December 2000. **TI** Government Spending, Rights, and Civil Liberties. **AU** de Mello, Luiz; Sab, Randa. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/205; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 25. **PR** not available. **JE** H51, H52, H53, H55, K11. **KW** Rights. Institutions. Government Spending.

AB Government spending plays a critical role in protecting and enforcing rights and civil liberties. Empirical evidence for a sample of industrial and developing countries shows that government expenditures on defense, law and order, social security, education, and health care are associated with three rights indicators-property rights, equality of citizens before the law, and economic freedom. In particular, an increase in spending on law and order seems to improve the indicators of rights and civil liberties, and lower budget deficits seem to improve property rights and equality before the law. Of great importance is the finding that corruption is associated with worse rights indicators.

de Meza, David

PD November 2000. **TI** Advantageous Selection in Insurance Markets. **AU** de Meza, David; Webb, David C. **AA** de Meza: London School of Economics and University of Exeter. Webb: London School of Economics. **SR** University of Exeter Department of Economics Discussion Paper: 00/07; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 35. **PR** no charge. **JE** D81, D82, G22. **KW** Insurance Markets. Asymmetric Information. Advantageous Selection.

AB This paper reverses the standard conclusion that asymmetric information plus competition results in insufficient insurance provision. Risk- tolerant individuals take few precautions and are disinclined to insure, but are drawn into a pooling equilibrium by the low premiums created by the presence of safer, more risk-averse types. Taxing insurance drives out the reckless clients, allowing a strict Pareto gain. This result depends on administrative costs in processing claims and issuing policies, as does the novel finding of a pure-strategy, partial-pooling, sub-game-perfect, Nash equilibrium in the insurance market.

De Nicolo, Gianni

PD December 2000. **TI** Size, Charter Value and Risk in Banking: An International Perspective. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 689; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 40. **PR** no charge. **JE** G21, G28, G30, L89. **KW** Financial Intermediation. Bank Consolidation. Insolvency Risk. Banking. Charter Value.

AB This paper documents the relationships between bank size and measures of charter value and insolvency risk in a sample of publicly traded banks in 21 industrialized countries for the 1988-1998 period. With the exception of small U.S. bank holding companies, charter values decrease in size and insolvency risk increases in size for most banks in the countries considered. Size-related diversification benefits and/or economies of scale in intermediation are either absent or, if they exist, are more than offset by banks' higher risk taking. Furthermore, banks operating in countries with more developed financial markets exhibit lower insolvency risk, and those operating in countries with either stricter regulation on banks' permissible activities or larger banks' state ownership exhibit higher insolvency risk. Overall, our evidence is at variance with some broad implications of modern financial intermediation theory, and suggests that absent future structural changes in banking markets of developed countries, bank consolidation is likely to result in an average increase in banks' insolvency risk.

Demertzis, Maria

PD August 1999. **TI** An Independent Central Bank Faced With Elected Governments. **AU** Demertzis, Maria; Hughes Hallett, Andrew J. **AA** University of Strathclyde. **SR** Centre for Economic Policy Research Discussion Paper: 2219; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 40. **PR** 5 pounds, 8 euros, or $8. **JE** E52, E63, F42. **KW** Central Bank Independence. Accountability. Fiscal Policy. Political Uncertainty.

AB The literature argues that the benefits of an independent Central Bank accrue at no cost to the real side. In this paper, we argue that the lack of correlation between monetary autonomy and output variability is due to the proactive role of fiscal policy when faced with rigid monetary objectives. None of the attempts in the literature to measure these correlations allow for a changing fiscal role. As monetary policy is handled by an independent authority, fiscal and wage/social protection policies remain an instrument in the hands of national governments. We find that so long as the two authorities pursue their goals independently of each other, a conflict arises which is exacerbated as preferences diverge. Further to that we find that the establishment of a conservative Central Bank encourages more left-wing preferences amongst the public (as reflected in the governments they elect). And the election of more left-wing governments makes it more difficult for each authority to reach their own preferred objectives, unless they are able to cooperate.

Demiralp, Selva

PD January 2001. **TI** The Pavlovian Response of Term Rates to Fed Announcements. **AU** Demiralp, Selva; Jorda, Oscar. **AA** Demiralp: Board of Governors of the Federal Reserve System. Jorda: University of California, Davis. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/10; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 46. **PR** no charge. **JE** C51, D84, E43, E52. **KW** Liquidity Effect. Announcement Effect. Term Structure. Marked Point Process. Monetary Policy.

AB The traditional view of the monetary transmission mechanism rests on the premise that the Federal Reserve (Fed) controls the level of the Federal funds rate via open market operations and the liquidity effect. By contrast, this paper argues that the Fed also manipulates the Federal funds rate via public disclosures of the new level of the Federal funds rate target and the "announcement effect." We define the announcement effect as the portion of interest rate movements associated with public statements on interest rate targets that do not require conventional open market operations for their support. This paper provides evidence on how the Fed uses the liquidity effect in conjunction with the announcement effect to execute monetary policy. In addition, it investigates the implications of the announcement effect on term structure behavior and the rational expectations hypothesis.

den Haan, Wouter J.

PD March 2001. **TI** The Comovements Between Real Activity and Prices in the G7. **AU** den Haan, Wouter J.; Sumner, Steven. **AA** den Haan: University of California, San Diego, CEPR and NBER. Sumner: University of California, San Diego. **SR** University of California, San Diego Department of Economics Working Paper: 2001/05; Department of Economics, 0508, University of California, San Diego, La Jolla, CA 92093-0508. Website: econ.ucsd.edu/papers. **PG** 25. **PR** $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. **JE** C32, E31, E37. **KW** Covariance. Filters. Vector Autoregression. Forecast Errors. Frequency Domain Filters.

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

Denizer, Cevdet

PD June 2000. **TI** Finance and Macroeconomic Volatility. **AU** Denizer, Cevdet; Iyigun, Murat F.; Owen, Ann L. **AA** Denizer: World Bank. Iyigun: Board of Governors of the Federal Reserve System. Owen: Hamilton College. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 670; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 27. **PR** no charge. **JE** D31, E32, E44, O16. **KW** Financial Development. Economic Fluctuations. Business Cycles. Banking. Credit.

AB Countries with more developed financial sectors experience less fluctuation in real per capita output, consumption and investment growth. However, the manner in which the financial sector develops matters. The relative importance of banks in the financial system is important in explaining consumption and investment volatility, and the proportion of credit provided to the private sector explains the volatility of consumption and output. The main results are generated using fixed-effects estimation with panel data from 70 countries covering the years 1956 through 1998.

DeYoung, Robert

TI Efficiency Barriers to the Consolidation of the European Financial Services Industry. **AU** Berger, Allen N.; DeYoung, Robert; Udell, Gregory F.

TI The Effects of Geographic Expansion on Bank Efficiency. **AU** Berger, Allen N.; DeYoung, Robert.

TI Globalization of Financial Institutions: Evidence from Cross-Border Banking Performance. **AU** Berger, Allen N.; DeYoung, Robert; Genay, Hesna; Udell, Gregory F.

Di Tommaso, Maria L.

PD July 2000. **TI** Decision Structures and Discrete Choices: An Application to Labour Market Participation and Fertility. **AU** Di Tommaso, Maria L.; Weeks, Melvyn. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0009; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 35. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** C35, C52, J13, J22. **KW** Discrete Choice. Multinomial Response. Bivariate Models. Labor Supply. Fertility.

AB In many published studies involving discrete choice, a large class of models has been utilized without apparent consideration of either the statistical or the behavioral relationships that exist between different model structures. In this paper the authors consider a number of alternative ways of modeling systems of discrete choice. Joint labor force participation and the fertility decision problem are used as an example. The focus is on the outcome of two decisions: the decision to have children, and whether to work -- full-time, part-time, or not at all. Unlike the majority of work in this area, a class of discrete choice models is subjected to a series of non-nested tests.

TI The Measurement and Determination of Institutional Change: Evidence from Transition Economies. **AU** Raiser, Martin; Di Tommaso, Maria L.; Weeks, Melvyn.

Diegoli, Samantha

TI Organisational Values as "Attractors of Chaos": An Emerging Cultural Change to Manage Organisational Complexity. **AU** Dolan, Shimon; Garcia, Salvador; Diegoli, Samantha; Auerbach, Alan.

Diewert, W. Erwin

PD July 2000. **TI** Notes on Producing an Annual Superlative Index Using Monthly Price Data. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/08; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 30. **PR** International. **JE** C43, C81, D11, D12, E31. **KW** Index Numbers. Seasonal Adjustment. Consumer Price Index. Superlative Indexes. Price Level.

AB The paper outlines some alternative approaches on how a superlative annual consumer price index could be constructed using the monthly price information that is presently collected by statistical agencies. The first issue that must be addressed is: how should the monthly price information at the lowest level of aggregation be aggregated up (over months) to form an annual price level or price relative at this lowest level of commodity aggregation? Having constructed appropriate annual elementary indexes, the paper discusses how to complete the process to construct an annual (calendar year) superlative index. The construction of year over year (superlative) indexes for each month of the year should be free of seasonal influences. This approach leads to another two-stage aggregation of the micro price information into an overall annual index: first aggregate across commodities holding the month constant and then aggregate across months. It is noted that the alternative two-stage annual indexes will be quite close to each other. Finally, some of the problems that are associated with the aggregation over households or regions are discussed.

TI New Approaches to Public Income Support in Canada. **AU** Nakamura, Alice O.; Wong, Ging; Diewert, W. Erwin.

TI Insurance for the Unemployed: Canadian Reforms and their Relevance for the United States. **AU** Nakamura, Alice O.; Diewert, W. Erwin.

PD October 2000. **TI** The Quadratic Approximation Lemma and Decompositions of Superlative Indexes. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/15; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 25. **PR** International. **JE** C43, E31, O47. **KW** Superlative Indexes. Quadratic Approximations. Price Indexes. Quantity Indexes. Fisher Ideal Index.
AB It was shown in 1976 that a difference in a quadratic function of N variables evaluated at two points is exactly equal to the sum of the arithmetic average of the first order partial derivatives of the function evaluated at the two points times the differences in the independent variables. In the present paper, this result is generalized and the resulting generalized quadratic approximation lemma is used to establish all of the superlative index number formulae that were derived in Diewert (1976). In addition, some new exact decompositions of the percentage change in the Fisher and Walsh superlative indexes into N components are derived. Each component in this decomposition represents the contribution of a change in a single independent variable to the overall percentage change in the index. Finally, these components are given economic interpretations.

TI A Characterization of the Tornqvist Price Index. **AU** Balk, Bert M.; Diewert, W. Erwin.

TI Additive Decompositions for Fisher, Tornqvist and Geometric Mean Indexes. **AU** Reinsdorf, Marshall B.; Diewert, W. Erwin; Ehemann, Christian.

PD February 2001. **TI** The Consumer Price Index and Index Number Theory: A Survey. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/02; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 103. **PR** International. **JE** C43, D11, E31, O47. **KW** Inflation. Index Numbers. Superlative Indexes. Consumer Price Indexes. Cost of Living.
AB The paper addresses the problem of choosing the "best" functional form for the Consumer Price Index from the viewpoint of five different approaches to index number theory. The five approaches are: (1) fixed basket approaches; (2) the Divisia approach; (3) the axiomatic or test approach; (4) the stochastic approach and (5) the economic approach. It turns out that the Divisia approach does not lead to a definite choice of index number formula but the other 4 approaches lead to 3 or 4 formulae as "best" choices. These index number formulae all turn out to be superlative index number formulae that approximate each other quite closely. The paper also considers the problem of obtaining "practical" approximations to these superlative indexes that can be implemented in a timely fashion.

TI Who Benefits from Economic Reform: The Contribution of Productivity, Price Changes and Firm Size to Profitability. **AU** Lawrence, Denis; Diewert, W. Erwin; Fox, Kevin.

TI Imputation and Price Indexes: Theory and Evidence from the International Price Program. **AU** Feenstra, Robert C.; Diewert, W. Erwin.

PD April 2001. **TI** Research in Price Measurement for the Next Twenty Years. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/11; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 13. **PR** International. **JE** C43, C81, D11, D24, E31. **KW** Index Numbers. Price Indexes. Reservation Prices. CES Utility Functions. Data Collection.
AB The paper looks at possible directions for future research in constructing price indexes. Section 1 notes that many innovations in price index research were actually out there in the academic literature for 20 or more years before statistical agencies got around to implementing them. This suggests that future statistical agency innovations could be in the current academic literature. The remaining sections of the paper list some possible current areas of research that could be implemented in the coming years.

PD April 2001. **TI** Hedonic Regressions: A Consumer Theory Approach. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/12; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 31. **PR** International. **JE** C23, C43, C51, D11, D12. **KW** Hedonic Regression. Flexible Functional Forms. Consumer Theory. Quality Change. Matched Models.
AB A hedonic regression regresses the price of various models of a product (or service) on the characteristics that describe the product. The existing economic theory that justifies a hedonic regression is extremely complex. The present paper takes a very simple consumer theory approach in order to justify a family of functional forms for a hedonic regression. The main simplifying assumption is that every consumer has the same hedonic utility function, which describes how consumers evaluate alternative models with different characteristics. This hedonic utility function is assumed to be separable from other goods, which is the second main simplifying assumption. The paper also examines alternative functional forms for the hedonic utility function from the viewpoint of their flexibility properties. The paper notes that

hedonic regressions that regress the model price on a linear function of the characteristics is not consistent with the consumer approach adopted in the paper. Finally, the paper compares traditional statistical agency matched model techniques for dealing with quality change with the hedonic regression approach and indicates under what conditions the two approaches are likely to coincide.

PD April 2001. **TI** Productivity Growth and the Role of Government. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/13; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 45. **PR** International. **JE** D61, E62, H11, I38, O47. **KW** Role of Government. Government Services. Growth. Total Factor Productivity. Tax Policy.

AB The paper discusses the possible roles of government: is it to facilitate growth or to provide needed services? Before the role of government in facilitating growth can be discussed, we first need a theory of what makes economies grow. Thus in the first half of the paper, various growth theories are discussed. In the second half of the paper, the role of governments as providers of services is discussed. It is argued that an important role of government is to reduce the risks that the population faces in various contexts. Thus the government provides pensions to offset the risk that the individual may not have saved enough; the government provides health insurance to mitigate the costs of catastrophic illness and so on. The paper suggests that many of these government services could be provided more efficiently than currently by providing each new citizen with various endowment funds at birth that would eventually be used to provide pensions, health care or higher education. These endowment funds would belong to individuals but would be invested in the stock market, which would put the tremendous power of compound interest to work in the most advantageous manner.

PD April 2001. **TI** The Gains from Trade and Policy Reform Revisited. **AU** Diewert, W. Erwin; Woodland, A. D. **AA** Diewert: University of British Columbia. Woodland: University of Sydney. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/14; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 32. **PR** International. **JE** D11, F41, F43, H21, O47. **KW** Open Economy. Welfare Measurement. Growth. Producer Theory. Consumer Theory.

AB The paper considers what are the gains to a country of opening up its borders to international trade. It also considers the more modern and general question: what are the welfare effects of some tax policy change or of some other exogenous shock to the economy? The paper examines two sources of trade gains that have received little examination in the literature: (1) the gains that can accrue to a country from the elimination of excess supplies as a result of a policy move from autarky to free trade and (2) the gains from the introduction of new goods. The paper decomposes an index of welfare change into various consumer and producer substitution functions and additional components that are sources of growth, including technical progress, growth in real imports, growth in endowments and reductions in excess supplies. This identity is similar in some respects to those derived by Ohyama and Grinols and Wong.

PD April 2001. **TI** Productivity Trends and Determinants in Canada. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/15; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 24. **PR** International. **JE** C43, D24, F43, J24, O47. **KW** Labor Productivity. Total Factor Productivity. Growth Decompositions. Terms of Trade. Index Numbers.

AB The paper compares Canadian and U.S. labor productivity and total factor (or multifactor) productivity for the years 1962-1998. The paper also looks at the factors that might "explain" total factor productivity growth and provides a decomposition of Canadian real output growth into portions due to TFP growth, primary input growth and changes in the terms of trade. The last part of the paper reviews a number of Industry Canada Productivity Program papers that bear on the relative productivity performance of the U.S. and Canadian economies. In particular, the paper by Nadeau and Rao demonstrates that there is a labor productivity gap between the U.S. and Canada and it seems to be widening over time. The paper concludes by considering factors that might explain the relatively poor Canadian performance.

PD June 2001. **TI** Measuring the Price and Quantity of Capital Services Under Alternative Assumptions. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/24; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 98. **PR** International. **JE** C43, C82, D24, E22, O47. **KW** Capital Services. Depreciation. Maintenance Profiles. Opportunity Costs. Superlative Indexes.

AB The paper calculates Canadian reproducible capital services aggregates under alternative assumptions about the form of depreciation, the opportunity cost of capital and the treatment of capital gains. Five different models of depreciation are considered: (1) one hoss shay; (2) straight line depreciation; (3) declining balance or geometric depreciation; (4) linearly declining efficiency profiles and (5) linearly increasing maintenance profiles. The paper considers three alternative assumptions about the interest rate and the treatment of capital gains so that fifteen models are compared. The paper also considers the differences between cross section and time series depreciation and anticipated time series depreciation (which adds anticipated obsolescence of the asset to normal cross section depreciation of the asset).

PD December 1999. **TI** The Consumer Price Index and Index Number Purpose. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/02; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 73. **PR** International. **JE** C43, D11, D13, E31. **KW** Consumer Price Index. Consumption Deflators. Index Numbers. Inflation. Household Production.

AB The paper considers the alternative uses of a Consumer Price Index (CPI) and suggestions for the construction of alternative CPIs. Uses considered are: (i) as a cost of living index; (ii) as a consumption deflator (from both the consumer and producer viewpoints) and (iii) as a measure of general inflation. The theory of the "pure" price index is also considered and the Harmonized Index of Consumer Prices (HICP) used by European Union countries is also discussed. Finally, alternative treatments of consumer durables are discussed.

Dolado, Juan Jose

PD August 1999. **TI** An Empirical Study of the Cyclical Effects of Monetary Policy in Spain (1977-1997). **AU** Dolado, Juan Jose; Dolores, Ramon Maria. **AA** Universidad Carlos III de Madrid. **SR** Centre for Economic Policy Research Discussion Paper: 2193; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, 8 euros, or $8. **JE** C32, D92, E52, E58. **KW** Interest Rate Shocks. Monetary Policy. State Asymmetries. Regime Switching.

AB In this paper, we provide empirical evidence for the Spanish economy, over the period 1977-97, on whether monetary policy shocks have had different effects on real output growth depending on the state of the business cycle. To do so, we adopt an extension of Hamilton's (1989) Markov Switching Model, as recently proposed by Garcia and Schaller (1995), where shocks to an interest rate policy rule followed by the Bank of Spain are allowed to affect both the growth rate of output and the transition probabilities of moving from one phase to another. The analysis is carried out both at the aggregate level and the sectoral level, with the aim of addressing the following questions: (i) Does monetary policy have the same effect regardless of the current phase of economic fluctuations?, (ii) Does monetary policy only have an incremental effect on output growth rate with a given state or does it also affect the probability of state switch, and, (iii) How do the aggregate and sectorial results compare?.

Dolan, Shimon

PD July 2000. **TI** Job Satisfaction and Life Satisfaction: Analysis of a Reciprocal Model with Social Demographic Moderators. **AU** Dolan, Shimon; Gosselin, Eric. **AA** Dolan: Universitat Pompeu Fabra. Gosselin: Universite du Quebec. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 484; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 17. **PR** papers only available on web page; no hard copies. **JE** C12, C81, I31, J24, J28. **KW** Job Satisfaction. Life Satisfaction. Social Demographics. Reciprocal Models. Quality of Life.

AB The general objective of the study was to empirically test a reciprocal model of job satisfaction and life satisfaction while controlling for some social demographic variables. 827 employees working in 34 car dealerships in Northern Quebec (56% response rate) were surveyed. The multiple item questionnaires were analyzed using correlation analysis, chi-square and ANOVAs. Results show interesting patterns emerging for the relationships between job and life satisfaction of which 49.2% of all individuals have spillover, 43.5% compensation, and 7.3% segmentation type of relationships. Results, nonetheless, are far richer and the model becomes much more refined when social demographic indicators are taken into account. Globally, social demographic variables demonstrate some effects on each satisfaction individually but also on the interrelation (nature of the relations) between life and work satisfaction.

PD July 2000. **TI** Organisational Values as "Attractors of Chaos": An Emerging Cultural Change to Manage Organisational Complexity. **AU** Dolan, Shimon; Garcia, Salvador; Diegoli, Samantha; Auerbach, Alan. **AA** Dolan: Universitat Pompeu Fabra and University of Montreal. Garcia and Diegoli: Universitat de Barcelona. Auerbach: Wilfrid Laurier University. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 485; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 13. **PR** papers only available on web page; no hard copies. **JE** D23, L21, M12, M14, O33. **KW** Managing Chaos. Values. Management. Corporate Culture. Business Objectives.

AB This paper proposes that viewing organizations in terms of "complexity theory" may assist leaders in fine-tuning managerial philosophies that provide orderly management emphasizing stability within a culture of organized chaos. It is argued that 21st century companies, as chaotic social systems, will no longer be effectively managed by rigid objectives (MBO) nor by instructions (MBI); their capacity for self-organization will be derived essentially from how their members accept a shared set of values or principles for action (MBV). It is further argued that in a culture that cultivates values such as autonomy, responsibility, independence, innovation, creativity, and proaction, the risk of short-term chaos is mitigated by an overall long-term sense of direction. The paper concludes that a more suitable approach to manage the internal and external complexities that organizations are currently confronting, is to alter their dominant culture under the principles of MBV that are described in some detail in the rest of the paper.

PD July 2000. **TI** Managing by Values in the Next Milenium: Cultural Redesign for Strategic Organizational Change. **AU** Dolan, Shimon; Garcia, Salvador. **AA** Dolan: Universitat Pompeu Fabra. Garcia: Universitat de Barcelona. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 486; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 15. **PR** papers only available on web page; no hard copies. **JE** D23, L21, M12, M14, O33. **KW** Values. Management. Strategic Leadership. Corporate Culture. Organizational Change.

AB The system of beliefs and values that shaped the model for management and organizations during the 20th century is just not good enough today. In order to keep a business functioning well and competing successfully in markets that are increasingly more global, complex, professionally demanding, constantly changing and oriented towards quality and customer satisfaction a new model is needed. In this paper, we will propose that both Management by Instructions (MBI) and Management by Objectives (MBO) today give notoriously inadequate results. By contrast, description of a new approach labeled Management by Values (MBV) seems to be emerging as a strategic leadership tool. The paper outlines this approach and discusses the implementation of MBV as a tool to redesign culture in organizations and prepare them for the next millennium.

Dolmas, Sheila

TI The Use and Abuse of "Real-Time" Data in Economic Forecasting. **AU** Koenig, Evan F.; Dolmas, Sheila; Piger, Jeremy.

Dolores, Ramon Maria

TI An Empirical Study of the Cyclical Effects of Monetary Policy in Spain (1977-1997). **AU** Dolado, Juan Jose; Dolores, Ramon Maria.

Domah, Preetum

PD July 2000. **TI** The Restructuring and Privatisation of Electricity Distribution and Supply Businesses in England and Wales: A Social Cost Benefit Analysis. **AU** Domah, Preetum; Pollitt, Michael G. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0007; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 42. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** H43, L33, L43, L94, Q48. **KW** Cost Benefit Analysis. Electricity. Productivity. Privatization. Restructuring.

AB In December 1990, the twelve regional electricity companies responsible for the distribution and supply of electricity in England and Wales were privatized. For the first few years following privatization, real prices, profits and costs in the industry rose. Following two price control reviews, prices have now fallen sharply and there have been substantial reductions in costs and, more recently, in profits. This paper attempts to conduct a social cost benefit analysis of the privatization by examining actual and predicted falls in costs over the period to 2005. The authors conclude that the privatization did yield net benefits but that these were unevenly distributed across time and groups in society. Relative to our preferred counterfactual, the gains to consumers are equivalent to 3% lower prices, and the government gains five billion pounds in sales proceeds and net taxes. However, consumers only begin to gain from 2000.

Domenighetti, Gianfranco

PD January 2000. **TI** Definition des priorites sanitaires et rationnement: L'opinion des Suisses, des Administrateurs hospitaliers et des Departements sanitaires des Cantons. **AU** Domenighetti, Gianfranco; Maggi, Jenny. **AA** Domenighetti: University of Lausanne, University of Geneva and Sezione Sanitaria. Maggi: not available. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 00/01; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 34. **PR** no charge. **JE** I11, I18. **KW** Health Care Utilization. Priority Setting. Rationing. Population. Administrators.

AB This paper is written in a language other than English.

PD April 1999. **TI** Health Effects of Job Insecurity among Employees in Swiss General Population. **AU** Domenighetti, Gianfranco; d'Avanzo, Barbara; Bisig, Brigitte. **AA** Domenighetti: University of Lausanne and Geneva and Sezione Sanitaria. d'Avanzo: Istituto di Ricerche Farmcologiche "Mario Negri", Italy. Bisig: Universitat Zurich. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9907; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 17. **PR** no charge. **JE** E24, E60, I12, I30, J60. **KW** Health. Economic Development. Labor Markets. Unemployment. Job Insecurity.

AB Objectives: To investigate at the national level the association between health and the social distress in which the whole employed population is plunged as a consequence of job insecurity. Design: Cross-sectional study. Setting: Switzerland. Subjects: Individuals working full or part time as employees drawn from a random sample (N=2024) of the Swiss general population interviewed by phone. Main outcome measures: Prevalence rates of ten self-reported health and health related behavior indicators according to three levels of perceived job insecurity (low, middle, high). Odds ratios estimated with logistic regression adjusted for relevant respondents characteristics (sex, age, education, having a chronic disease, working full or part-time and in public or private field). Results: One employee out of 10 experienced a high level of job insecurity, one out of five a middle level while about 2/3 have no or a very low perception of job insecurity. Conclusions: There is a positive association between health status and health-related behavior and social distress due to perception of job insecurity.

Doms, Mark E.

PD March 2000. **TI** Understanding Productivity: Lessons from Longitudinal Microdata. **AU** Doms, Mark E.; Bartelsman, Eric J. **AA** Doms: Board of Governors of the Federal Reserve System. Bartelsman: Free University, Amsterdam. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/19; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 40. **PR** no charge. **JE** D24, O47. **KW** Productivity. Microdata. Growth. Technological Change.

AB This paper reviews research that uses longitudinal microdata to document productivity movements and to examine factors behind productivity growth. The research explores the dispersion of productivity across firms and establishments, the persistence of productivity differentials, the consequences of entry and exit, and the contribution of resource reallocation across firms to aggregate productivity growth. The research also reveals important factors correlated with productivity growth, such as managerial ability, technology use, human capital, and regulation. The more advanced literature in the field has begun to address the more difficult questions of the causality between these factors and productivity growth.

Donaldson, David

TI Population Principles with Number-Dependent Critical Levels. **AU** Blackorby, Charles; Bossert, Walter; Donaldson, David.

TI Population Ethics and the Existence of Value Functions. **AU** Blackorby, Charles; Bossert, Walter; Donaldson, David.

TI Social Aggregation Without the Expected Utility Hypothesis. **AU** Blackorby, Charles; Donaldson, David;

Mongin, Philippe.

TI The Axiomatic Approach to Population Ethics. **AU** Blackorby, Charles; Bossert, Charles; Donaldson, David.

TI A Representation Theorem for Domains with Discrete and Continuous Variables. **AU** Blackorby, Charles; Bossert, Walter; Donaldson, David.

Donaldson, John B.

TI Macroeconomic Frictions: What Have We Learned from the Real Business Cycle Research Program? **AU** Danthine, Jean-Pierre; Donaldson, John B.

Downing, Chris

PD May 2000. **TI** A Real Options Approach to Housing Investment. **AU** Downing, Chris; Wallace, Nancy. **AA** Downing: Board of Governors of the Federal Reserve System. Wallace: University of California, Berkeley. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/30; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 38. **PR** no charge. **JE** D12, G12, G13, R21, R31. **KW** Housing. Investment. Real Options. Asset Pricing. House Attributes.

AB In this paper, we study investments by existing homeowners to improve their homes. The value of a house is modeled as the expected net present value of a perpetual stream of service flows emanating from the attributes of the house. An important innovation in our model is that the set of house attributes evolves over time according to the investment decisions of the homeowner. The homeowner's decisions to invest in house attributes are modeled as real options. Our model of investment embeds a multi-factor term structure model and a general model of the evolution of service flows. We employ numeric simulations to explore the properties of the investment model, and to motivate our empirical test of the model. Using a panel from the American Housing Survey, we test two implications of the real option theory. We test whether investment is more likely when the spread between the return to housing and the cost of capital is wide, and we test whether greater spread volatility depresses investment. The results indicate that homeowner investment behavior is consistent with the theory, even after controlling for business cycle, aging, tenure and for-sale influences.

Duflo, Esther

PD May 2000. **TI** Participation and Investment Decisions in a Retirement Plan: The Influence of Colleagues' Choices. **AU** Duflo, Esther; Saez, Emmanuel. **AA** Duflo: MIT and NBER. Saez: Harvard University and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/07; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 21. **PR** $7.00 US, Canada, Mexico; $10.00 all other international; make checks payable to MIT, Dept of Economics. **JE** D91, G23, J14, J26. **KW** Retirement. Peer Effects. Pension Plans. Saving. Instrumental Variables.

AB This paper investigates whether peer effects play an important role in retirement savings decisions. We use individual data from the staff of a university to study whether individual decisions to enroll in a Tax Deferred Account plan sponsored by the university (and the choice of the mutual fund vendor for people who choose to enroll) are affected by the decisions of other employees in the same department. To overcome the identification problems, we separate the departments into sub- groups (along gender, status, age, and tenure lines) and we instrument the average participation of each peer group by the salary or tenure structure in this group. Our results suggest that peer effects are important. We find significant own-group peer effect on participation and on vendor's choice, but no cross-group peer effects.

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

Duttagupta, Rupa

PD December 2000. **TI** What Happened to Asian Exports During the Crisis? **AU** Duttagupta, Rupa; Spilimbergo, Antonio. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/200; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 31. **PR** not available. **JE** F14, F31, F32. **KW** Cointegration. Competitive Depreciation. Export Demand and Supply. East Asia.

AB After the large exchange rate depreciations following the 1997 East Asian crisis, export volumes from East Asian countries responded with a notable lag. Two main explanations for this lag have been proposed: that the policy of high interest rates limited access to domestic credit and hence limited the supply of exports; and that "competitive depreciation" neutralized the effects on demand for exports. This paper considers the plausibility of these two mechanisms using a new monthly database on exports of selected industries. We find evidence that "competitive depreciation" did play a fundamental role in the propagation of the East Asian crisis through the trade channel, even at a monthly frequency.

Dynan, Karen E.

PD November 2000. **TI** Do the Rich Save More? **AU** Dynan, Karen E.; Skinner, Jonathan; Zeldes, Stephen P. **AA** Dynan: Board of Governors of the Federal Reserve System. Skinner: Dartmouth College and NBER. Zeldes: Columbia University and NBER. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/52; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 59. **PR** no charge. **JE** D12, D91, E21, H24, H31. **KW** Saving. Consumption. Consumer Spending. Household Behavior. Tax Policy.

AB The issue of whether higher lifetime income households save a larger fraction of their income is an important factor in the evaluation of tax and macroeconomic policy. This paper addresses this issue, using new empirical methods and the Panel Study on Income Dynamics, the Survey of Consumer Finances, and the Consumer Expenditure Survey. The authors first consider the various ways in which life cycle models can be altered to generate differences in saving rates by income groups: differences in Social Security benefits, different time preference rates, non-homothetic preferences, bequest motives, uncertainty, and consumption floors. Using a variety of instruments for lifetime income, the authors find a strong positive relationship between personal saving rates and lifetime income. The data do not support theories relying on time preference rates, non-homothetic preferences, or variations in

Social Security benefits. Instead, the evidence is consistent with models in which precautionary saving and bequest motives drive variations in saving rates across income groups. Finally, the authors illustrate how models that assume a constant rate of saving across income groups can yield erroneous predictions.

PD May 2001. **TI** Does Stock Market Wealth Matter for Consumption? **AU** Dynan, Karen E.; Maki, Dean M. **AA** Dynan: Board of Governors of the Federal Reserve System. Maki: Putnam Investments. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/23; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 43. **PR** no charge. **JE** D12, D91, E21, E44. **KW** Consumption. Saving. Wealth Effects. Household Behavior. Future Income.
AB This paper explores the household behavior that underlies the link between wealth and consumption at the aggregate level. One possibility is that changes in wealth directly cause changes in consumption through their effect on households' contemporaneous budget sets; another possibility is that they merely predict changes in consumption because they signal changes in future income. Based on analysis of household- level data from the Consumer Expenditure Survey, we find that direct wealth effects begin to show up relatively quickly and continue to boost consumption growth for a number of quarters, in line with aggregate estimates. In contrast, we find that the indirect wealth channel is not an important determinant of consumption growth. We also estimate that an additional dollar of wealth leads households with moderate securities holdings to increase consumption between 5 cents and 15 cents, with the most likely gain in the lower part of this range.

Dziobek, Claudia

TI Loan Review, Provisioning, and Macroeconomic Linkages. **AU** Cortavarria, Luis; Dziobek, Claudia; Kanaya, Akihiro; Song, Inwon.

Eckstein, Zvi

TI Real Business Cycles in a Small Open Economy with Non-Traded Goods. **AU** Balsam, Ayelet; Eckstein, Zvi.

Eckwert, Bernhard

PD June 2001. **TI** The Effect of Better Information on Growth and Welfare. **AU** Eckwert, Bernhard; Zilcha, Itzhak. **AA** Eckwert: University of Chemnitz. Zilcha: Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 14/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 29. **PR** no charge. **JE** D11, D80, D91, J24, O40. **KW** Information. Growth. Welfare. Human Capital. Risk Aversion.
AB We develop an OLG economy with accumulation in human capital. Heterogeneity among individuals in each generation results mainly from the (random) innate ability assigned to each individual. When young, all agents observe a private signal, which reveals some information about a person's ability. Private investment in education and training is based on this signal and therefore varies from one young person to the other. We analyze how better information, which allows better "screening" during the "youth" period when the individual human capital is being formed, affects welfare and the accumulation process of human capital in each generation. Our analysis highlights the critical role played by the degree of risk aversion in the economy and by the availability of a risk sharing market.

Edge, Rochelle M.

PD July 2000. **TI** The Effect of Monetary Policy on Residential and Structures Investment Under Differential Project Planning and Completion Times. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 671; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 45. **PR** no charge. **JE** D91, E22, E52, L74. **KW** Monetary Policy. Planning Times. Completion Times. Fixed Investment. Business Cycles.
AB This paper analyzes an empirical puzzle regarding the effect of monetary policy on fixed investment, specifically, why residential investment exhibits a strong and rapid response to changes in monetary policy while structures investment manifests a substantially weaker response. The paper proposes an explanation for these contrasting responses that is based on the differential planning and completion times of these two categories of investment as well as inflexibilities in changing the planned pattern of investment spending once the project has begun. Empirical support for the explanation is established by contrasting the responses of U.S. residential and structures building project starts and work undertaken to a monetary policy shock. The paper then shows that a calibrated sticky-price monetary business cycle model with multistage investment projects is capable of generating responses to monetary policy that are broadly consistent with those observed empirically.

PD July 2000. **TI** The Equivalence of Wage and Price Staggering in Monetary Business Cycle Models. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 672; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 24. **PR** no charge. **JE** E10, E24, E31, E32, O42. **KW** Taylor Contracting. Output Persistence. Sticky Prices. Sticky Wages. Business Cycles.
AB Chari, Kehoe, and McGratten's (1998) finding that a standard monetary business cycle model with staggered price setting is unable to generate sufficiently persistent real effects of monetary shocks has engendered a growing literature aimed at developing alternative mechanisms for producing greater persistence. The most popular approach at present in this literature appears to be one in which staggered wage contracts are used as either an alternative or a complement to a staggered price mechanism. This is informed by recent research by Andersen (1998) and Huang and Liu (1998) which finds that the staggered wage model, despite its superficial similarity to the staggered price setup, incorporates a very different microstructure that implies substantially more real persistence. This paper argues that these authors' findings rely heavily on the assumption that identical inputs are used by all firms, and demonstrates that, by assuming firm-specific factor inputs, the

staggered price model is as capable as the staggered wage model of generating persistent real responses to monetary shocks.

PD July 2000. **TI** Time-to-Build, Time-to-Plan, Habit-Persistence, and the Liquidity Effect. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 673; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 45. **PR** no charge. **JE** E41, E43, E52, O42. **KW** Sticky Prices. Business Cycles. Capital Stocks. Liquidity Effects. Fixed Investment.

AB The general inability of sticky-price monetary business cycle models to generate liquidity effects has been noted in the recent literature by authors such as Christiano (1991), Christiano and Eichenbaum (1992a, 1995), King and Watson (1996), and Bernanke and Mihov (1998b). This paper develops a sticky-price monetary business cycle model that is capable of generating an empirically plausible liquidity effect. Time- to-build and time-to-plan in investment together with habit-persistence in consumption are the features of the model that allow it to produce this result.

Edison, Hali J.

PD July 2000. **TI** Do Indicators of Financial Crises Work? An Evaluation of an Early Warning System. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 675; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 76. **PR** no charge. **JE** F31, F32, F47, G15. **KW** Currency Crises. Vulnerability Indicators. Asian Crisis. Balance of Payments. Crisis Prediction.

AB The object of this paper is to develop an operational early warning system (EWS) that can detect financial crises. To achieve this goal the paper analyzes and extends the early warning system developed by Kaminsky, Lizondo, and Reinhart (1998) and Kaminsky and Reinhart (1999) that is based on the "signal" approach. This system monitors several indicators that tend to exhibit an unusual behavior in the periods preceding a crisis. When an indicator exceeds (or falls below) a threshold, then it is said to issue a "signal" that a currency crisis may occur within a given period. The model does a fairly good job of anticipating some of the crises in 1997/1998, but several weaknesses to the approach are identified. The paper also evaluates how this system can be applied to an individual country. On balance, the results in this paper are mixed, but the results suggest that an early warning system should be thought of as a useful diagnostic tool.

Ehemann, Christian

TI Additive Decompositions for Fisher, Tornqvist and Geometric Mean Indexes. **AU** Reinsdorf, Marshall B.; Diewert, W. Erwin; Ehemann, Christian.

Eliaz, Kfir

PD March 2001. **TI** Nash Equilibrium When Players Account for the Complexity of their Forecasts. **AA** Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 06/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 38. **PR** no charge. **JE** C71, C72, C73. **KW** Nash Equilibrium. Complexity. Repeated Games. Preferences. Game Theory.

AB Nash equilibrium is often interpreted as a steady state in which each player holds the correct expectations about the other players' behaviors and acts rationally. This paper investigates the robustness of this interpretation when players' preferences are affected by their forecasts about the other players. In particular, I analyze the case of lexicographic preferences in which the simplicity of forecasts is secondary to material payoffs. The model consists of a two-person strategic game in which each player chooses a finite machine to implement a strategy in an infinitely repeated 2x2 game with discounting. I analyze the equilibrium strategies and plays of this model using two alternative equilibrium notions which I define. It is shown that the requirement for correct forecasts in equilibrium places severe restrictions on the set of equilibrium strategies and plays. I argue that this result suggests that when the players' preferences are affected by their expectations, then there are many situations in which the correct expectations interpretation of Nash equilibrium may not be valid.

PD May 2001. **TI** Arrow's Theorem and the Gibbard-Satterthwaite Theorem as Special Cases of a Single Theorem. **AA** Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 11/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 10. **PR** no charge. **JE** D71. **KW** Social Choice. Dictatorship. Pareto Efficiency. Preference Reversal. Impossibility Theorems.

AB This paper shows that both Arrow's Theorem and the Gibbard- Satterthwaite Theorem follow from a single impossibility theorem. This theorem states that two properties -- Pareto efficiency and a condition called Preference Reversal -- lead to the dictatorship result.

PD May 2001. **TI** An Equilibrium for Games Played by Imperfect Organizations. **AA** Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 12/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 20. **PR** no charge. **JE** C70, D70, D81, L10. **KW** Bounded Rationality. Decentralization. Hierarchies. Organizational Structure. Game Theory.

AB Typical game-theoretic models in economics treat the players as "black boxes", allowing for the interpretation of the players as either individual decision-makers or as large organizations. This paper argues that when organizations are imperfect in the sense that members may make mistakes and messages may be distorted, then the inner structure of the organization should be explicitly modeled. This paper proposes a framework for studying games between imperfect organizations. A new notion of equilibrium is introduced and is applied to a few simple examples, where it is shown that the steady states that emerge differ from the Nash equilibria. In particular, cooperation can be obtained in a finite game of stopping, and inefficiency emerges in the Nash demand game.

Ellison, Glenn

PD June 2000. **TI** The Slowdown of the Economics Publishing Process. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/12; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 62. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** A14, O31, L89. **KW** Economics Journals. Academic Publishing. Economics Profession. Specialization. Revisions.

AB Over the last three decades there has been a dramatic increase in the length of time necessary to publish a paper in a top economics journal. This paper documents the slowdown and notes that a substantial part is due to an increasing tendency of journals to require that papers be extensively revised prior to acceptance. A variety of potential explanations for the slowdown are considered: simple cost and benefit arguments; a democratization of the publishing process; increases in the complexity of papers; the growth of the profession; and an evolution of preferences for different aspects of paper quality. Various time series are examined for evidence that the economics profession has changed along these dimensions. Paper-level data on review times is used to assess connections between underlying changes in the profession and changes in the review process. It is difficult to attribute much of the slowdown to observable changes in the economics profession. Evolving social norms may play a role.

PD June 2000. **TI** Evolving Standards for Academic Publishing: A q-r Theory. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/13; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 39. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** A14, C73, D70, D83. **KW** Academic Publishing. Social Norms. Evolution. Learning. Quality.

AB This paper develops a model of evolving standards for academic publishing. It is motivated by the increasing tendency of academic journals to require multiple revisions of articles and by changes in the content of articles. Papers are modeled as varying along two quality dimensions: q and r. The former represents the clarity and importance of a paper's main ideas and the latter its craftsmanship and polish. Observed trends are regarded as increases in r-quality. A static equilibrium model in which an arbitrary social norm determines how q and r are weighted is developed and used to discuss comparative statics explanations for increases in r. The paper then analyzes a learning model in which referees (who have a biased view of the importance of their own work) try to learn the social norm from observing how their own papers are treated and the decisions editors make on papers they referee. The model predicts that social norms will gradually but steadily evolve to increasingly emphasize r-quality.

Ellison, Sara Fisher

PD June 2000. **TI** Gradual Incorporation of Information: Pharmaceutical Stocks and the Evolution of Clinton's Healthcare Reform. **AU** Ellison, Sara Fisher; Mullin, Wallace P. **AA** Ellison: Massachusetts Institute of Technology. Mullin: Michigan State University and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/12; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 41. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** C14, G14, I18, L65. **KW** Pharmaceutical Industry. Isotonic Regression. Stock Markets. Information. Public Policy.

AB Information moves stock prices. A vast literature has arisen to exploit and explain that fact. Applied researchers in a variety of fields have used stock market reactions to assess public policy changes. Most of that research has assumed that the information is released on a small set of observable dates. But for many public policy changes, information is often revealed not in one announcement but rather through a process of gradual public revelation, which may not be completely observable by a researcher. We examine the effect of the evolution of the Clinton healthcare reform proposal on pharmaceutical stock prices. Applying a new technique, isotonic regression, over January 1992 to October 1993, we find that the major portion of the decline in stock prices occurred gradually, and did not correspond to identified news events. Strikingly, 85% of the total effect of the healthcare reform on stock prices was incorporated by February 1993, nearly seven months before the Clinton plan was formally unveiled to Congress.

Elmendorf, Douglas

PD November 1999. **TI** Should America Save for its Old Age? Population Aging, National Saving, and Fiscal Policy. **AU** Elmendorf, Douglas; Sheiner, Louise. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/03; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 47. **PR** no charge. **JE** E21, E62, H50, H60, J14. **KW** Aging. Saving. Demographic Trends. Open Economy. Fiscal Policy.

AB While popular wisdom holds that the United States should save more now in anticipation of the aging of the baby boom generation, the optimal response to population aging from a macroeconomic perspective is not clear cut. Indeed, Cutler, Poterba, Sheiner, and Summers ("CPSS",1990) argued that the optimal response to the coming demographic transition was more likely to be a reduction in national saving than an increase. This paper reexamines this question. The authors ask how the optimal saving response depends on the openness of the economy, on how view the consumption of children is viewed, and on the existence of pay-as-you-go transfer programs like Social Security and Medicare. The authors find that, if the United States were a small open economy and world interest rates were fixed at their current level, the desire to smooth consumption as the population aged would lead to an increase in saving today. But the optimal response in a closed economy is much less clear cut, as slower growth of the labor force will push down the rate of return on capital and diminish desired saving. The optimal response to the aging population in a closed economy is likely to be small. The authors also explore the role of the government in population aging.

Ericsson, Neil R.

PD November 2000. **TI** Output and Inflation in the Long Run. **AU** Ericsson, Neil R.; Irons, John S.; Tryon, Ralph W.

https://doi.org/10.1017/S0951007900005337 Published online by Cambridge University Press

AA Ericsson and Tryon: Board of Governors of the Federal Reserve System. Irons: Amherst College. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 687; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 22. **PR** no charge. **JE** C32, E31, E32, F43. **KW** Cointegration. Cross-Country Regressions. Economic Growth. Inflation. Output.

AB Cross-country regressions explaining output growth often obtain a negative effect from inflation. However, that result is not robust, due to the selection of countries in sample, temporal aggregation, and omission of consequential variables in levels. This paper demonstrates some implications of these misspecifications, both analytically and empirically. In particular, for most G-7 countries, annual time series of inflation and the log-level of output are cointegrated, thus rejecting the existence of a long-run relation between output growth and inflation. Typically, output and inflation are positively related in these cointegrating relationships: a price markup model helps interpret this surprising feature.

PD December 2000. **TI** Predictable Uncertainty in Economic Forecasting. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 695; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 28. **PR** no charge. **JE** C10, C22, C32, C52, C53. **KW** Econometrics. Forecasting. Uncertainty. Economic Modeling. Macroeconomics.

AB This paper provides an introduction to predictable forecast uncertainty in empirical economic modeling. The sources of both predictable and unpredictable forecast uncertainty are categorized. Key features of predictable forecast uncertainty are illustrated by several analytical models, including static and dynamic models, and single- equation and multiple-equation models. Empirical models of the U.S. trade account, U.K. inflation, and U.K. real national income help clarify the issues involved.

PD February 2001. **TI** Forecast Uncertainty in Economic Modeling. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 697; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 22. **PR** no charge. **JE** C10, C22, C32, C52, C53. **KW** Econometrics. Forecasting. Uncertainty. Economic Modeling. Macroeconomics.

AB This paper provides an introduction to forecast uncertainty in empirical economic modeling. Forecast uncertainty is defined, various measures of forecast uncertainty are examined, and some sources and consequences of forecast uncertainty are analyzed. Empirical illustrations with the U.S. trade balance, U.K. inflation and real national income, and the U.S./U.K. exchange rate help clarify the issues involved.

PD March 2001. **TI** A Retrospective on J. Denis Sargan and His Contributions to Econometrics. **AU** Ericsson, Neil R.; Maasoumi, Esfandiar; Mizon, Grayham E. **AA** Ericsson: Board of Governors of the Federal Reserve System. Maasoumi: Southern Methodist University. Mizon: University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0108; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. Website: www.soton.ac.uk. **PG** 25. **PR** annual subscription 40 pounds ($80); individual copies on application. **JE** A23, C10, C20, C30, C50. **KW** Dynamic Specification. Econometrics. Error Correction Model. Identification. Instrumental Variables.

AB This retrospective provides a biographical history of Denis Sargan's career and reviews his contributions to econometrics, emphasizing the breadth of his work in both theoretical and applied econometrics. We include a complete bibliography for Denis and a list of PhD theses that he supervised -- students were a substantive facet of his professional life. Finally, two of Denis's previously unpublished manuscripts on model building now appear in print.

PD March 2001. **TI** A Retrospective on J. Denis Sargan and His Contributions to Econometrics. **AU** Ericsson, Neil R.; Maasoumi, Esfandiar; Mizon, Grayham E. **AA** Ericsson: Board of Governors of the Federal Reserve System. Maasoumi: Southern Methodist University. Mizon: University of Southampton. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 700; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 25. **PR** no charge. **JE** A23, C10, C20, C30, C50. **KW** Dynamic Specification. Econometrics. Error Correction Models. Identification. Instrumental Variables.

AB See the abstract for Ericsson, Neil R.; Maasoumi, Esfandiar; Mizon, Grayham E., March 2001. "A Retrospective on J. Denis Sargan and His Contributions to Econometrics". University of Southampton, Discussion Paper in Economics and Econometrics: 0108; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. Website: www.soton.ac.uk.

Estape-Triay, Salvador

PD June 2000. **TI** The Spanish Motor Industry in the First Third of the 20th Century: A Lost Opportunity. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 470; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 30. **PR** papers only available on web page; no hard copies. **JE** D12, L21, L23, L62, N64. **KW** Automobile Industry. Firm Organization. Firm Behavior. Government Policy. Economic History.

AB Although Spain proved capable of short production runs of high- quality vehicles during the first third of the century it never managed to build up its own industry, unlike Great Britain, France, or Italy. What then, were the critical shortcomings that prevented the establishment of large Spanish motor manufacturers? Why did all of the companies set up during the first half-century fail to survive? This paper attempts to shed some light on these questions, employing a wide-ranging analysis of both internal and external factors affecting the industry. A feeble internal market, lack of resources and production factors are usually adduced as reasons, as are Spain's general economic backwardness and the role played by the public authorities. However, the paper mainly focuses on the internal factors concerning company strategy and organization. We finally argue that a broad range of factors needs to be analyzed to fully understand why Spain failed to establish a motor industry.

Estevao, Marcello

PD March 2000. **TI** Do Firms Share their Success with Workers? The Response of Wages to Product Market Conditions. **AU** Estevao, Marcello; Tevlin, Stacey. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/17; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 27. **PR** no charge. **JE** J31, J41, L60. **KW** Wages. Rent Sharing. Profit Sharing. Manufacturing.

AB We provide strong new evidence that industry financial conditions play an important role in wage determination in the U.S. manufacturing sector. Ordinary least squares estimates of the effect of rents per worker on wages are positive and significant, but quite small. However, using two standard bargaining models, we illustrate that this may stem from a variety of econometric difficulties that plague the OLS estimates. In this paper, we are able to overcome these issues and identify the effects of the industry financial situation on wages. We do this using the U.S. input-output tables to isolate exogenous variation in an industry's product market conditions. Our instrumental variable estimates reveal a substantial amount of rent sharing in U.S. manufacturing -- much more than is consistent with a purely competitive labor market.

Fallick, Bruce C.

TI Has Compensation Become More Flexible? **AU** Cannon, Sandra A.; Fallick, Bruce C.; Lettau, Michael; Saks, Raven.

PD April 2001. **TI** The Importance of Employer-to-Employer Flows in the U.S. Labor Market. **AU** Fallick, Bruce C.; Fleischman, Charles A. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/18; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 44. **PR** no charge. **JE** E24, E32, J21, J63, J64. **KW** Labor Markets. Accessions. Separations. Search. Turnover.

AB Economists have studied the gross flows of workers across labor market states to measure the flexibility of the labor market, evaluate the job-worker matching process, and model business-cycle dynamics. However, the movement of workers from one employer to another has been poorly measured. Exploiting the "dependent interviewing" techniques in the redesigned CPS, this paper finds that these flows are very large. On average in 1999 more than 4,000,000 workers per month changed employers, more than twice the flow from employment to unemployment. Close to half the new jobs started in 1999 represented employer changes, as did close to half of the separations. Contrary to the implications of many business cycle models, we find no evidence that employer-to-employer flows are procyclical, at least not as the labor market tightened between 1994 and 2000. This finding raises questions about the ways in which stylized facts about labor market flows have been used.

Fauli-Oller, Ramon

PD July 1999. **TI** To Merge or Not To Merge: That is the Question. **AU** Fauli-Oller, Ramon; Corchon, Luis. **AA** Fauli-Oller: Universidad de Alicante. Corchon: Universidad Carlos III. **SR** Centre for Economic Policy Research Discussion Paper: 2190; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 32. **PR** 5 pounds, 8 euros, or $8. **JE** L11, L22. **KW** Mergers. Welfare.

AB In this paper we analyze the implementation of socially optimal mergers when the regulator is not informed about the parameters that determine social and private gains from potential mergers. We find that most of the standard tools in dominant strategy implementation, like the revelation principle or the Vickrey-Clarke-Groves mechanism cannot be applied in our framework. We show that implementation in dominant strategies of the optimal merger policy without budget balance is possible under an additional assumption. The same assumption makes possible the implementation in Nash equilibrium of the optimal merger policy with budget balance.

Faust, Jon

PD December 2000. **TI** News and Noise in G-7 GDP Announcements. **AU** Faust, Jon; Rogers, John H.; Wright, Jonathan H. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 690; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 22. **PR** no charge. **JE** C53, E23, E27. **KW** Vintage Data. Preliminary Data. Final Data. Revisions. Gross Domestic Product.

AB Revisions to GDP announcements are known to be quite large in all G- 7 countries: many revisions in quarterly GDP growth are over a full percentage point at an annualized rate. In this paper, we examine the predictability of these data revisions. Previous work suggests that U.S. GDP revisions are largely unpredictable, as would be the case if the revisions reflect news not available at the time that the preliminary number is produced. We find that the degree of predictability varies throughout the G-7. For the U.S., the revisions are very slightly predictable, but for Italy, Japan and the UK, about half the variability of subsequent revisions can be accounted for by information available at the time of the preliminary announcement. For these countries, it appears that revisions reflect, to a significant degree, the removal of noise from the preliminary numbers, rather than the arrival of news.

TI The Equilibrium Degree of Transparency and Control in Monetary Policy. **AU** Svensson, Lars E. O.; Faust, Jon.

Federal Reserve System Study Group

PD March 2000. **TI** Improving Public Disclosure in Banking. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Staff Studies Paper: 173; Board of Governors of the Federal Reserve System, Division of Research and Statistics, Mail Stop 130, 20th and Constitution Ave. NW, Washington, DC 20551. Website: www.federalreserve.gov. **PG** 35. **PR** no charge. **JE** E42, K23. **KW** Bank Disclosure. Regulatory Requirements. Bank Supervision.

AB It is appropriate for the Federal Reserve as a banking agency, in strengthening the links among market discipline, transparency, and bank supervision, to consider initiatives that promote better disclosure in banking. The purpose of this report is to present a set of such initiatives that would reinforce the current process shaping disclosure while avoiding additional regulatory requirements.

PD December 1999. **TI** Using Subordinated Debt as an Instrument of Market Discipline. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Staff Studies Paper: 172; Board of Governors of the Federal Reserve System, Division of Research and Statistics, Mail Stop 130, 20th and Constitution Ave. NW, Washington, DC 20551. Website: www.federalreserve.gov. **PG** 69. **PR** no charge. **JE** E42, G21, G32. **KW** Banks. Banking Organizations. Market Discipline. Subordinated Notes. Debentures.

AB Since the mid-1980's a growing number of observers, both within and outside the bank regulatory agencies, have proposed using subordinated notes and debentures (SND) to increase market discipline on banks and banking organizations. This study proceeds as follows. Section one defines market discipline, discusses the motivation for and theory behind an SND policy and summarizes existing policy proposals. Section two summarizes and reviews the economic literature on the potential for SND to exert market discipline on banks. Section 3 analyzes many characteristics that an SND policy could have, in terms both of their contribution to market discipline and of their operational feasibility. The final section provides a brief conclusion.

Feenstra, Robert C.

PD April 2001. **TI** Imputation and Price Indexes: Theory and Evidence from the International Price Program. **AU** Feenstra, Robert C.; Diewert, W. Erwin. **AA** Feenstra: University of California, Davis and NBER. Diewert: University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/10; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 43. **PR** International. **JE** C43, C81, E31, F14. **KW** Index Numbers. Imputed Prices. International Prices. Price Indexes.

AB About one-quarter of the individual items tracked under the International Price Program (IPP) of the Bureau of Labor Statistics (BLS) do not report a price in any given month, though of these, about 60% eventually supply a price quote for that month or a later month. This means that there is a substantial number of individual prices that are missing at the time the monthly index must be constructed and published. For this reason, the IPP program imputes the missing prices. Despite this common practice, there has been practically no theoretical or empirical work examining the consequences of different imputation methods. The goal of this paper is to begin to fill this theoretical gap, and also demonstrate the consequences of different imputation methods using recent data from the IPP. Our conclusion is that imputation is worthwhile.

Feltkamp, Vincent

TI A Bayesian Approach to Uncertainty Aversion. **AU** Halevy, Yoram; Feltkamp, Vincent.

Ferguson, Thomas

PD February 2001. **TI** Made in Germany: The German Currency Crisis of July 1931. **AU** Ferguson, Thomas; Temin, Peter. **AA** Ferguson: University of Massachusetts. Temin: Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/07; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 41. **PR** \$7.00 US, Canada, Mexico; \$10.00 other international. **JE** E32, N14, N24, N44. **KW** Great Depression. Currency Crises. Banking. Germany. Economic History.

AB The Great Depression reached a turning point in the currency crises of 1931, and the German banking and currency crisis was a critical event whose causes are still debated. We demonstrate in this paper that the crisis was primarily domestic in origin; that it was a currency crisis rather than a banking crisis; and that the failure was more political than economic. We clarify the arguments involved as we present this view. German banks failed in 1931, but the problem was not primarily with them. Instead, the crisis was failure of political will in a time of turmoil.

Ferrer, Ana

PD May 2001. **TI** The Role of Credentials in the Canadian Labour Market. **AU** Ferrer, Ana; Riddell, W. Craig. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/16; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 42. **PR** International. **JE** D82, I21, J24, J31. **KW** Education. Earnings. Human Capital. Signaling. Credentials.

AB We study the role of credentials or 'sheepskin effects' in the Canadian labor market using data from the 1996 Census. Sheepskin effects refer to increases in earnings associated with the receipt of a diploma after controlling for educational inputs such as years of schooling. The magnitude of such effects is relevant to the relationship between education and economic success and to the debate between human capital and signaling perspectives on education. We find strong evidence of sheepskin effects associated with graduation from high school, community college or trade school and university. The importance of credentials increases with educational attainment. The largest diploma effects are those for university bachelor's degrees and professional degrees in medicine and related fields. However, years of education also exert an important influence on earnings. Thus the data support a hybrid model in which both years of schooling and degree completion influence earnings.

Fershtman, Chaim

PD January 2001. **TI** Status Concerns and the Organization of Work. **AU** Fershtman, Chaim; Weiss, Yoram; Hvide, Hans K. **AA** Fershtman and Weiss: Tel Aviv University. Hvide: NHH. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 02/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 44. **PR** no charge. **JE** D40, I21, J24, J31, J41. **KW** Status. Effort. Incentives. Wage Differentials. Wages.

AB We study the effects of local status, where workers compare their wage to the wage of other workers within the same firm. We assume a competitive labor market with unobservable effort, where firms condition wages on output as incentive for effort. If workers who care about status are also more productive, such status concerns generate an equilibrium with heterogeneous firms where workers who care and workers who do not care about status work together. Such firms provide workers who care about status with stronger incentives to exert effort, compared with workers who do not care. In addition, there will be homogeneous firms who employ workers of the same type. The main result is that status concerns increase within-firm wage differences and over all wage inequality. The difference from previous studies (e.g., Frank 1984a, 1984b) is that effort is elastically supplied and status concerns increase output. The positive correlation between status concerns and productivity is derived as part of the equilibrium, because workers who care about status signal their stronger motivation through investment in schooling.

TI The Limit of Public Policy: Endogenous Preferences. **AU** Bar-Gill, Oren; Fershtman, Chaim.

Figlio, David N.

PD July 1999. **TI** The Effects of Direct Foreign Investment on Local Communities. **AU** Figlio, David N.; Blonigen, Bruce A. **AA** Figlio: University of Florida. Blonigen: University of Oregon and NBER. **SR** National Bureau of Economic Research Working Paper: 7274; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 20. **PR** $5.00. **JE** F23, H71, J21, J31, R23. **KW** Foreign Direct Investment. Labor Markets. Employment. Wages. Local Government.

AB Very little research has been done to evaluate the impact of foreign direct investment into the United States on the local communities in which foreign firms locate. As a first step in addressing this topic, the authors use detailed county-level panel data from South Carolina across 5 year intervals from 1980 through 1995 to investigate the effect of foreign manufacturing firms on local labor markets and on the level and distribution of local government budgets. They find that manufacturing employment by foreign firms has a substantial impact on industry wages and county budgets, which is significantly different from domestic manufacturing employment. With respect to wages, the authors find that while increased manufacturing employment generally increases county wages in an average two-digit industry, this effect is more than seven times larger when the employment growth comes from a foreign firm, rather than a domestic one. On the budget side, the authors find that foreign employment leads to larger declines in per capita revenues and expenditures at the county level, and to significant redistribution of county expenditures away from public school funding and toward transportation and public safety.

Fischer, Stanley

PD November 2000. **TI** Israeli Inflation from an International. Perspective. **AU** Fischer, Stanley; Orsmond, David W. H. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/178; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 44. **PR** not available. **JE** E31, E42, E52, E61, E63. **KW** Inflation. Fiscal Policy. Monetary Policy. Commitment.

AB Israel's post-stabilization experience of moderate inflation and eventual disinflation is compared with experiences in other countries. Lessons that emerge from an examination of international experiences indicate the importance of establishing early on credibility in the nominal anchor and a commitment to persevere with disinflation policies, achieving and maintaining a tight fiscal position, measures to reduce nominal rigidities, and widespread structural reform. Israel falls short on several criteria which explains why taming inflation in the post- stabilization period has been difficult. The paper concludes with a consideration of institutional arrangements that could sustain the current low inflation levels.

Fleischman, Charles A.

TI The Importance of Employer-to-Employer Flows in the U.S. Labor Market. **AU** Fallick, Bruce C.; Fleischman, Charles A.

Follette, Glenn

TI The Automatic Stabilizers: Quietly Doing Their Thing. **AU** Cohen, Darrel; Follette, Glenn.

Forbes, Kristin

PD July 1999. **TI** No Contagion, Only Interdependence: Measuring Stock Market Co- Movements. **AU** Forbes, Kristin; Rigobon, Roberto. **AA** Forbes: MIT. Rigobon: MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 7267; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 35. **PR** $5.00. **JE** F31, F32, F36, F41, G15. **KW** Stock Markets. Contagion. Financial Crises. Cross-Market Correlations.

AB This paper examines stock market co-movements. It begins with a discussion of several conceptual issues involved in measuring these movements and how to test for contagion. Standard tests examine if cross-market correlations in stock market returns increase during a period of crisis. The measure of cross-market correlations central to this standard analysis, however, is biased. The unadjusted correlation coefficient is conditional on market movements over the time period under consideration, so that during a period of turmoil when stock market volatility increases, standard estimates of cross-market correlations will be biased upward. It is straightforward to adjust the correlation coefficient to correct for this bias. The remainder of the paper applies these concepts to test for stock market contagion during the 1997 East Asian crises, the 1994 Mexican peso collapse, and the 1987 U.S. stock market crash. In each of these cases, tests based on the unadjusted correlation coefficients find evidence of contagion in several countries, while tests based on adjusted coefficients find virtually no contagion. This suggests that high market co-movements during these periods were a continuation of strong cross-market linkages.

Forslid, Rikard

PD August 1999. **TI** Tax Competition and Economic Geography. **AU** Forslid, Rikard; Andersson, Fredrik. **AA** Forslid: Lund University. Andersson: Stockholm University. **SR** Centre for Economic Policy Research Discussion Paper: 2220; CEPR, 90-98 Goswell Road, London

EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 28. **PR** 5 pounds, 8 euros, or $8. **JE** F12, F15, F21, R12. **KW** Agglomeration. Economic Geography. Tax Competition.

AB Tax competition between two countries is considered in a trade-and- location setting with differentiated products and monopolistic competition. There are two groups of workers, mobile ones and immobile ones. Taxes are used for producing a public good. It is shown that an equilibrium with mobile workers dispersed across countries is destabilized by increased taxes on these -- and this is shown to be true also for perfectly coordinated tax increases. It is also shown that an agglomeration is taxable, and that increasing public spending may relax the tax pressure on immobile workers consistent with preserving an agglomeration for some levels of taxes.

Fosfuri, Andrea

TI Foreign Direct Investment and Spillovers through Workers' Mobility. **AU** Motta, Massimo; Fosfuri, Andrea; Ronde, Thomas.

Foucault, Thierry

PD August 1999. **TI** Competition for Listings. **AU** Foucault, Thierry; Parlour, Christine A. **AA** Foucault: HEC School of Management. Parlour: Carnegie Mellon University. **SR** Centre for Economic Policy Research Discussion Paper: 2222; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 56. **PR** 5 pounds, 8 euros, or $8. **JE** G15, G32, L13. **KW** Exchanges Rates. Regulation. Trading Technology. Listings. Competition.

AB We develop a model in which two profit maximizing exchanges compete for IPO listings. They choose the listing fees paid by firms wishing to go public and control the trading costs incurred by investors. All firms prefer lower costs, however firms differ in how they value a decrease in trading costs. Hence, in equilibrium, competing exchanges obtain positive expected profits by charging different trading fees and different listing fees. As a result, firms that list on different exchanges have different characteristics. The model has testable implications for the cross-sectional characteristics of IPOs' on different quality exchanges and the relationship between the level of trading costs and listing fees. We also find that competition does not guarantee that exchanges choose welfare maximizing trading rules. In some cases, welfare is larger with a monopolist exchange than with oligopolist exchanges.

Fox, Kevin

TI Who Benefits from Economic Reform: The Contribution of Productivity, Price Changes and Firm Size to Profitability. **AU** Lawrence, Denis; Diewert, W. Erwin; Fox, Kevin.

Francesconi, Marco

TI Training, Rent-Sharing and Unions. **AU** Booth, Alison L.; Zoega, Gylfi; Francesconi, Marco.

Frankel, David M.

PD May 2001. **TI** Payoff Shocks and Equilibrium Selection with Endogenous Flexibility. **AA** Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 09/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 42. **PR** no charge. **JE** C73, O11. **KW** Stochastic Games. Dynamic Games. Macroeconomics. Economic Development. Game Theory.

AB In dynamic models with multiple equilibria, a central question is how agents coordinate their expectations on a particular outcome. Many dynamic models feature endogenous flexibility: at some cost, agents can adjust their behavior more quickly (e.g., in response to changing market conditions). We show that aggregate payoff shocks eliminate all equilibria but one in a general dynamic setting with endogenous flexibility. The results are applied to a model of development.

PD May 2001. **TI** Shocks and Business Cycles. **AA** Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 10/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 20. **PR** no charge. **JE** C73, D84, E32. **KW** Stochastic Games. Dynamic Games. Business Fluctuations. Business Cycles. Expectations.

AB A popular theory of business cycles is that they are driven by animal spirits: shifts in expectations brought on by sunspots. Two prominent examples are Diamond (JPE, 1982) and Howitt and McAfee (AER, 1992). We show that these models have unique equilibria if there are payoff shocks of any size. At critical junctures, a small negative shock can cause the economy to slide into a recession. Once this happens, a sustained sequence of positive shocks is needed to spark an expansion.

Freund, Caroline L.

PD September 2000. **TI** Spaghetti Regionalism. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 680; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 19. **PR** no charge. **JE** C70, F12, F13, F15. **KW** International Trade. Imperfect Competition. Bilateral Agreement. Free Trade Agreements.

AB This paper examines the welfare implications of multiple free trade agreements in a model of imperfect competition. We show that free trade is the unique Nash equilibrium under the simple rule that any two countries can form a bilateral free trade agreement. Specifically, a country is always better off forming a bilateral trade agreement with every other country, irrespective of previous agreements. This suggests that each new preferential free trade agreement may be a step towards multilateral free trade.

PD December 2000. **TI** Current Account Adjustment in Industrial Countries. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 692; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 30. **PR** no charge. **JE** E32, F31, F32, F41, F43. **KW** Current Account Deficit. Trade Deficit. Exchange Rates. Currency Crises. Business Cycles.

AB This paper examines the dynamics of current account adjustment among industrialized countries. We identify twenty-five episodes in which a large sustained improvement in the current account occurred between 1980 and 1997. We find that a typical current account reversal begins when the current account deficit is about 5 percent of GDP, that it is associated with slowing income growth and a 10-20 percent real exchange rate depreciation. Real export growth, declining investment, and an eventual leveling off in both the net international investment position and the budget deficit-GDP ratio are also likely to be part of the adjustment. These results suggest that current account reversals in industrialized countries are largely a function of the business cycle.

PD December 2000. **TI** On the Effect of the Internet on International Trade. **AU** Freund, Caroline L.; Weinhold, Diana. **AA** Freund: Board of Governors of the Federal Reserve System. Weinhold: London School of Economics. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 693; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 41. **PR** no charge. **JE** F10, F40, L86, L89. **KW** Sunk Costs. World Wide Web. Gravity Equation. Digital Divide. International Trade.

AB The Internet stimulates trade. Using a gravity equation of trade among 56 countries, we find no evidence of an effect of the Internet on total trade flows in 1995 and only weak evidence of an effect in 1996. However, we find an increasing and significant impact from 1997 to 1999. Specifically, our results imply that a 10 percent increase in the relative number of web hosts in one country would have led to about one percent greater trade in 1998 and 1999. Surprisingly, we find that the effect of the Internet on trade has been stronger for poor countries than for rich countries, and that there is little evidence that the Internet has reduced the impact of distance on trade. The evidence is consistent with a model in which the Internet creates a global exchange for goods, thereby reducing market-specific sunk costs of exporting.

Fuster, Luisa

TI Pay-As-You-Go Social Security and the Distribution of Bequests. **AU** Caballe, Jordi; Fuster, Luisa.

Galasso, Vincenzo

TI Positive Arithmetic of the Welfare State. **AU** Conde Ruiz, Jose Ignacio; Galasso, Vincenzo.

Ganuza, Juan Jose

TI Corruption and Competition in Procurement. **AU** Celentani, Marco; Ganuza, Juan Jose.

PD March 2000. **TI** Competition and Cost Overruns: Optimal Misspecification of Procurement Contracts. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 471; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 26. **PR** papers only available on web page; no hard copies. **JE** D44, D78, H57, L51. **KW** Cost Overruns. Procurement Contracts. Strategic Ignorance. Design Specification. Imperfect Competition.

AB Most cases of cost overruns in public procurement are related to important changes in the initial project design. This paper deals with the problem of design specification in public procurement and provides a rationale for design misspecification. The paper highlights the interaction between market competition and design specification and shows that the sponsor's optimal strategy, when facing an imperfectly competitive market supply, is to underinvest in design specification so as to make significant cost overruns likely. Since no such misspecification occurs in a perfectly competitive market, cost overruns are seen to arise as a consequence of lack of competition in the procurement market.

PD July 2000. **TI** Economic Integration and Corruption: The Corrupt Soul of the European Union. **AU** Ganuza, Juan Jose; Hauk, Esther. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 482; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 28. **PR** papers only available on web page; no hard copies. **JE** C23, D72, F15, F42, H57. **KW** Corruption. Procurement. Economic Integration. European Union.

AB We study the link between corruption and economic integration. We show that if an economic union establishes a common regulation for public procurement, the country more prone to corruption benefits more from integration. However, if the propensities to corruption are too distinct, the less corrupt country will not be willing to join the union. This difference in corruption propensities can be offset by a difference in efficiency. We also show that corruption is lower if integration occurs. A panel data analysis for the European Union confirms that more corrupt countries are more favorable towards integration but less acceptable as potential new members.

Garcia, Salvador

TI Organisational Values as "Attractors of Chaos": An Emerging Cultural Change to Manage Organisational Complexity. **AU** Dolan, Shimon; Garcia, Salvador; Diegoli, Samantha; Auerbach, Alan.

TI Managing by Values in the Next Milenium: Cultural Redesign for Strategic Organizational Change. **AU** Dolan, Shimon; Garcia, Salvador.

Garcia-Saltos, Roberto

TI International Debt and the Price of Domestic Assets. **AU** Auernheimer, Leonardo; Garcia-Saltos, Roberto.

Gardiol, Lucien

TI A Score Test for Individual Heteroscedasticity in a One-Way Error Components Model. **AU** Holly, Alberto; Gardiol, Lucien.

Garoupa, Nuno

PD July 2000. **TI** A Theory of International Conflict Management and Sanctioning. **AU** Garoupa, Nuno; Gata, Joao. **AA** Garoupa: Universitat Pompeu Fabra. Gata: Instituto Superior de Gestao. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 481; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 23. **PR** papers only available on web page; no hard copies. **JE** C72, D72, D74, F13, K33. **KW** Conflict

Management. International Sanctions. Arms Embargo. Political Markets. Pressure Groups.

AB In this paper we analyze sanctioning policies in international law. We develop a model of international military conflict where the conflicting countries can be a target of international sanctions. These sanctions constitute an equilibrium outcome of an international political market for sanctions, where different countries trade political influence. We show that the level of sanctions in equilibrium is strictly positive but limited, in the sense that higher sanctions would exacerbate the military conflict, not reduce it. We then propose an alternative interpretation to the perceived lack of effectiveness of international sanctions, by showing that the problem might not be one of undersanctioning but of oversanctioning.

Gata, Joao

TI A Theory of International Conflict Management and Sanctioning. **AU** Garoupa, Nuno; Gata, Joao.

Gelfer, Stanislav

TI Red Barons or Robber Barons? Governance and Financing in Russian FIG. **AU** Perotti, Enrico C.; Gelfer, Stanislav.

Gelos, Gaston R.

TI A Panic-Prone Pack? The Behavior of Emerging Market Mutual Funds. **AU** Borensztein, Eduardo R.; Gelos, Gaston R.

Genay, Hesna

TI Globalization of Financial Institutions: Evidence from Cross-Border Banking Performance. **AU** Berger, Allen N.; DeYoung, Robert; Genay, Hesna; Udell, Gregory F.

Gershenson, Dmitry

PD December 2000. **TI** Cooption and Repression in the Soviet Union. **AU** Gershenson, Dmitry; Grossman, Herschel I. **AA** Gershenson: International Monetary Fund. Grossman: Brown University. **SR** International Monetary Fund Working Paper: WP/00/201; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 21. **PR** not available. **JE** D78, N44, P21. **KW** Cooption. Repression. Soviet Union. Communist Party. Nomenklatura.

AB The Soviet ruling elite, the nomenklatura, used both cooption and political repression to encourage loyalty to the communist regime. Loyalty was critical both in defusing internal opposition to the rule of the nomenklatura and in either deterring or defeating foreign enemies of the Soviet Union. We assume that the nomenklatura determined the extent of cooption and the intensity of political repression by equating their perceived marginal benefits and marginal costs. We use this assumption to construct an account of the historical evolution of policies of cooption and political repression in the Soviet Union.

Giavazzi, Francesco

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

TI European Financial Markets After EMU: A First Assessment. **AU** Danthine, Jean-Pierre; Giavazzi, Francesco; von Thadden, Ernst-Ludwig.

Gibson, Michael S.

PD March 2000. **TI** Improving Grid-Based Methods for Estimating Value at Risk of Fixed- Income Portfolios. **AU** Gibson, Michael S.; Pritsker, Matthew. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/25; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 31. **PR** no charge. **JE** C15, G11, G13, G21. **KW** Value At Risk. Scenario Simulation. Principal Components. Partial Least Squares. Monte Carlo.

AB Jamshidian and Zhu (1997) propose a discrete grid method for simplifying the computation of Value at Risk (VaR) for fixed-income portfolios. Their method relies on two simplifications. First, the value of fixed income instruments is modeled as depending on a small number of risk factors chosen using principal components analysis. Second, they use a discrete approximation to the distribution of the portfolio's value. The authors show that this method has two serious shortcomings. First, risk factors chosen using principal components analysis will explain the variation in the yield curve, but these factors may not explain the variation in the portfolio's value. Second, their discrete distribution of portfolio value can be a poor approximation to the true continuous distribution. The authors propose two refinements to the method to correct these two shortcomings. First, they propose choosing risk factors according to their ability to explain the portfolio's value. To do this, the authors generate risk factors with a statistical technique called partial least squares. Second, they compute VaR with a "Grid Monte Carlo" method that uses continuous risk factor distributions while maintaining the computational simplicity of a grid method for pricing.

PD February 2001. **TI** Incorporating Event Risk into Value-at-Risk. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/17; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 34. **PR** no charge. **JE** G11, G14, G28. **KW** Specific Risk. Market Risk. Portfolio Choice. Jump Diffusion. Value at Risk.

AB Event risk is the risk that a portfolio's value can be affected by large jumps in market prices. Event risk is one component of "specific risk,'' the component of market risk not driven by market-wide shocks. Standard Value-at-Risk (VaR) models used to measure market risk do not do a good job of capturing event risk. In this paper, I discuss the issues involved in incorporating event risk into VaR. I develop a VaR model that incorporates event risk, which I call the Jump-VaR model. The Jump-VaR model uses any standard VaR model to handle "ordinary'' price fluctuations and grafts on a simple model of price jumps. In an empirical application, I use the Jump-VaR model to compute VaR for two equity portfolios. I note that, in practice, special attention must be paid to the issues of correlated jumps and double-counting of jumps. As expected, the estimates of VaR increase when jumps are added. As expected, VaR increases by more for the portfolio with more specific risk.

Gilboa, Itzhak

PD June 2000. **TI** Utilitarian Aggregation of Beliefs and Tastes. **AU** Gilboa, Itzhak; Samet, Dov; Schmeidler, David. **AA** Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 17/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 12. **PR** no charge. **JE** C70, D71, D72, D81. **KW** Utilitarianism. Preferences. Social Choice. Beliefs. Pareto Efficiency.

AB Several authors have indicated a contradiction between consistent aggregation of subjective beliefs and tastes, and a Pareto condition. We argue that the Pareto condition that implies the contradiction is not compelling. Society should not necessarily endorse a unanimous choice when it is based on contradictory beliefs. Restricting the Pareto condition to choices that only involve identical beliefs allows a utilitarian aggregation: both society's utility function and its probability measure are linear combinations of those of the individuals.

TI Rhetoric and Analogies. **AU** Aragones, Enriqueta; Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David.

PD June 2001. **TI** The Cost of Comfort: Affective Packages in Consumer Decisions. **AU** Gilboa, Itzhak; Gilboa-Schechtman, Eva; Halperson, Uri; Ortony, Andrew. **AA** Gilboa-Schechtman: Bar Ilan University. Gilboa and Halperson: Tel Aviv University. Ortony: Northwestern University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 16/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 33. **PR** no charge. **JE** A12, D11. **KW** Emotions. Framing Effect. Mental Accounting. Consumer Theory. Decision Making.

AB A consumer has to make a consumption decision. She is modeled as making a binary decision regarding a suggested change to her status quo. An affective package refers to the totality of affective responses that the consumer is expected to have to the various aspects of this decision. It is proposed that consumers evaluate decisions based on these affective packages. Importantly, a package generates a link between goals and means, and some of the affect related to the decision is about this linkage. For instance, the consumer may expect to experience guilt feelings should she frivolously squander money that originates from a bequest from a frugal and austere relative. Several studies, employing self-report measures, show that affective packages do influence consumer choices in ways that contradict the assumption that money is fungible. The relationships between affective packages and mental accounting, as well as coupling, are discussed.

PD June 2001. **TI** A Derivation of Expected Utility Maximization in the Context of a Game. **AU** Gilboa, Itzhak; Schmeidler, David. **AA** Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 18/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 24. **PR** no charge. **JE** A12, C72, C78, D81. **KW** Expected Utility. Regret. Ultimatum Game. Game Theory. Decision Making.

AB A decision-maker faces a decision problem, or a game against nature. For each probability distribution over the state of the world (nature's strategies), she has a weak order over her acts (pure strategies). We formulate conditions on these weak orders guaranteeing that they can be jointly represented by expected utility maximization with respect to an almost-unique state-dependent utility, that is, a matrix assigning real numbers to act-state pairs. As opposed to a utility function that is derived in another context, the utility matrix derived in the game will incorporate all psychological or sociological determinants of well- being that result from the very fact that the outcomes are obtained in a given game.

PD June 2001. **TI** Inductive Inference: An Axiomatic Approach. **AU** Gilboa, Itzhak; Schemidler, David. **AA** Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 19/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 59. **PR** no charge. **JE** C10, D80. **KW** Inductive Inference. Case-Based Reasoning. Maximum Likelihood. Kernel Estimation. Prediction.

AB A predictor is asked to rank eventualities according to their plausibility, based on past cases. We assume that she can form a ranking given any memory that consists of finitely many past cases. Mild consistency requirements on these rankings imply that they have a numerical representation via a matrix assigning numbers to eventuality- case pairs, as follows. Given a memory, each eventuality is ranked according to the sum of the numbers in its row, over cases in memory. The number attached to an eventuality-case pair can be interpreted as the degree of support that the past lends to the plausibility of the eventuality. Special cases of this result may be viewed as axiomatizing kernel methods for estimation of densities and for classification problems. Interpreting the same result for rankings of theories or hypotheses, rather than of specific eventualities, it is shown that one may ascribe to the predictor subjective conditional probabilities of cases given theories, such that her rankings of theories agree with rankings by the likelihood functions.

PD June 2001. **TI** Mental Accounting and the Absentminded Driver. **AU** Gilboa, Itzhak; Gilboa-Schechtman, Eva. **AA** Gilboa-Schechtman: Bar-Ilan University. Gilboa: Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 20/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 15. **PR** no charge. **JE** C70, D10, D81. **KW** Mental Accounting. Self Discipline. Imperfect Recall. Absentmindedness. Game Theory.

AB There is a broad range of phenomena that are categorized as "mental accounting". Some of these phenomena may be viewed as situations in which a person evaluates decisions based on the implicit assumption that the decision she makes at a given moment will be repeated many times in the future. Despite the fact that the environment does not provide any reason to believe that a causal relationship exists between the decision of the agent (or "self") in question and those of future agents ("selves"), the former does evaluate decisions as if the latter were guaranteed to follow her example. How can one explain such a cognitive mistake? The authors argue here that one such explanation is provided by imperfect recall. As the term is used in game theory, it suggests that an agent of a player might not recall what a past agent of the same player has done, or even whether it existed. In these situations, one may think of the player as giving identical instructions to all future agents: since these agents cannot even identify themselves, they cannot be given separate instructions. Under this constraint, it may be optimal for the player to give her future agents instructions that exhibit mental accounting effects.

Gilboa-Schechtman, Eva

TI The Cost of Comfort: Affective Packages in Consumer Decisions. **AU** Gilboa, Itzhak; Gilboa-Schechtman, Eva; Halperson, Uri; Ortony, Andrew.

TI Mental Accounting and the Absentminded Driver. **AU** Gilboa, Itzhak; Gilboa-Schechtman, Eva.

Gilchrist, Simon

TI Transition Dynamics in Vintage Capital Models: Explaining the Postwar Catch-Up of Germany and Japan. **AU** Williams, John C.; Gilchrist, Simon.

Giovannetti, Emanuele

PD October 2000. **TI** Interconnection, Differentiation and Bottlenecks in the Internet. **AA** University of Cambridge and University of Rome. **SR** University of Cambridge, DAE Working Paper: 0011; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 34. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** L13, L22, L86, L96. **KW** Access Pricing. Internet. Network Industries. Interconnection. Vertical Integration.

AB In the Internet information packets are routed through many vertically related hops. However these network hierarchies are not fixed. Two providers can be simultaneously vertically related in a routing process as supplier and retailer, while horizontally competing in another. We study pricing and interconnection decisions when ISPs become interconnected into a wider network. We find that interconnection lowers retail and access prices when the downstream industry is poorly differentiated. The profitability of interconnection also depends on the differentiation of the retail sector. Interconnection is, however, universally agreed upon for an intermediate range of retail services differentiation values.

PD November 2000. **TI** Perpetual Leapfrogging in Bertrand Duopoly. **AA** University of Cambridge and University of Rome. **SR** University of Cambridge, DAE Working Paper: 0012; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 31. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** C72, C73, L13, O33. **KW** Technology Adoption. Leapfrogging. Markov Perfect Equilibrium. Technological Change. Game Theory.

AB We consider different patterns of infinite technological adoption choices by firms in a Bertran duopoly. Every period, technological progress provides a sequence of cost reducing innovations. The equilibrium concept is Markov Perfect Equilibrium. We analyze conditions for which equilibrium adoption leads to persistent leadership and those where firms alternate in adoption inducing leapfrogging. Only leapfrogging leads to technological improvement in the long run. Demand conditions play a crucial role in determining whether leapfrogging can be perpetual in Bertrand duopoly.

Gosselin, Eric

TI Job Satisfaction and Life Satisfaction: Analysis of a Reciprocal Model with Social Demographic Moderators. **AU** Dolan, Shimon; Gosselin, Eric.

Gourinchas, Pierre-Olivier

PD July 1999. **TI** Consumption Over the Life Cycle. **AU** Gourinchas, Pierre-Olivier; Parker, Jonathan A. **AA** Gourinchas: Princeton University and NBER. Parker: University of Wisconsin. **SR** National Bureau of Economic Research Working Paper: 7271; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 38. **PR** $5.00. **JE** C61, D91, E21. **KW** Consumption. Life Cycle. Saving. Uncertainty. Retirement.

AB This paper employs a synthetic cohort technique and Consumer Expenditure Survey data to construct average age-profiles of consumption and income over the working lives of typical households across different education and occupation groups. Using these profiles, we estimate a structural model of optimal life-cycle consumption expenditures in the presence of realistic labor income uncertainty. The model fits the profiles quite well. In addition to providing tight estimates of the discount rate and risk aversion, we find that consumer behavior changes strikingly over the life-cycle. Young consumers behave as buffer-stock agents. Around age 40, the typical household starts accumulating liquid assets for retirement, and its behavior mimics more closely that of a certainty equivalent consumer. This change in behavior is mostly driven by the life-cycle profile of expected income. Our methodology provides a natural decomposition of saving into its precautionary and retirement components.

Gramlich, Edward M.

PD December 2000. **TI** Fiscal Federalism and European Integration: Implications for Fiscal and Monetary Policies. **AU** Gramlich, Edward M.; Wood, Paul R. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 694; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 25. **PR** no charge. **JE** E62, E63, F15, F42. **KW** European Union. Tax Harmonization. Fiscal Federalism. Economic Integration.

AB This paper examines European economic integration in light of standard thinking about fiscal federalism. We first describe the main features of European integration, analyzing how institutions in the European Union fit the prescriptions of a federal system. We find that in some areas the European Union has already developed arrangements that fit standard views of fiscal federalism, in other areas there is gradual movement toward prescribed arrangements, and in still other areas the European Union's unique historical path may suggest some interesting new departures in the federalism literature. We try to extract some lessons from this analysis: some recommendations for Europe based on the orthodox principles of fiscal federalism, and some modifications of these orthodox principles based on the European experience.

Granger, Clive W. J.

PD February 2001. **TI** Self-Generating Variables in a Cointegrated VAR Framework. **AU** Granger, Clive W. J.; Yoon, Gawon. **AA** Granger: University of California, San

Diego. Yoon: Pusan National University. **SR** University of California, San Diego Department of Economics Working Paper: 2001/04; Department of Economics, 0508, University of California, San Diego, La Jolla, CA 92093-0508. Website: econ.ucsd.edu/papers. **PG** 42. **PR** $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. **JE** C22, C32. **KW** Self-Generation. Cointegrated VAR. Common Stochastic Trends. Time Series Aggregation. Forecasting Efficiency.

AB A variable is defined to be self-generating if it can be forecast efficiently from its own past only. Conditions are derived for certain linear combinations to be self-generating in error correction models. Interestingly, there are only two candidates for self-generation in an error correction model. They are cointegrating relationships and common stochastic trends defined by Gonzalo and Granger (1995). The usefulness of self-generation as a multivariate-modeling tool is investigated. A simple testing procedure is also presented. Some interesting economic hypothesis can be easily tested in the self-generation framework. For example, for forward exchange rate to have forecasting power for the future movements in spot rate, the latter should not be self-generating. Given that they are cointegrated, the spot exchange rate should not be a common stochastic trend, which can be easily tested. We also provide additional examples.

Green, David A.

TI Recent Technological Progress and Wage-Employment Trade-Offs: Learning from the US and German Experiences. **AU** Beaudry, Paul; Green, David A.

PD March 2001. **TI** Literacy, Numeracy and Labour Market Outcomes in Canada. **AU** Green, David A.; Riddell, W. Craig. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/05; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 47. **PR** International. **JE** I21, J24, J31. **KW** Human Capital. Wages. Literacy. Education. Work Experience.

AB Most research on the contribution of human capital to economic growth and its role in the distribution of income uses indirect measures of human capital such as educational attainment and work experience. Such measures are arguably inputs into the production of human capital in the form of skills, competencies and knowledge. This study uses Canadian data from the International Adult Literacy Survey to analyze the role of directly observed skills -- specifically, prose, document and quantitative literacy -- on individual labor market earnings. The contributions of unobserved skills are taken into account using input measures (education and experience). We find that literacy skills have a large and statistically significant causal effect on earnings. As much as one-third of the return to education may be due to the combined effects of education on literacy and of literacy skills on earnings. In contrast, very little of the return to labor market experience is associated with the combined effects of experience on literacy and literacy skills on earnings.

Greenan, Nathalie

PD August 1999. **TI** Organizational Change in French Manufacturing: What Do We Learn From Firm Representatives and From Their Employees? **AU** Greenan, Nathalie; Mairesse, Jacques. **AA** Greenan: Centre d'Etudes de l'Emploi. Mairesse: INSEE-CREST and NBER. **SR** National Bureau of Economic Research Working Paper: 7285; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 28. **PR** $5.00. **JE** D23, L23, M11, M12. **KW** Organizational Change. Manufacturing. Production Management.

AB This paper uses a French matched employer-employee survey, the COI survey conducted in 1997, to describe the general features of organizational change in manufacturing firms with more than 50 employees. The authors present the results of two correspondence analyses. First, at the firm level, the authors show that all types of new organizational practices are positively correlated with one another. Second, at the blue collar workers level, three main dimensions discriminate between jobs: the intensity of involvement in information processing and decision, the intensity of constraints weighing on the content and rhythm of work, and the orientation of information and production flows: either pushed by colleagues or pulled by the market. The authors also find that blue collars cannot develop a high level of involvement in information processing and decisions and have their work rhythm fixed by heavy technical constraints. Finally, if the authors correlate the firm level and worker level variables, they find that an increase in the use of "employee involvement" and "quality" practices by the firm is positively correlated both with a higher level of blue collars' involvement in information processing and decision and with a higher level of technical constraints.

Griever, William L.

TI Information Costs and Home Bias: An Analysis of U.S. Holdings of Foreign Equities. **AU** Ahearne, Alan G.; Griever, William L.; Warnock, Francis E.

Gropp, Reint

PD October 2000. **TI** The Disappearing Tax Base: Is Foreign Direct Investment (FDI) Eroding Corporate Income Taxes? **AU** Gropp, Reint; Kostial, Kristina. **AA** Gropp: European Central Bank. Kostial: International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/173; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 31. **PR** not available. **JE** F21, F42, F47, H25, H87. **KW** Corporate Taxation. Foreign Direct Investment. Tax Revenues. Simulations. OECD Countries.

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

Grosfeld, Irena

PD September 1999. **TI** Dynamism and Inertia on the Russian Labour Market: A Model of Segmentation. **AU** Grosfeld, Irena; Verdier, Thierry; Senik-Leygonie, Claudia; Kolenikov, Stanislav; Paltseva, Elena.

AA Grosfeld, Verdier and Senik-Leygonie: DELTA, Paris. Kolenikov and Paltseva: RECEP. **SR** Centre for Economic Policy Research Discussion Paper: 2224; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 40. **PR** 5 pounds, 8 euros, or $8. **JE** C23, D82, J33, L22, P52. **KW** Transition. Labor Market. Wage Arrears. Russia.

AB This paper proposes an explanation of the puzzling coexistence of elements of inertia and dynamism on the Russian labor market using a segmentation model. Risk averse workers are differentiated according to their productivity. They face a trade-off between wages and access to social services provided by the firm. The most productive workers leave their initial firm, contract on the spot labor market, and concentrate in the best performing firms. The model provides a possible interpretation of wage arrears that can be viewed as an element of an implicit contract between firms and less productive workers. We test some of the predictions of the model using a panel dataset containing 13 410 firms, for 1993-1997.

Grossman, Gene M.

PD March 2001. **TI** Integration vs. Outsourcing in Industry Equilibrium. **AU** Grossman, Gene M.; Helpman, Elhanan. **AA** Grossman: Tel Aviv University, Harvard and CIAR. Grossman: Princeton University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 07/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 50. **PR** no charge. **JE** D23, D43, D51, L13, L22. **KW** Vertical Integration. Hold-Up Problem. Input Specificity. Specialization. Industrial Organization.

AB We develop an equilibrium model of industrial structure in which the organization of firms is endogenous. Differentiated consumer products can be produced either by vertically integrated firms or by pairs of specialized companies. Production of each variety of consumer good requires a unique, specialized component. Vertically integrated firms can manufacture the components they need in the quantity and type that maximizes profits, but they face a relatively high cost of governance. Specialized firms can produce at lower cost, but input suppliers face a potential hold-up problem. We study the equilibrium mode of organization when inputs are fully or partially specialized. We consider how the degree of competition in the market and other parameters affect the equilibrium choices, and how the equilibrium compares with the efficient allocation.

Grossman, Herschel I.

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

Gruener, Hans Peter

PD February 1999. **TI** Inequality and Political Consensus. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: A/591; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni- bonn.de/bgse/liste.html. **PG** not available. **PR** no charge. **JE** C72, D31, D63, D72, P16. **KW** Inequality. Representative Democracy. Political Consensus. Policy Uncertainty. Income Distribution.

AB This paper develops a model of political consensus in order to explain the missing link between inequality and political redistribution. Political consensus is an implicit agreement not to vote for extreme policy proposals. We show that such an agreement may play an efficiency-enhancing role. Voters anticipate that voting for extremist parties increases policy uncertainty in the future. A political consensus among voters reduces policy uncertainty because power-seeking politicians propose non-discriminatory policies in their own interest. We study how much inequality can be sustained in a democracy and how the limits to redistribution vary with initial inequality. We find that more inequality need not lead to more redistribution. The maximum amount of redistribution decreases with inequality if (and only if) agents are sufficiently patient. In this case inequality is politically self- sustaining.

Gruner, Hans Peter

PD July 1999. **TI** On the Role of Conflicting National Interests in the ECB Council. **AA** University of Bonn. **SR** Centre for Economic Policy Research Discussion Paper: 2192; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 32. **PR** 5 pounds, 8 euros, or $8. **JE** E24, E52, E62, E63, F15, F33. **KW** EMU. Wage Discipline. Fiscal Discipline. Central Bank Council. ECB.

AB This paper studies the strategic interaction of Euroland's national macroeconomic players and the ECB council under two alternative assumptions on central bank behavior: (i) all members of the ECB council are concerned about Euroland's macroeconomic aggregates and (ii) the ECB council is composed of national central bankers who are mainly concerned about domestic macroeconomic conditions. Under the former assumption monetary policy can be used to impose some discipline on national macroeconomic players at the cost of higher inflation. Under the predominance of national interests however, this trade-off can no longer be exploited. The persistence of national perspectives in the ECB council has an adverse impact on the relationship between key macroeconomic variables such a inflation and unemployment or inflation and the level of government debt.

PD August 1999. **TI** Unemployment and Labour Market Reform: A Contract Theoretic Approach. **AA** University of Bonn. **SR** Centre for Economic Policy Research Discussion Paper: 2216; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 28. **PR** 5 pounds, 8 euros, or $8. **JE** D72, E61, J68. **KW** Unemployment. Labor Market Reform. Political Deadlocks.

AB Why do many democracies fail to reform their labor market institutions? We study the feasibility of reforms that include the compensation of the insiders for the removal of labor market regulations. In our model workers differ in their ability to perform well on a liberalized labor market. The workers' ability is unobservable for the government. Under asymmetric information, a reformer who wants to "buy" the approval of voters has to pay them an informational rent in addition to the pure costs of compensation that would arise under symmetric information. In this setting unemployment may be constrained Pareto-efficient. Consequently, no reform is accepted unanimously by voters. We show that this result can further be strengthened: under majority voting labor market reforms may fail politically because there exists no reform package that gets the approval of a majority of voters. Our model explains the emergence of political deadlocks where low rates of unemployment can be removed in the political process while high rates of unemployment tend to be politically stable.

Guaitoli, Danilo

PD September 2000. **TI** Human Capital Distribution, Growth and Convergence. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 493; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 19. **PR** papers only available on web page; no hard copies. **JE** D31, J24, O40. **KW** Income Distribution. Human Capital. Growth. Inequality. Overlapping Generations.

AB This paper studies the dynamic relationship between distribution and endogenous growth in an overlapping generations model with accumulation of human and physical capital. It is shown how human capital can determine a relationship between per capita growth rates and inequality in the distribution of income. Family background effects and spillovers in the transmission of human capital generate a dynamics in which aggregate variables depend not only on the stock, but also on the distribution of human capital. The evolution of this distribution over time is then characterized under different assumptions on private returns and the form of the externality in the technology for human capital. Conditions for existence, uniqueness and stability of a constant growth equilibrium with a stationary distribution are derived. Increasing returns, idiosyncratic abilities and the possibility of poverty traps are explicitly characterized in a closed form solution of the equilibrium dynamics, showing the role played by technology and preferences parameters.

Gust, Christopher

TI The Expectations Trap Hypothesis. **AU** Christiano, Lawrence J.; Gust, Christopher.

Haile, Philip A.

TI Identification of Standard Auction Models. **AU** Athey, Susan; Haile, Philip A.

Halevy, Yoram

PD June 2000. **TI** A Note on the Neutrality of Money: A "No-Speculation" Formulation. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/06; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 12. **PR** International. **JE** D82, D84, E41, E51, E52. **KW** Common Knowledge. Money Neutrality. Monetary Policy. Inside Money. Asymmetric Information.

AB This note shows that the neutrality of the medium of exchange -- money -- may be viewed as a no-speculation result: every ex-ante Pareto efficient allocation is monetary neutral. No monetary uncertainty or policy can lead to a change in the real variables of the economy, even in the presence of asymmetric information. The similarities and differences between this result and Lucas' work on the neutrality of money are discussed.

PD July 2000. **TI** The Possibility of Speculative Trade Between Dynamically Consistent Agents. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/07; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 16. **PR** International. **JE** C73, D61, D81, D82, D84. **KW** No-Trade. Expected Utility. Common Knowledge. Dynamic Consistency. Decomposability.

AB The No-Trade theorem claims that starting from an ex-ante Pareto efficient contract, asymmetric information alone cannot lead rational agents to trade. This paper investigates the validity of this claim when agents are dynamically consistent but their preferences do not satisfy some other expected utility assumptions. It is shown, by means of an example, that even in a noiseless information setting an ex-ante Pareto efficient contract is not necessarily interim Pareto efficient. Sufficient and necessary conditions on preferences for the impossibility of speculative trade in such an environment are provided.

PD February 2001. **TI** A Bayesian Approach to Uncertainty Aversion. **AU** Halevy, Yoram; Feltkamp, Vincent. **AA** Halevy: University of British Columbia. Feltkamp: International Institute of Infonomics, The Netherlands. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/08; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 27. **PR** International. **JE** D81, D84. **KW** Ellsberg Paradox. Rule Rationality. Decision Making. Risk Aversion. Subjective Probability.

AB The Ellsberg paradox demonstrates that people's belief over uncertain events might not be representable by subjective probability. We argue that Uncertainty Aversion may be viewed as a case of Rule Rationality. This paradigm claims that people's decision making has evolved to simple rules that perform well in most regular environments. Such an environment consists of replicas of some basic singular circumstance. When the rule is applied to a singular environment, the behavior may seem paradoxical. We claim that the regular environment in which decisions under uncertainty take place, is described by one decision that spans multiple ambiguous risks, which are positively correlated. We show that when a risk averse individual has a Bayesian prior and uses a rule, which is optimal for the regular ambiguous environment, to evaluate a singular vague circumstance, then his behavior will exhibit uncertainty aversion. Thus, the behavior predicted by Ellsberg may be explained within the Bayesian expected utility paradigm.

PD June 2001. **TI** The Structure of Intertemporal Preferences under Uncertain Lifetime. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/25; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 21. **PR** International. **JE** D81, D83, D91. **KW** Intertemporal Substitution. Time Consistency. Uncertain Lifetime. Discounting. Nonexpected Utility.

AB This paper investigates the effect of uncertain lifetime on the marginal rate of intertemporal substitution, assuming an additive separable intertemporal utility function. The marginal rate of substitution between consumption at any two periods is composed of time discounting and odds of survival. The paper shows that choices are consistent if and only if time distance is discounted exponentially. Hence, the marginal rate of intertemporal substitution depends on the updated stochastic process underlying survival. This observation is applied to study a demographic model that allows unobservable heterogeneity in frailty (fear of mortality). An individual is born with a prior belief about her frailty, and updates her belief through survival. It is shown that the resulting choice pattern supports the empirical and experimental evidence that as two dates are moved uniformly further into the future, the willingness to sacrifice later consumption for an earlier consumption diminishes.

Halperson, Uri

TI The Cost of Comfort: Affective Packages in Consumer Decisions. **AU** Gilboa, Itzhak; Gilboa-Schechtman, Eva; Halperson, Uri; Ortony, Andrew.

TI The Cost of Comfort: Affective Packages in Consumer Decisions. **AU** Gilboa, Itzhak; Gilboa-Schechtman, Eva; Halperson, Uri; Ortony, Andrew.

Haltmaier, Jane

PD April 2001. **TI** The Use of Cyclical Indicators in Estimating the Output Gap in Japan. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 701; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 24. **PR** no charge. **JE** E20, E32, F40, N15, O47. **KW** Potential Output. Output Gap. Hodrick-Prescott Filter. Utilization Rates. Business Cycles.

AB The paper uses capital and labor utilization rates to derive estimates of the Japanese output gap and potential output. Two techniques are used. The first uses the cyclical indicators to adjust potential output estimates derived from a Hodrick-Prescott filter over the most recent period when such estimates are generally considered to be unreliable. The second estimates equilibrium levels of the cyclical indicators and uses an Okun's Law-type relationship to derive output gaps and potential output. The second method is also applied to the components of potential output to derive a third estimate. These methods suggest that the current Japanese output gap is considerably larger than a simple Hodrick-Prescott filter would suggest.

Hammour, Mohamad L.

TI Creative Destruction and Development: Institutions, Crises, and Restructuring. **AU** Caballero, Ricardo J.; Hammour, Mohamad L.

Hamo, Yoram

PD January 2001. **TI** An Evolutionary Perspective on Goal Seeking and Escalation of Commitment. **AU** Hamo, Yoram; Heifetz, Aviad. **AA** Hamo: Tel Aviv University. Heifetz: California Institute of Technology and Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 04/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 16. **PR** no charge. **JE** D11, D81, O31. **KW** Evolution. Preferences. Commitment. Goal Seeking. Aspiration Level.

AB Maximizing the probability of bypassing an aspiration level, and taking increasing risks to recover previous losses are well-documented behavioral tendencies. They are compatible with individual utility functions that are S-shaped, as suggested in Prospect Theory (Kahneman and Tversky 1979). The authors explore evolutionary foundations for such preferences. Idiosyncratic innovative activity, while individually risky, enhances the fitness of society because it provides hedging against aggregate disasters that might occur if everybody had pursued the same course of action. In order that individuals choose the socially optimal dosage of innovative activity, the individuals' preferences should make them strive to improve upon the on-going convention, even if it implies taking gambles that reduce their expected achievements. The authors show how, in a formal model, the preferences that will be selected for in the course of evolution lead to maximizing the probability of bypassing an aspiration level. Furthermore, when comparing choices with the same probability of achieving this goal, preference is indeed established by maximizing the expected utility of an S-shaped utility function.

Hancock, Diana

PD April 2001. **TI** Using Subordinated Debt to Monitor Bank Holding Companies: Is it Feasible? **AU** Hancock, Diana; Kwast, Myron L. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/22; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 50. **PR** no charge. **JE** C81, G21, G28. **KW** Bonds. Subordinated Debt. Bank Holding Companies. Monitoring. Data Quality.

AB Much research is needed to implement a supervisory surveillance system for banking organizations that relies on subordinated debt and other market data. This paper is germane to that task. We find subordinated debt spreads are most consistent across data sources for the most liquid bonds (i.e., those of relatively large issuance size, relatively young age, issued by relatively large firms) traded in a relatively robust overall bond market. We also find there is a high degree of concordance in rankings of firms by their minimum spreads across bonds with especially strong agreement about which large firms are in the tails of the spread distribution at each point in time. Our time-series results support and provide guidance for the use of subordinated debt spreads in supervisory monitoring, support the need for careful judgment when interpreting such spreads, highlight difficulties with currently available data sources, and motivate the need for further research.

Hansen, Nico A.

PD September 1999. **TI** A Positive Theory of Interregional Redistribution and Constitutional Choice. **AU** Hansen, Nico A.; Kessler, Anke S. **AA** Hansen: McKinsey and Company. Kessler: UC Berkeley and University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: A/543; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 30. **PR** no charge. **JE** D72, H71, H73, R23, R50. **KW** Interregional Transfers.

Fiscal Federalism. Redistribution. Migration. Voting Behavior.
AB The paper studies the effects and the determinants of interregional redistribution in a federation of jurisdictions among which households are mobile. Each jurisdiction controls a local redistributive policy that is democratically chosen by its residents. Paradoxical consequences of interjurisdictional transfers arise. If regions are self sufficient, they necessarily converge with respect to policies and average incomes. Horizontal transfers between jurisdictions, in contrast, lead to the divergence of regional policies and per capita incomes. Because interregional transfer schemes prevent interregional equality, however, they also allow for more interpersonal equality among the inhabitants of each region. For this reason, the voting population may in a decision over the fiscal constitution deliberately implement such a transfer scheme to foster regional divergence.

Hara, Chiaki

PD December 2000. **TI** On the Range of the Risk-Free Interest Rate in Incomplete Markets. **AU** Hara, Chiaki; Kajii, Atsushi. **AA** Hara: University of Cambridge. Kajii: University of Tsukuba. **SR** University of Cambridge, DAE Working Paper: 0030; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 16. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D52, E21, E43, E44, G12. **KW** Interest Rates. Risk Free. Risk Aversion. Incomplete Markets. General Equilibrium.
AB In a model of a two-period exchange economy under uncertainty, we find both upper and lower bounds for the risk free interest rate when the agents' utility functions exhibit constant absolute risk aversion. These bounds are independent of the degree of market incompleteness, and so these results show to what extent market incompleteness can explain the risk-free rate puzzle in this class of general equilibrium models with heterogeneous agents. A general method of finding bounds without the assumption of constant absolute risk aversion is also presented.

Harrigan, James

PD August 2000. **TI** Factor Supplies and Specialization in the World Economy. **AU** Harrigan, James; Zakrajsek, Egon. **AA** Harrigan: Federal Reserve Bank of New York. Zakrajsek: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/43; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 42. **PR** no charge. **JE** E23, F10, F41, O14. **KW** Heckscher-Ohlin Theory. Comparative Advantage. Relative Factor Supplies. Specialization. Aggregate Productivity.
AB A core prediction of the Heckscher-Ohlin theory is that countries specialize in goods in which they have a comparative advantage, and that the source of comparative advantage is differences in relative factor supplies. To examine this theory, we use the most extensive dataset available and document the pattern of industrial specialization and factor endowment differences in a broad sample of rich and developing countries over a lengthy period (1970-92). Next, we develop an empirical model of specialization based on factor endowments, allowing for unmeasurable technological differences and estimate it using panel data techniques. In addition to estimating the effects of factor endowments, we also consider an alternative hypothesis that the level of aggregate productivity by itself can explain specialization. Our results clearly show the importance of factor endowments on specialization: relative endowments do matter.

Harrison, Paul

TI Does Multinationality Matter? Evidence of Value Destruction in U.S. Multinational Corporations. **AU** Click, Reid W.; Harrison, Paul.

TI The Timing of Debt Issuance and Rating Migration: Theory and Evidence. **AU** Covitz, Dan; Harrison, Paul.

Haskel, Jonathan

PD July 1999. **TI** Why Does the "Law of One Price" Fail? A Case Study. **AU** Haskel, Jonathan; Wolf, Holga C. **AA** Haskel: Queen Mary and Westfield College. Wolf: Georgetown University. **SR** Centre for Economic Policy Research Discussion Paper: 2187; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 28. **PR** 5 pounds, 8 euros, or $8. **JE** D43, D46, E31, F41. L81. **KW** Arbitrage. Exchange Rate Pass Through. Price Setting. Mean Reversion. Imperfect Competition. Law of One Price.
AB We use retail transaction prices for a multinational retailer to examine the extent and permanence of violations of the law of one price (LOOP) for identical products sold in a variety of countries. We find median deviations of twenty to fifty percent. The differences are not systematic across very similar goods within a product group (e.g. two types of mirrors), nor across product groups, ruling out differences in local distribution costs as an explanation of violations of the LOOP, and pointing instead to differences in mark-ups. While divergences are large at a point in time, both their extent and their duration is limited, suggesting the presence of significant indirect competitive pressures.

Hauk, Esther

TI Economic Integration and Corruption: The Corrupt Soul of the European Union. **AU** Ganuza, Juan Jose; Hauk, Esther.

PD July 2000. **TI** Choice of Partners in Multiple Two-Person Prisoner's Dilemma Games: An Experimental Study. **AU** Hauk, Esther; Nagel, Rosemarie. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 487; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 24. **PR** papers only available on web page; no hard copies. **JE** C72, C91. **KW** Prisoner's Dilemma. Partner Selection. Experiments. Multiple Games. Defection.
AB We examine the effect of unilateral and mutual partner selection in the context of prisoner's dilemmas experimentally. Subjects play simultaneously several finitely repeated two-person prisoner's dilemma games. We find that unilateral choice is the best system. It leads to low defection and fewer singles than with mutual choice. Furthermore, with the unilateral choice setup we are able to show that intending defectors are more likely to try to avoid a match than intending cooperators. We compare our results of multiple games with single game PD-experiments and find no difference in

aggregate behavior. Hence the multiple game technique is robust and might therefore be an important tool in the future for testing the use of mixed strategies.

Hauser, Heinz

TI The WTO Dispute Settlement System: A First Assessment from an Economic Perspective. **AU** Butler, Monika; Hauser, Heinz.

Hausman, Jerry A.

PD August 1999. **TI** Efficiency Effects on the U.S. Economy from Wireless Taxation. **AA** Massachusetts Institute of Technology and NBER. **SR** National Bureau of Economic Research Working Paper: 7281; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 16. **PR** $5.00. **JE** H22, H24, L51, L96. **KW** Taxation. Efficiency. Telecommunications. Wireless Services. Incidence.

AB This paper measures for the first time the economic efficiency effects of taxation of wireless services, which are taxed by federal, state, and local governments at relatively high rates in the range of 14%-25%. The paper concludes such taxes are a much greater drain on the economy than their direct costs. The taxes identified in this paper cost the economy $2.56 billion more than the $4.79 billion they raise in tax revenues. These taxes are raised from wireless consumers and thereby suppress demand for service, imposing an efficiency loss on the economy of $0.53 for every $1 currently raised in taxes. Prospective taxes will impose an efficiency loss of $0.72-$1.14 per additional dollar of tax revenue raised.

Hehn, Elisabeth

PD December 1999. **TI** Zuschlag erhalten, aber Verlust gebucht -- Gefaehrdet der Fluch des Gewinners auch Kapitalmarktprofis? **AU** Hehn, Elisabeth; Sadrieh, Abdolkarim. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: B/463; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni- bonn.de/bgse/liste.html. **PG** not available. **PR** no charge. **JE** C72, C91, D44, D82. **KW** Winner's Curse. Behavioral Finance. Experimental Economics. Game Theory. Information.

AB This paper is written in a language other than English.

Heifetz, Aviad

PD November 2000. **TI** On the Evolutionary Emergence of Optimism. **AU** Heifetz, Aviad; Spiegel, Yossi. **AA** Heifetz: Tel Aviv University and California Institute of Technology. Spiegel: Tel Aviv University and Northwestern University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 24/2000; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 26. **PR** no charge. **JE** C72, C73. **KW** Optimism. Bounded Rationality. Evolution. Preferences. Game Theory.

AB Successful individuals were frequently found to be overly optimistic. These findings are puzzling, as one could expect that realists would perform best in the long run. We show, however, that in a large class of strategic interactions of either cooperation or competition, the equilibrium payoffs of optimists may be higher than those of realists. This is because the very fact of being optimistic changes the game, and drives the adversary to change her equilibrium behavior, possibly to the benefit of the optimist. Suppose, then, that a population consists initially of individuals with various perceptional tendencies -- pessimists and optimists to various extents, as well as of realists. Individuals meet in pairs to interact, and more successful tendencies proliferate faster. We show that as time goes by, some moderate degree of optimism will take over, and outnumber all other tendencies.

TI An Evolutionary Perspective on Goal Seeking and Escalation of Commitment. **AU** Hamo, Yoram; Heifetz, Aviad.

Helpman, Elhanan

TI Integration vs. Outsourcing in Industry Equilibrium. **AU** Grossman, Gene M.; Helpman, Elhanan.

Henderson, Dale

TI Monetary Policy When the Nominal Short-Term Interest Rate is Zero. **AU** Clouse, James; Henderson, Dale; Orphanides, Athanasios; Small, David; Tinsley, Peter.

Hendricks, Kenneth

PD January 2000. **TI** Measuring Industry Concentration in Intermediate Goods. **AU** Hendricks, Kenneth; McAfee, R. Preston. **AA** Hendricks: University of British Columbia. McAfee: University of Texas, Austin. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/01; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 34. **PR** International. **JE** C43, G34, L11, L13, L22. **KW** Concentration. Mergers. Intermediate Goods. Oligopoly. Vertical Integration.

AB In horizontal mergers, concentration is often measured with the Hirschmann-Herfindahl Index (HHI). This index yields the price-cost margins in Cournot competition. In many modern merger cases, both buyers and sellers have market power, and indeed, the buyers and sellers may be the same set of firms. In such cases, the HHI is inapplicable. We develop an alternative theory that has similar data requirements as the HHI, applies to intermediate good industries with market power on both sides, and specializes to the HHI when buyers have no market power and sellers have constant marginal cost. Our analysis permits consideration of vertical mergers that change the net demand. The analysis is applied to the merger of the California gasoline refining and retail assets of Exxon and Mobil.

Hendry, David F.

PD January 2001. **TI** Reformulating Empirical Macro-Econometric Modelling. **AU** Hendry, David F.; Mizon, Grayham E. **AA** Hendry: University of Oxford. Mizon: University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0104; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. Website: www.soton.ac.uk. **PG** 31. **PR** annual subscription 40 pounds ($80); individual copies on application. **JE** C32, C52, E17, E52, E61. **KW** Policy Analysis. Model Selection. Model Evaluation. Forecasting. Rational Expectations.

AB The policy implications of estimated macro-econometric systems depend on the formulations of their equations, the methodology of empirical model selection and evaluation, the techniques of policy analysis, and their forecast performance. Drawing on recent results in the theory of forecasting, we question the role of 'rational expectations'; criticize a common approach to testing economic theories; show that impulse-response methods of evaluating policy are seriously flawed; and question the mechanistic derivation of forecasts from econometric systems. In their place, we propose that expectations should be treated as instrumental to agents' decisions; discuss a powerful new approach to the empirical modeling of econometric relationships; offer viable alternatives to studying policy implications; and note modifications to forecasting devices that can enhance their robustness to unanticipated structural breaks.

Henry, Claude

PD December 1998. **TI** Orientation du Progres Technique et Developpement Durable. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9823; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 22. **PR** no charge. **JE** D63, D91, D92, O33, Q32. **KW** Equity. Growth. Environment. Present Value. Technological Change.

AB We consider an economy where successive generations consume two different kinds of services, produced respectively from artificial and natural assets. Technical progress makes it possible to expand the artificial assets, but not the natural ones; on the contrary, the latter may be eroded by a careless implementation of the technical progress. It is shown that, if every generation displays a sufficiently high degree of altruism, growth is both sustainable and compatible with the Rawlsian criterion of distributive justice: it then appears that the Rawlsian approach is not confined to the "dull prospects" that Solow has deplored. It is also shown that it is possible to derive the Rawlsian sequence from the maximization of a discounted sum of levels or welfare. It is always the case that the discount factors are strictly less than one -- Koopman's equivalence theorem is not contradicted in this respect -- but are dependent on the intertemporal pattern of technical progress. (This paper is written in a language other than English.).

Hercowitz, Zvi

PD January 2001. **TI** Fiscal Policy Dynamics with a Public-Debt Guideline. **AU** Hercowitz, Zvi; Strawczynski, Michel. **AA** Hercowitz: Tel Aviv University. Strawczynski: Bank of Israel. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 01/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 21. **PR** no charge. **JE** E62, F42, H63. **KW** Public Debt. Optimal Taxation. Fiscal Policy. Government Expenditures.

AB This paper analyzes the implications of a cost of deviating upwards from a public-debt/output guideline, as the 0.6 ratio in the Maastricht Treaty, in the context of a fiscal policy-making model. Given a pre- announced timetable for enforcement, the dynamic paths of the tax rate and government spending, which depart from smoothing over time, and the public debt are characterized. The model's predictions are that the tax rate is high and government spending is low prior to the date of starting enforcement, and that at this date the tax rate begins to decline and government spending begins to increase. The model is used to interpret fiscal evidence during the 1990s from three countries with large public debt: Belgium, Italy and Israel.

Herreiner, Dorothea K.

PD October 1999. **TI** The Decision to Seek or to Be Sought. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: B/462; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni- bonn.de/bgse/liste.html. **PG** 35. **PR** no charge. **JE** C78, D40, J41, J64. **KW** Matching. Search. Decentralized Markets.

AB A one-shot market with two sides is considered where everybody can be matched with at most one person. Individuals have to find trading partners on their own. Whether searching or waiting is an optimal strategy is the central question of this paper. In a market where searching and waiting are done exclusively by one market side, it is more efficient if the long market side searches. In a market where on both sides some individuals search and others stay put, there are also mixed equilibria which are even more efficient. The matching friction due to uncoordinated search by individuals implies that larger markets are in general less efficient than a collection of smaller markets.

Heuson, Andrea

PD October 2000. **TI** Credit Scoring and Mortgage Securitization: Do They Lower Mortgage Rates? **AU** Heuson, Andrea; Passmore, Wayne; Sparks, Roger. **AA** Heuson: University of Miami. Passmore: Board of Governors of the Federal Reserve System. Sparks: Mills College. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/44; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 32. **PR** no charge. **JE** G10, G21. **KW** Mortgages. Mortgage Securitization. Credit Scoring. Mortgage Rates. Financial Services.

AB This paper develops a model of the interactions between borrowers, originators, and a securitizer in primary and secondary mortgage markets. In the secondary market, the securitizer adds liquidity and plays a strategic game with mortgage originators. The securitizer sets the price at which it will purchase mortgages and the credit score standard that qualifies a mortgage for purchase. We investigate two potential links between securitization and mortgage rates. First, we analyze whether a portion of the liquidity premium gets passed on to borrowers in the form of a lower mortgage rate. Somewhat surprisingly, we find plausible conditions under which securitization fails to lower the mortgage rate. Secondly, and consistent with recent empirical results, we derive an inverse correlation between the volume of securitization and mortgage rates. However, the causation is reversed from the standard rendering. In our model, a decline in the mortgage rate causes increased securitization rather than the other way around.

Higgins, Matthew

TI Purchasing Power Parity: Three Stakes Through the Heart of the Unit Root Null. **AU** Zakrajsek, Egon; Higgins, Matthew.

Hillman, Arye L.

PD November 2000. **TI** Poverty, Inequality, and Unethical Behavior of the Strong. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/187; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 27. **PR** not available. **JE** A13, D63, H10, I32, O10. **KW** Poverty. Development. Governance. Ethics. Nietzsche.

AB This paper is concerned with economic consequences of unethical governance. A framework is set out, based on principles of Friedrich Nietzsche, that ties poverty and inequality to unethical behavior of the strong toward the weak. The paper contributes to an understanding of why poverty and inequality have remained entrenched in some societies in spite of repeated programs intended to improve living standards. The purpose is to include ethics of governance, and, in particular, unethical behavior of the strong toward the weak, in preconditions for economic development.

Hoffmann, Mathias

PD January 2001. **TI** A Real Differential View of Equilibrium Real Exchange Rates. **AU** Hoffmann, Mathias; MacDonald, Ronald. **AA** Hoffmann: University of Southampton. MacDonald: University of Strathclyde. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0103; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. **PG** 35. **PR** annual subscription 40 pounds ($80); individual copies on application. **JE** C32, F31, F41. **KW** Equilibrium Exchange Rates. Cointegration. Permanent Decomposition. Transitory Decomposition. Interest Rates.

AB This paper examines the interaction of G7 real exchange rates with real output and interest rate differentials. Using cointegration methods, we generally find a link between the real exchange rate and the real interest differential. This finding contrasts with the majority of the extant research on the real exchange rate-real interest rate link. We then identify a new measure of the equilibrium exchange rate in terms of the permanent component of the real exchange rate that is consistent with the dynamic equilibrium given by the cointegrating relation. Furthermore, the presence of cointegration also allows us to identify real, nominal and transitory disturbances with only minimal identifying restrictions. Our findings suggest that misalignments are largely due to nominal shocks, but that their half-life is much lower than is suggested when purchasing power parity is used as the reference equilibrium. This has important implications for the persistence measures of real exchange rates that are reported elsewhere in the literature.

Holly, Alberto

PD September 1999. **TI** A Score Test for Individual Heteroscedasticity in a One-Way Error Components Model. **AU** Holly, Alberto; Gardiol, Lucien. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9915; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 18. **PR** no charge. **JE** C12, C23, C52. **KW** Panel Data. Error Components Model. Score Test. Heteroskedasticity. Contiguous Alternatives.

AB The purpose of this paper is to derive a Rao's efficient score statistic for testing for heteroskedasticity in an error components model with only individual effects. We assume that the individual effect exists and therefore do not test for it. In addition, we assume that the individual effects, and not the white noise term, may be heteroskedastic. Finally, we assume that the error components are normally distributed. We first establish, under a specific set of assumptions, the asymptotic distribution of the Score under contiguous alternatives. We then derive the expression for the Score test statistic for individual heteroskedasticity. Finally, we discuss the asymptotic local power of this Score test statistic.

Holly, Sean

TI Piecewise Linear Feedback Rules in a Non Linear Model of the Phillips Curve: Evidence from the US and the UK. **AU** Corrado, Luisa; Holly, Sean.

Holmstrom, Bengt

PD February 2001. **TI** Corporate Governance and Merger Activity in the U.S.: Making Sense of the 1980s and 1990s. **AU** Holmstrom, Bengt; Kaplan, Steven N. **AA** Holmstrom: Massachusetts Institute of Technology. Kaplan: University of Chicago. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/11; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 29. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** D21, G34, L20, L51. **KW** Corporate Governance. Mergers. Leverage Buyouts. Shareholder Value.

AB This paper describes and considers explanations for changes in corporate governance and merger activity in the United States since the 1980s. Corporate governance in the 1980s was dominated by intense merger activity distinguished by the prevalence of leverage buyouts (LBOs) and hostility. After a brief decline in the early 1990s, substantial merger activity resumed in the second half of the decade, while LBOs and hostility did not. Instead, internal corporate governance mechanisms appear to have played a larger role in the 1990s. We conclude by considering whether these changes and the movement toward shareholder value are likely to be permanent.

Hooker, Mark A.

PD December 1999. **TI** Are Oil Shocks Inflationary? Asymmetric and Nonlinear Specifications versus Changes in Regime. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 1999/65; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 24. **PR** no charge. **JE** E24, E31, E52. **KW** Oil Shocks. Inflation. Phillips Curve. Regime Shifts. Monetary Policy.

AB This paper estimates the effects of oil price changes on U.S. inflation in a Phillips curve framework, allowing for some of the asymmetries, nonlinearities, and structural breaks that have been found in the literature on the real effects of oil price shocks. It finds that since around 1980, oil price changes seem to affect inflation only through their direct share in a price index, with little or no pass- through into core measures, while before 1980 oil shocks contributed substantially to core inflation. This structural-break characterization appears robust to a variety of respecifications and appears to fit the data better than asymmetric and nonlinear oil price alternatives. Preliminary evidence suggests that a change in the reaction of monetary policy to oil shocks is part of the explanation.

Hrycay, Mark

TI Parameterizing Credit Risk Models With Rating Data. **AU** Carey, Mark; Hrycay, Mark.

Hughes Hallett, Andrew J.

TI An Independent Central Bank Faced With Elected Governments. **AU** Demertzis, Maria; Hughes Hallett, Andrew J.

Hunt, Jennifer

PD June 1999. **TI** Determinants of Non-Employment and Unemployment Durations in East Germany. **AA** Yale University. **SR** Centre for Economic Policy Research Discussion Paper: 2182; CEPR, 90-98 Goswell Road, London EC1V7RR. United Kingdom. Website: www.cepr.org. **PG** 44. **PR** 5 pounds, 8 euros, or $8. **JE** J31, J63, J64, P21, P23. **KW** Unemployment. Non-Employment. Unions. Wages. Transition Economies.

AB Following monetary union with the west in June 1990, the employment rate for East German 18-54 year olds fell from 89% to 73% in six years, and the decline for women was considerably larger. I examine the determinants of transitions between non-employment (or unemployment) and employment, using the 1990-1996 survey years of the German Socio-Economic Panel. Individuals over fifty and women have much longer non- employment durations, but the presence of children, and hence child care, does not appear to be important. More skilled individuals, as measured by their education and 1990 wage, have shorter non-employment spells. I also examine employment duration. The most important similarity between the duration of non-employment and employment is the influence of the 1990 wage, which is consistent with the theory that trade-union wage rises for the less-skilled reduced employment. The most important difference is that the addition of covariates, particularly the 1990 wage, explains most of the gender gap in employment duration but little in non-employment duration.

Hvffler, Felix

PD July 1999. **TI** Do New Brooms Sweep Clean? -- Why and When Dismissing Managers Increases a Firm's Performance. **AU** Hvffler, Felix; Sliwka, Dirk. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: A/603; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/ liste.html. **PG** not available. **PR** no charge. **JE** D23, D82, J41, J44, L20. **KW** Job Rotation. Dismissal. Incentives. Asymmetric Information. Managers.

AB If a manager stays in office for a long time he will have learned much about his subordinates. Thus competition among them will be weakened as the manager has made up his mind who is suited best for which position. With a new manager the "rat race" for favorable tasks is restarted leading subordinates to exert higher effort. But for the firm- owner the trade-off arises that with a new manager effort will be larger but the quality of task allocation will be worse since information is lost. The dismissal decision will be nonmonotonic in her estimation of the heterogeneity in subordinates' abilities.

Hvide, Hans K.

TI Status Concerns and the Organization of Work. **AU** Fershtman, Chaim; Weiss, Yoram; Hvide, Hans K.

Imbs, Jean

PD November 1998. **TI** Fluctuations, Bilateral Trade and the Exchange Rate Regime. **AA** University of Lausanne and New York University. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9906; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 15. **PR** no charge. **JE** E32, E42, F15, F33, F43. **KW** International Trade. Optimal Currency Area. Business Cycles. Economic Integration. Monetary Union.

AB In a recent paper, Frankel and Rose (1998) documented endogenous effects of a monetary union, whereby costs and benefits of the union evolve after its implementation. This paper questions their findings on three grounds. First, their main result that trading partners display relatively more synchronized cycles is not robust to the presence of fixed effects, or variables omitted from their estimation liable to generate both intense trade and synchronized cycles. Second, the cost of giving up independent monetary policy is usually evaluated on the basis of the extent of co-fluctuations between business cycles. We bring into focus which measure of the cycle ought to be used for that purpose. In particular, such measure should in our opinion reflect how synchronized cycles would be in the absence of independent monetary policy. Third, documenting the assumption that fixed exchange rate regimes translate into more bilateral trade has proven elusive. We show that using a bilateral rather than cross-country approach brings little improvement on that front.

Immervoll, Herwig

PD December 2000. **TI** Fiscal Drag -- An Automatic Stabiliser? **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0025; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 24. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D31, E23, E24, E31, H24. **KW** Automatic Stabilizer. Inflation. Income Tax. Wage Setting. Production.

AB Inflation can alter the structure of tax systems and lead to higher real tax burdens. The "automatic stabilizer" argument assumes that increasing tax burdens reduce consumption and thereby aggregate demand, acting as an automatic stabilizer which helps to "cool down" the economy in times of inflation. This argument, however, only looks at the demand side, ignoring any effects that higher tax burdens may have on the cost of production. If employees bear less than the full burden of higher taxes then real labor costs will go up, generating a cost- push upwards pressure on prices and opening up the possibility of a wage-price spiral. I compute distributions of inflation induced changes of marginal and average effective tax rates for four European countries using a preliminary version of EUROMOD, a European tax-benefit model. Possible wage effects of these changes are then discussed in an imperfect labor market framework.

Irlenbusch, Bernd

TI An Experimental Bribery Game. **AU** Abbink, Klaus; Irlenbusch, Bernd; Renner, Elke.

Irons, John S.

TI Output and Inflation in the Long Run. **AU** Ericsson, Neil R.; Irons, John S.; Tryon, Ralph W.

Irwin, Douglas A.

PD September 2000. **TI** The Antebellum Tariff on Cotton Textiles Revisited. **AU** Irwin, Douglas A.; Temin, Peter. **AA** Irwin: Dartmouth College and NBER. Temin: Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/19; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 19. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** F13, N71. **KW** International Trade. Tariffs. Economic History. Cotton. Open Economy.

AB Recent research has suggested that the antebellum U.S. cotton textile industry would have been wiped out had it not received tariff protection. We reaffirm Taussig's judgment that the U.S. cotton textile industry was largely independent of the tariff by the 1830s. American and British producers specialized in quite different types of textile products that were poor substitutes for one another. The Walker tariff of 1846, for example, reduced the duties on cotton textiles from nearly 70 percent to 25 percent and imports soared as a result, but there was little change in domestic production. Using data from 1826 to 1860, we estimate the responsiveness of domestic production to fluctuations in import prices and conclude that the industry could have survived even if the tariff had been completely eliminated.

Iyigun, Murat F.

TI Finance and Macroeconomic Volatility. **AU** Denizer, Cevdet; Iyigun, Murat F.; Owen, Ann L.

Izquierdo, Mario

TI The Plutocratic Bias in the CPI: Evidence from Spain. **AU** Ruiz-Castillo, Javier; Ley, Eduardo; Izquierdo, Mario.

Jaffe, Adam B.

PD August 1999. **TI** The U.S. Patent System in Transition: Policy Innovation and the Innovation Process. **AA** Brandeis University and NBER. **SR** National Bureau of Economic Research Working Paper: 7280; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** O31, O34, O38. **KW** Patent Policy. Intellectual Property. Technological Change. Innovation.

AB This paper surveys the major changes in patent policy and practice that have occurred in the last two decades in the U.S., and reviews the existing analyses by economists that attempt to measure the impacts these changes have had on the processes of technological change. It also reviews the broader theoretical and empirical literature that bears on the expected effects of changes in patent policy. Despite the significance of the policy changes and the wide availability of detailed data relating to patenting, robust conclusions regarding the empirical consequences for technological innovation of changes in patent policy are few. Possible reasons for these limited results are discussed, and possible avenues for future research are suggested.

Jahjah, Samir

PD November 2000. **TI** Inflation, Debt, and Default in a Monetary Union. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/179; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 29. **PR** not available. **JE** E43, E52, E58, F33, H63. **KW** Public Debt. Monetary Policy. Inflation. Monetary Union. Default.

AB Depending on the preferences of the central bank, countries in a monetary union tend to accumulate less debt. This reduces the need for fiscal criteria such as debt ceilings. In a monetary union with an independent central bank and a sufficiently large number of relatively small members, investors will begin rationing credit to the government more rapidly, and an equilibrium with no inflation and no default exists. However, highly-indebted countries are more likely to default once they join a monetary union.

Jamasb, Tooraj

PD January 2001. **TI** Benchmarking and Regulation of Electricity Transmission and Distribution Utilities: Lessons from International Experience. **AU** Jamasb, Tooraj; Pollitt, Michael G. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0101; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 34. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** L43, L51, L94, Q48. **KW** Electricity. Benchmarking. Incentive Regulation. Data Envelopment Analysis. Natural Monopoly.

AB Since the early 1980's, many countries have implemented electricity sector reform, many of which have bundled generation, transmission, distribution and supply activities, and have introduced competition in generation and supply. An increasing number of countries are also adopting incentive regulation to promote efficiency improvement in the natural monopoly activities -- transmission and distribution. Incentive regulation almost invariably involves benchmarking or comparison of actual versus some reference performance. This paper reviews the main approaches to incentive regulation and discusses various benchmarking methods. We also present the findings of a survey of the use of benchmarking methods in the OECD and a few other countries. Our survey finds a variety of methods used by the electricity regulators although with a notable preference for the non-parametric methods. We then draw conclusions based on the finding of the survey highlighting the main outstanding issues and lessons for best practice implementation of benchmarking in electricity regulation.

Janssen, Norbert

TI An Examination of UK Business Cycle Fluctuations: 1871-1997. **AU** Chadha, Jagjit S.; Janssen, Norbert; Nolan,

https://doi.org/10.1017/S0951007900005337 Published online by Cambridge University Press

Charles.

Jappelli, Tullio

PD June 1999. **TI** Information Sharing, Lending and Defaults: Cross-Country Evidence. **AU** Jappelli, Tullio; Pagano, Marco. **AA** Jappelli: Universita di Salerno. Pagano: Universita Bocconi. **SR** Centre for Economic Policy Research Discussion Paper: 2184; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 48. **PR** 5 pounds, 8 euros, or $8. **JE** D82, G21, G28. **KW** Information Sharing. Credit Market. Default Rate.

AB Theory predicts that information sharing among lenders attenuates adverse selection and moral hazard, and can therefore increase lending and reduce default rates. To test these predictions, we construct a new international data set on private credit bureaus and public credit registers. We find that bank lending is higher and proxies for default rates are lower in countries where lenders share information, regardless of the private or public nature of the information sharing mechanism. We also find that public intervention is more likely where private arrangements have not arisen spontaneously and creditor rights are poorly protected.

Jensen, Mogens

TI The Evolution of Conventions under Incomplete Information. **AU** Jorgen Jacobsen, Hans; Jensen, Mogens; Sloth, Birgitte.

TI On the Structural Difference between the Evolutionary Approach of Young and that of Kandori, Mailath, and Rob. **AU** Jorgen Jacobsen, Hans; Jensen, Mogens; Sloth, Birgitte.

Johnson, Kathleen W.

PD November 1999. **TI** Credit Constraints, Consumer Leasing and the Automobile Replacement Decision. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 1999/68; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 23. **PR** no charge. **JE** D11, D12, L62, L81. **KW** Consumer Theory. Automobiles. Leasing. Credit Constraints. Quality.

AB This paper presents a model of consumer automobile replacement in the presence of leasing. The model incorporates credit constraints to distinguish between the leasing and purchasing options. It demonstrates how leasing increases the probability that a household replaces its automobile and how households that lease choose higher quality automobiles. The qualitative choice model of the household's decision to lease provides support for the observation that households that lease face credit constraints. It also shows that although households that lease new automobiles are quite similar to those that purchase, they exhibit differences consistent with the theory. In particular, they prefer newer, more expensive automobiles.

Johnson, Simon

TI The Colonial Origins of Comparative Development: An Empirical Investigation. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A.

Johnston, Barry R.

TI An Incentive Approach to Identifying Financial System Vulnerabilities. **AU** Chai, Jingqing; Johnston, Barry R.

Jones, Charles I.

PD August 1999. **TI** Too much of a Good Thing? The Economics of Investment in R&D. **AU** Jones, Charles I.; Williams, John C. **AA** Jones: Stanford University and NBER. Williams: Board of Directors of the Federal Reserve System. **SR** National Bureau of Economic Research Working Paper: 7283; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 21. **PR** $5.00. **JE** O31, O32, O41. **KW** Research and Development. Endogenous Growth. Knowledge Spillovers. Creative Destruction. Congestion Externalities.

AB Research and development (R&D) is a key determinant of long run productivity and welfare. A central issue is whether a decentralized economy undertakes too little or too much R&D. We develop an endogenous growth model that incorporates parametrically four important distortions to R&D: the surplus appropriability problems, knowledge spillovers, creative destruction, and congestion externalities. We show that our model is consistent with the available evidence on R&D, growth, and markups. Calibrating the model to micro and macro data, we find that the decentralized economy typically underinvests in R&D relative to what is socially optimal. The only exceptions to this conclusion occur when both the congestion externality is extremely strong and the equilibrium real interest rate is very high. These results are robust to reasonable variations in model parameters.

Jorda, Oscar

TI The Pavlovian Response of Term Rates to Fed Announcements. **AU** Demiralp, Selva; Jorda, Oscar.

Jorgen Jacobsen, Hans

PD June 2000. **TI** The Evolution of Conventions under Incomplete Information. **AU** Jorgen Jacobsen, Hans; Jensen, Mogens; Sloth, Birgitte. **AA** University of Copenhagen. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 475; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 26. **PR** papers only available on web page; no hard copies. **JE** C72, C73, D44, D83. **KW** Game Theory. Incomplete Information. Bayesian Equilibrium. Evolution. Learning.

AB We formulate an evolutionary learning process in the spirit of Young (1993a) for games of incomplete information. The process involves trembles. For many games, if the amount of trembling is small, play will be in accordance with the games' (semi-strict) Bayesian equilibria most of the time. This supports the notion of Bayesian equilibrium. Further, often play will most of the time be in accordance with exactly one Bayesian equilibrium. This gives a selection among the Bayesian equilibria. For two specific games of economic interest we characterize this selection. The first is an extension to incomplete information of the prototype strategic conflict known as Chicken. The second is an incomplete information bilateral monopoly, which is also an extension to incomplete information of Nash's demand game, or a simple version of the so-called sealed bid double auction. For both games selection by evolutionary learning is in favor of Bayesian equilibria where some types of players fail to coordinate, such that the outcome is inefficient.

TI Endogenous Business Cycles and Stabilization Policies. **AU** Aloi, Marta; Jorgen Jacobsen, Hans; Lloyd-Braga, Teresa.

PD June 2000. **TI** On the Structural Difference between the Evolutionary Approach of Young and that of Kandori, Mailath, and Rob. **AU** Jorgen Jacobsen, Hans; Jensen, Mogens; Sloth, Birgitte. **AA** University of Copenhagen. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 477; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 10. **PR** papers only available on web page; no hard copies. **JE** C73, C78, D83. **KW** Evolutionary Learning. Coordination Games. Equilibrium Selection. Game Theory. Information.

AB We provide robust examples of symmetric two-player coordination games in normal form that reveal that equilibrium selection by the evolutionary model of Young (1993) is essentially different from equilibrium selection by the evolutionary model of Kandori, Mailath and Rob (1993).

Kajii, Atsushi

TI On the Range of the Risk-Free Interest Rate in Incomplete Markets. **AU** Hara, Chiaki; Kajii, Atsushi.

Kanaya, Akihiro

TI Loan Review, Provisioning, and Macroeconomic Linkages. **AU** Cortavarria, Luis; Dziobek, Claudia; Kanaya, Akihiro; Song, Inwon.

Kandil, Magda

PD November 2000. **TI** The Asymmetric Effects of Exchange Rate Fluctuations: Theory and Evidence from Developing Countries. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/184; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 32. **PR** not available. **JE** D84, E31, F31, F41, O11. **KW** Exchange Rates. Rational Expectations. Asymmetric Fluctuations. Open Economy. Inflation.

AB The paper examines the asymmetric effects of exchange rate fluctuations on real output and price in developing countries. The theoretical model decomposes movements in the exchange rate into anticipated and unanticipated components. Unanticipated currency fluctuations determine aggregate demand through exports, imports, and the demand for domestic currency, and determine aggregate supply through the cost of imported intermediate goods. The evidence indicates that the supply channel leads to output contraction and price inflation in the face of unanticipated currency depreciation. In contrast, the reduction in net exports determines output contraction without reducing price inflation in the face of unanticipated currency appreciation.

PD December 2000. **TI** Demand-Side Stabilization Policies: What is the Evidence of Their Potential? **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/197; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 30. **PR** not available. **JE** E33, E35, E36. **KW** Fiscal Policy. Monetary Policy. Asymmetric Fluctuations.

AB Using disaggregated data for the United States, this paper explores the effects of the variability of fiscal and monetary policy shocks. Higher variability of government spending shocks around a steady-state growth trend results, on average, in a decline in aggregate demand growth and inflation, with limited effects on output growth. On the other hand, higher variability of monetary shocks results, on average, in an increase in inflation and a decline in output growth. These results indicate the desirability of avoiding large fluctuations over time in either government spending or the money supply.

Kannan, Ravi

PD July 1999. **TI** Analyzing the Structure of Large Graphs. **AU** Kannan, Ravi; Vinay, V. **AA** Kannan: Yale University. Vinay: Computer Science and Automation Indian Institute of Science, India. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: 99886; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni- bonn.de/bgse/liste.html. **PG** 9. **PR** no charge. **JE** C45, C60, L90, R40. **KW** Large Graphs. Density Structure. World Wide Web. Internet.

AB The purpose of this paper is to study the structure of large sparse graphs such as the graph of the web -- the graph consisting of one node per document in the web and a directed edge from i to j whenever document i has a hypertext link to document j. This particular graph is of course of interest as being by far the largest "human-made" graph (with millions of vertices) arising from a "natural setting". We develop theoretical tools and algorithms to analyze the density structure of such graphs by relating density to easy to find Linear Algebra quantities.

Kaplan, Steven N.

TI Corporate Governance and Merger Activity in the U.S.: Making Sense of the 1980s and 1990s. **AU** Holmstrom, Bengt; Kaplan, Steven N.

Kaplan, Todd R.

PD November 2000. **TI** Innovative Activity and Sunk Cost. **AU** Kaplan, Todd R.; Luski, Israel; Wettstein, David. **AA** Kaplan: University of Exeter. Luski and Wettstein: Ben-Gurion University of the Negev. **SR** University of Exeter Department of Economics Discussion Paper: 00/06; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 28. **PR** no charge. **JE** D44, O31, O32. **KW** Innovation. R&D. Races. All-Pay Auctions. Sunk Costs.

AB We introduce time-dependent rewards into a general framework for analyzing innovative activity among firms with sunk costs of R&D. When firms are identical, innovation is delayed by an increase in the number of firms or a decrease in the size of the reward. When one firm has higher profit potential, it is more likely to innovate first. Our framework generalizes an all-pay auction; however, we show that under certain conditions there is qualitatively different equilibrium behavior.

PD November 2000. **TI** Why Banks Should Keep Secrets. **AA** University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 00/14; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England.

Website: www.ex.ac.uk/sobe/. **PG** 23. **PR** no charge. **JE** D82, G21. **KW** Deposit Contracts. Interim Information. Banks.

AB We show that it is sometimes efficient for a bank to commit to a policy that keeps information about its risky assets private. Our model, based upon Diamond-Dybvig [1983], has the feature that banks acquire information about their risky assets before depositors acquire it. Banks have the option of using contracts where the middle-period return on deposits is contingent on this information, but by doing so they must also reveal the information. We derive the conditions on depositors' preferences and bankers' technology for which banks would prefer to keep information secret even though they must then use non-contingent deposit contracts.

TI Here's Something You Never Asked For, Didn't Know Existed, and Can't Easily Obtain: A Search Model of Gift Giving. **AU** Ruffle, Bradley J.; Kaplan, Todd R.

Karceski, Jason

PD September 2000. **TI** The Impact of Bank Consolidation on Commercial Borrower Welfare. **AU** Karceski, Jason; Ongena, Steven; Smith, David C. **AA** Karceski: University of Florida. Ongena: Tilburg University. Smith: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 679; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 37. **PR** no charge. **JE** C41, G12, G21, G32, G34. **KW** Bank Relationships. Bank Mergers. Market Power. Banking. Asset Pricing.

AB The authors estimate the impact of bank merger announcements on borrowers' stock prices for publicly-traded Norwegian firms. In addition, they analyze how bank mergers influence borrower relationship termination behavior and relate the propensity to terminate to borrower abnormal returns. They obtain four main results. First, on average borrowers lose about one percent in equity value when their bank is announced as a merger target. Small borrowers of target banks are especially hurt in mergers between two large banks, where they lose an average of about three percent. Small target borrowers are not harmed, and appear to even gain, from mergers between small banks. Second, bank mergers lead to higher relationship exit rates for three years after a bank merger, and small bank mergers lead to larger increases in exit rates than large mergers. Third, target borrower abnormal returns are positively related to pre-merger exit rates, indicating that firms that find it easier to switch banks are less harmed when their bank merges. Fourth, the authors find weak evidence that target borrowers with large merger-induced increases in exit rates are more negatively affected by bank merger announcements.

Kattuman, Paul

TI Employment Polarisation and Inequality in the UK and Hungary. **AU** Redmond, Gerry; Kattuman, Paul.

PD November 2000. **TI** Strategy Choices of Firms and Market Concentration. **AU** Kattuman, Paul; Roberts, Barbara M. **AA** Kattuman: University of Cambridge. Roberts: University of Leicester. **SR** University of Cambridge, DAE Working Paper: 0018; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 16. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** C72, L11, L22, L60, P21. **KW** Market Concentration. Firm Strategy. Firm Size. Economic Transition. Manufacturing.

AB This paper suggests a new approach to the empirical analysis of market structure. Market concentration is an aspect of distribution of market shares of firms, and market shares are best modeled at the firm level, bringing into play strategy choices made by firms. It follows that a useful approach to explaining concentration would be a two stage one: to estimate firm size or market shares as a function of firm-level determinants, and to use the information in these estimates to assess the relative contributions of firm characteristics to concentration. The method is illustrated by application to selected Polish manufacturing industries in the early transition period.

Kaufman, Martin D.

PD October 2000. **TI** Fiscal Policy Through Time-Varying Tax Rates: If and How. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/170; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 25. **PR** not available. **JE** D60, E62, H21, H24, H31. **KW** Fiscal Policy. Taxation. Credit Constraints. Hyperbolic Discounting. Consumption Taxes.

AB This paper investigates if there are circumstances where time-varying tax rates could improve welfare and whether such policy can effectively be implemented in practice. While, in principle, variable taxes could improve welfare in some cases, the paper highlights the very particular circumstances that need to prevail. With liquidity constraints, a consumption tax break is on better footing to boost consumption and welfare than an income-tax break. A hike in consumption taxes can also be used to restrain consumption and improve welfare under time-consistency problems induced by hyperbolic discounting. However, variable taxes are subject to serious implementation problems fettering their use.

Kemp, Gordon C. R.

PD January 2000. **TI** Semi-Parametric Estimation of a Logit Model. **AA** University of Essex. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/03; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 43. **PR** International. **JE** C14, C25. **KW** Semiparametric Methods. Logit Models. Kernel Method. U-Statistics. Econometric Methods.

AB In this paper, I develop an estimator for a semi-parametric logit model based on a kernel-weighted average of pairwise conditional logit terms. Then I demonstrate consistency, asymptotic normality, and consistent asymptotic covariance matrix estimation for this estimator using results for sequences of U-statistic.

Kessler, Anke S.

TI A Positive Theory of Interregional Redistribution and Constitutional Choice. **AU** Hansen, Nico A.; Kessler, Anke S.

PD December 1999. **TI** Monitoring and Internal Efficiency: A Comparison of Public and Private Ownership.

AU Kessler, Anke S.; Luelfesmann, Christoph. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: A/608; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni- bonn.de/bgse/liste.html. **PG** not available. **PR** no charge. **JE** D23, D82, J41, L23, L33. **KW** Internal Efficiency. Monitoring. Corporate Governance. Adverse Selection. Public Enterprises.

AB The paper compares the productive efficiency of public and private enterprises in an adverse selection model with managerial effort. Under either ownership structure, the firm's manager has private information on his ability. The principal can invest in monitoring to elicit this ability. As a benchmark, we show that the manager's equilibrium effort in absence of monitoring is strictly higher in a public firm where the principal is a benevolent government. These results may be reversed when both principals have access to a monitoring technology. We show that, under the optimal monitoring and contracting decisions, the public principal may refrain from audits, while the private principal monitors. In this case, managerial effort and thus productive efficiency can be higher in a private firm. Conversely, in situations where both principals endogenously monitor, effort and welfare levels under either governance structure coincide.

Kessler, Daniel P.

PD July 1999. **TI** Is Hospital Competition Socially Wasteful? **AU** Kessler, Daniel P.; McClellan, Mark B. **AA** Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 7266; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 38. **PR** $5.00. **JE** D60, I11, I12, L80. **KW** Hospitals. Medicare. Health Care. Social Welfare. Managed Care.

AB We study the consequences of hospital competition for Medicare beneficiaries' heart attack care from 1985 to 1994. We examine how relatively exogenous determinants of hospital choice such as travel distances influence the competitiveness of hospital markets, and how hospital competition interacts with the influence of managed care organizations to affect the key determinants of social welfare -- expenditures on treatment and patient health outcomes. In the 1980s, the welfare effects of competition were ambiguous; but in the 1990s, competition unambiguously improves social welfare. Increasing HMO enrollment over the sample period partially explains the dramatic change in the impact of hospital competition.

Khan, Mohsin S.

PD December 2000. **TI** Financial Development and Economic Growth: An Overview. **AU** Khan, Mohsin S.; Senhadji, Abdelhak S. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/209; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 23. **PR** not available. **JE** G19, O16, O42. **KW** Financial Development. Financial Markets. Growth.

AB In recent years there has been substantial theoretical and empirical work on the role that financial markets play in fostering economic growth and development. This paper provides a selective review of the literature, as well as new empirical evidence on the relationship between financial development and economic growth for a large cross-section sample of countries. While the results indicate that the effect of financial development on growth is positive, the size of the effect varies with different indicators of financial development, estimation method, data frequency, and the functional form of the relationship.

Kiley, Michael T.

PD January 2000. **TI** Stock Prices and Fundamentals in a Production Economy. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/05; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 31. **PR** no charge. **JE** D51, E22, E23, G12. **KW** Asset Pricing. Investment. Market Value. Stock Markets. Production.

AB This paper compares the predictions for the market value of firms from the Gordon growth model with those from a dynamic general equilibrium model of production. The predictions for movements in the market value of firms in response to a decline in the required return or an increase in the growth rate of the economy are quantitatively and qualitatively different across the models. While previous research has illustrated how a drop in the required return or an increase in the growth rate of the economy can explain the runup in equity values in the 1990s in the Gordon growth model, the consideration of production overturns these results and illustrates that auxiliary implications of such shifts in fundamentals, such as a sharp increase in the investment intensity of the economy, are not supported by the data in the late 1990s. This tension between theory and data suggests that the skyrocketing market value of firms in the second half of the 1990s may reflect a degree of irrational exuberance.

Kim, Chang-Jin

PD September 2000. **TI** Common Stochastic Trends, Common Cycles, and Asymmetry in Economic Fluctuations. **AU** Kim, Chang-Jin; Piger, Jeremy. **AA** Kim: Korea University. Piger: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 681; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 37. **PR** no charge. **JE** C32, E20, E32, O40. **KW** Asymmetry. Business Cycles. Common Shocks. Markov Switching. Productivity Slowdown.

AB This paper investigates the nature of business cycle asymmetry using a dynamic factor model of output, investment, and consumption. We first identify a common stochastic trend and a common transitory component by embedding the permanent income hypothesis within a simple growth model. We then investigate two types of asymmetry commonly identified in U.S. business cycle dynamics: 1. Infrequent negative permanent shocks, modeled as shifts in the growth rate of the common stochastic trend and 2. Infrequent negative transitory shocks, modeled as "plucking" deviations from the common stochastic trend. Tests of marginal significance suggest both types of asymmetry were present in post-war recessions, although the shifts in trend are less severe than the received literature suggests.

PD May 2001. **TI** Permanent and Transitory Components of Business Cycles: Their Relative Importance and Dynamic

Relationship. **AU** Kim, Chang-Jin; Piger, Jeremy; Startz, Richard. **AA** Kim: Korea University. Piger: Board of Governors of the Federal Reserve System. Startz: University of Washington. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 703; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 40. **PR** no charge. **JE** C32, E20, E32. **KW** Asymmetry. Economic Fluctuations. Markov Switching. Business Cycles. Recessions.

AB This paper investigates the relationship between permanent and transitory components of U.S. recessions in an empirical model allowing for business cycle asymmetry. Using a common stochastic trend representation for real GNP and consumption, we divide real GNP into permanent and transitory components, the dynamics of which are different in booms vs. recessions. We find evidence of substantial asymmetries in postwar recessions, and that both the permanent and transitory component have contributed to these recessions. We also allow for the timing of switches from boom to recession for the permanent component to be correlated with switches from boom to recession in the transitory component. The parameter estimates suggest a specific pattern of recessions: switches in the permanent component lead switches in the transitory component both when entering and leaving recessions.

Kim, Jinill

PD March 2001. **TI** Patience, Persistence, and Welfare Costs of Incomplete Markets in Open Economies. **AU** Kim, Jinill; Kim, Sunghyun Henry; Levin, Andrew. **AA** Kim, J.: University of Virginia. Kim, S.: Brandeis University. Levin: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 696; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 28. **PR** no charge. **JE** D52, D91, E44, F41, G15. **KW** Risk Sharing. Financial Market Structure. Expected Lifetime Utility. Incomplete Markets. Patience.

AB In this paper, we investigate the welfare implications of alternative financial market structures in a two-country endowment economy model. In particular, we obtain an analytic expression for the expected lifetime utility of the representative household when sovereign bonds are the only internationally traded asset, and we compare this welfare level with that obtained under complete asset markets. The welfare cost of incomplete markets is negligible if agents are very patient and shocks are not very persistent, but this cost is dramatically larger if agents are relatively impatient and shocks are highly persistent. For realistic cases in which agents are very patient and shocks are highly persistent (that is, the discount factor and the first-order autocorrelation are both near unity), the welfare cost of incomplete markets is highly sensitive to the specific values of these parameters. Finally, using a non-linear solution algorithm, we confirm that a two-country production economy with endogenous labor supply has qualitatively similar welfare properties.

Kim, Sunghyun Henry

TI Patience, Persistence, and Welfare Costs of Incomplete Markets in Open Economies. **AU** Kim, Jinill; Kim, Sunghyun Henry; Levin, Andrew.

Kind, Hans Jarle

PD July 1999. **TI** Competing for Capital in a "Lumpy" World. **AU** Kind, Hans Jarle; Knarvik, Karen-Helene; Schjelderup, Guttorm. **AA** Norwegian School of Economics. **SR** Centre for Economic Policy Research Discussion Paper: 2188; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 32. **PR** 5 pounds, 8 euros, or $8. **JE** F12, F15, H21. **KW** Industrial Agglomeration. Economic Geography. Tax Competition. Economic Integration.

AB This paper uses a new economic geography model to analyze tax competition between two countries trying to attract internationally mobile capital. Each government may levy a source tax on capital and a lump sum tax on fixed labor. If industry is concentrated in one of the countries, the analysis finds that the host country will gain from setting its source tax on capital above that of the other country. In particular, the host may increase its welfare per capita by setting a positive source tax on capital and capture the positive externality that arise in the agglomeration. If industry is not concentrated, however, both countries will subsidize capital.

Kirchsteiger, Georg

TI Aging Anxiety: Much Ado About Nothing? **AU** Butler, Monika; Kirchsteiger, Georg.

Kitabire, Damoni

TI External Debt Management in Low-Income Countries. **AU** Bangura, Sheku; Kitabire, Damoni; Powell, Robert.

Knarvik, Karen-Helene

TI Competing for Capital in a "Lumpy" World. **AU** Kind, Hans Jarle; Knarvik, Karen-Helene; Schjelderup, Guttorm.

Knight, Brian

PD September 2000. **TI** The Flypaper Effect Unstuck: Evidence on Endogenous Grants from The Federal Highway Aid Program. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/49; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 49. **PR** no charge. **JE** D72, D78, H41, H72, H77. **KW** Flypaper Effect. Federalism. Political Economy. Government Expenditures. State Government.

AB Contrary to simple theoretical predictions, empirical research has found that state government public spending is increased far more, often dollar-for-dollar, by federal grant receipts than by equivalent increases in constituent private income. This anomaly has come to be known as the flypaper effect. First, a legislative bargaining model developed in this paper provides a critique of this empirical finding. The model demonstrates a positive correlation between constituent preferences for public goods and intergovernmental grant receipts, and this correlation has likely biased the existing literature towards finding a flypaper effect. The model also motivates using measures of the political power of state congressional delegations as an instrument for grant receipts. Second, after correcting for the endogeneity of grant receipts, the results demonstrate that constituent private income and grants have similar effects on public spending.

Koenig, Evan F.

PD November 2000. **TI** The Use and Abuse of "Real-Time" Data in Economic Forecasting. **AU** Koenig, Evan F.; Dolmas, Sheila; Piger, Jeremy. **AA** Koenig and Dolmas: Federal Reserve Bank of Dallas. Piger: Board of Governors of the Federal Reserve System and Federal Reserve Bank of Dallas. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 684; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 31. **PR** no charge. **JE** C32, C52, C53, E27. **KW** Vintage Data. Estimation. Forecasting. Real-Time Data.

AB We distinguish between three different ways of using real-time data to estimate forecasting equations and argue that the most frequently used approach should generally be avoided. The point is illustrated with a model that uses monthly observations of industrial production, employment, and retail sales to predict real GDP growth. When the model is estimated using our preferred method, its out-of-sample forecasting performance is clearly superior to that obtained using conventional estimation, and compares favorably with that of the Blue-Chip consensus.

Kollintzas, Tryphon

PD August 1999. **TI** Normative Aspects of Fiscal Policy in an Economic Union: A Review. **AU** Kollintzas, Tryphon; Philippopoulos, Apostolis; Vassilatos, Vanghelis. **AA** Kollintzas: Athens University of Economics and Business, CEPR and IMOP. Philippopoulos: Athens University of Economics and Business and IMOP. Vassilatos: University of Ioannina and IMOP. **SR** Centre for Economic Policy Research Discussion Paper: 2212; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 20. **PR** 5 pounds, 8 euros, or $8. **JE** E61, F42, H71, H72. **KW** Tax Competition. Cooperation. Fiscal Federalism.

AB This paper provides a coherent, logical framework that connects the main issues concerning fiscal policy in an economic and monetary union. The focus is on normative issues within the European Union.

Kontolemis, Zenon G.

PD December 2000. **TI** The U.K. Business Cycle, Monetary Policy, and EMU Entry. **AU** Kontolemis, Zenon G.; Samiei, Hossein. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/210; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 25. **PR** not available. **JE** E32, E37, E52, F02. **KW** Business Cycles. EMU. Monetary Policy.

AB In the context of the U.K. government's EMU entry condition of cyclical convergence, this paper (i) provides further evidence suggesting that historically the U.K.'s business cycle has been more volatile than, and relatively independent of, the cycles in the euro- area countries; and (ii) identifies, using a small VAR model, a relatively significant role for monetary policy in explaining these differences. A simulation exercise suggests that if the U.K. interest rates had been more closely aligned with those in the euro area in the 1990s (as they would be if the United Kingdom were to join EMU), output growth might have been less volatile and more correlated with that in the euro area, but inflationary pressures might have persisted.

Konuki, Tetsuya

PD October 2000. **TI** The Effects of Monetary and Fiscal Policy on Demand in a Small Open Economy: An Application of the Structural Error Correction Model. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/165; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 23. **PR** not available. **JE** C32, E20, E63, F31, F41. **KW** Monetary Policy. Fiscal Policy. Error Correction Models. Open Economy. Exchange Rates.

AB This paper empirically analyzes the short-run effects of monetary and fiscal policy on aggregate demand, using the two-step structural error correction method. This method has an advantage over the standard reduced-form error correction method in providing a meaningful interpretation for impulse responses. The results are in sharp contrast to those of the traditional Mundell-Fleming and Dornbusch models: after the monetary (fiscal) policy is relaxed, the home currency depreciates (appreciates) for a substantial period of time, and the aggregate demand first expands (contracts) then gradually returns toward its original path.

Kopits, George

PD November 2000. **TI** How Can Fiscal Policy Help Avert Currency Crises? **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/185; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 15. **PR** not available. **JE** E62, F31, F32, F41, H62. **KW** Balance of Payments. Fiscal Policy. Currency Crises. Deficits. Emerging Markets.

AB An overview of crisis episodes in emerging-market economies with a pegged exchange rate regime in the 1990s suggests that sizable explicit or implicit government deficits, or market perceptions of lack of fiscal sustainability, render these economies vulnerable to currency crises under high capital mobility. It is argued in the paper that vulnerability to crisis can be mitigated by signaling a phased fiscal adjustment that involves credible implementation of key structural measures. In particular, fiscal policy rules, such as the ones being adopted in a number of emerging-market economies, constitute a potentially useful tool of crisis prevention.

Kostial, Kristina

TI The Disappearing Tax Base: Is Foreign Direct Investment (FDI) Eroding Corporate Income Taxes? **AU** Gropp, Reint; Kostial, Kristina.

Kraay, Aart

PD July 2000. **TI** Country Portfolios. **AU** Kraay, Aart; Loayza, Noman; Serven, Luis; Ventura, Jaume. **AA** Kraay and Serven: The World Bank. Serven: The World Bank and Banco Central de Chile. Ventura: Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/16; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 33. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** F32, F34, G11, G15. **KW** Capital Flows. Sovereign Risk. Country Portfolios. International Finance. Portfolio Choice.

AB How do countries hold their financial wealth? We construct a new database of countries' claims on capital located at home and abroad, and international borrowing and lending, covering 68 countries from 1966 to 1997. We find that a small amount of capital flows from rich countries to poor countries. Countries' foreign asset positions are remarkably persistent, and mostly take the form of foreign loans rather than foreign equity. To interpret these facts, we build a simple model of international capital flows that highlights the interplay between diminishing returns, production risk and sovereign risk. We show that in the presence of reasonable diminishing returns and production risk, the probability that international crises occur twice a century is enough to generate a set of country portfolios that are roughly consistent with the data.

Krakel, Matthias

PD August 1999. **TI** Strategic Mismatches in Sequential Contracting: The Case of Professional Partnerships. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: A/604; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni- bonn.de/bgse/liste.html. **PG** 27. **PR** no charge. **JE** C72, D21, J41, J44. **KW** Economies of Scope. Free Riding. Loser's Curse. Mismatch. Partnership.

AB Mismatches typically arise because of information problems in markets. This paper discusses the possibility of mismatching in partnerships focusing on strategic mismatches that cannot be explained by information problems. It is shown that due to market competition sometimes players can profit from voluntary mismatching.

Krishnakumar, Jaya

TI Panel Data Estimation of the Intergenerational Correlation of Incomes. **AU** Abul Naga, Ramses; Krishnakumar, Jaya.

Krishnamurthy, Arvind

TI Dollarization of Liabilities: Underinsurance and Domestic Financial Underdevelopment. **AU** Caballero, Ricardo J.; Krishnamurthy, Arvind.

TI International and Domestic Collateral Constraints in a Model of Emerging Market Crises. **AU** Caballero, Ricardo J.; Krishnamurthy, Arvind.

TI International Liquidity Illusion: On the Risks of Sterilization. **AU** Caballero, Ricardo J.; Krishnamurthy, Arvind.

Krolzig, Hans-Martin

PD January 2001. **TI** A Markov-Switching Vector Equilibrium Correction Model of the UK Labour Market. **AU** Krolzig, Hans-Martin; Marcellino, Massimiliano; Mizon, Grayham E. **AA** Krolzig: Oxford University. Marcellino: Universita Bocconi and IGIER. Mizon: University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0105; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. Website: www.soton.ac.uk. **PG** 20. **PR** annual subscription 40 pounds ($80); individual copies on application. **JE** C32, E24, E32, E37. **KW** Business Cycles. Employment. Cointegration. Vector Autoregression. Markov Switching.

AB There is a wide literature on the dynamic adjustment of employment and its relationship with the business cycle. Our aim is to propose a statistical model that offers congruent representation of the post-war UK labor market. We use a cointegrated vector autoregressive Markov- switching model where some parameters change according to the phase of the business cycle. Output, employment, labor supply and real earnings are found to have a common cyclical component. The long-run dynamics are characterized by two cointegrating vectors: trend-adjusted labor productivity and the labor share. Despite there having been many changes affecting this sector of the UK economy, the Markov-switching vector- equilibrium-correction model with three regimes representing recession, growth and high growth provides a good characterization of the sample data over the period 1966(3)-1993(1). In an out-of-sample forecast experiment over the period 1991(2)-1993(1), it beats linear and non- linear model alternatives. The results of an impulse-response analysis highlight the dangers of using VARs when the constancy of the estimated coefficients has not been established.

Kumar, Krishna B.

TI What Determines Firm Size? **AU** Zingales, Luigi; Rajan, Raghuram G.; Kumar, Krishna B.

Kwast, Myron L.

TI Using Subordinated Debt to Monitor Bank Holding Companies: Is it Feasible? **AU** Hancock, Diana; Kwast, Myron L.

Kyle, Margaret K.

TI Did U.S. Bank Supervisors Get Tougher During the Credit Crunch? Did They Get Easier During the Banking Boom? Did It Matter to Bank Lending? **AU** Berger, Allen N.; Kyle, Margaret K.; Scalise, Joseph M.

Lambelet, Jean-Christian

PD March 2000. **TI** A Critical Assessment of the Bergier Report on "Switzerland and Refugees in the Nazi Era", and a New Analysis of the Issue. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 00/04; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 74. **PR** no charge. **JE** F22, N34, N44. **KW** History. World War II. Switzerland. Refugees. Bergier Commission.

AB The so-called second Bergier Report offers a wealth of information as well as some useful and valuable analytical insights, but it also suffers from a number of shortcomings and weaknesses, some of which are serious. No use is made of important facts, such as the high admittance chances of the refugees. The abundant numerical data remain mostly unexploited. The analysis is often repetitious and sometimes inconsistent. Many interpretations are farfetched. The general image of Switzerland's refugee policy it paints is difficult to reconcile with several central facts. Its severe judgments therefore seem to rest on fragile foundations. For all these reasons we propose, in a constructive spirit, a very different and, in part, a novel analysis of Switzerland's policy and practice vis-a-vis the refugees, an analysis which seems fully corroborated by the available information and numerical data.

(This paper is written in a language other than English.).

Landier, Augustin

TI The Perverse Effects of Partial Labor Market Reform: Fixed Duration Contracts in France. **AU** Blanchard, Olivier; Landier, Augustin.

Lane, Philip

PD September 1999. **TI** The External Wealth of Nations: Measures of Foreign Assets and Liabilities for Industrial and Developing Countries. **AU** Lane, Philip; Milesi-Ferretti, Gian Maria. **AA** Lane: Columbia University. Milesi-Ferretti: International Monetary Fund. **SR** Centre for Economic Policy Research Discussion Paper: 2231; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 60. **PR** 5 pounds, 8 euros, or $8. **JE** F21, F34. **KW** External Assets. External Debt. Foreign Direct Investment. Portfolio Equity.

AB Current capital flows are closely monitored, but surprisingly little is known about the stocks of external assets and liabilities held by various countries, especially in the developing world. This paper constructs estimates of foreign assets and liabilities and their equity and debt subcomponents for a sample of 66 industrial and developing countries. It characterizes the stylized facts of estimated stocks and asks whether there are trends in net foreign asset positions and shifts in debt-equity ratios over time. Finally, it explores the sensitivity of estimates of stock positions to the treatment of valuation effects that are not captured in balance of payments data.

Lane, Timothy

PD October 2000. **TI** Does IMF Financing Result in Moral Hazard? **AU** Lane, Timothy; Phillips, Steven. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/168; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 38. **PR** not available. **JE** D82, F33, F34, F35. **KW** IMF. Moral Hazard. International Finance. Foreign Aid.

AB The view that the IMF's financial support gives rise to moral hazard has become increasingly prominent in policy discussions, particularly following the 1995 Mexican crisis. This paper seeks to clarify a number of conceptual issues and bring some basic empirical evidence to bear on this hypothesis. While some element of moral hazard is a logical consequence of the IMF's financial support, such moral hazard is difficult to detect in market reactions to various IMF policy announcements and there is no evidence that such moral hazard has recently been on the rise.

Larson, C. Erik

PD November 2000. **TI** Optimal Inventory Policies when the Demand Distribution is not Known. **AU** Larson, C. Erik; Olson, Lars J.; Sharma, Sunil. **AA** Larson: US Treasury. Olson: University of Maryland. Sharma: International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/183; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 23. **PR** not available. **JE** C60, D82, D83, E22, L23. **KW** Inventory. Nonparametric Methods. Bayesian Learning. Dirichlet Process.

AB This paper analyzes the stochastic inventory control problem when the demand distribution is not known. In contrast to previous Bayesian inventory models, this paper adopts a nonparametric Bayesian approach in which the firm's prior information is characterized by a Dirichlet process prior. This provides considerable freedom in the specification of prior information about demand and it permits the accommodation of fixed order costs. As information on the demand distribution accumulates, optimal history-dependent (s,S) rules are shown to converge to an (s,S) rule that is optimal when the underlying demand distribution is known.

Lawrence, Denis

PD April 2001. **TI** Who Benefits from Economic Reform: The Contribution of Productivity, Price Changes and Firm Size to Profitability. **AU** Lawrence, Denis; Diewert, W. Erwin; Fox, Kevin. **AA** Lawrence: Meyrick and Associates. Diewert: University of British Columbia. Fox: University of New South Wales. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/09; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 19. **PR** International. **JE** C43, D24, D33, D63, L96. **KW** Index Numbers. Profit Functions. Productivity Growth. Regulation. Utilities.

AB With the increasing pace of infrastructure reform in most countries there has been considerable debate about who has benefited from reform: is it shareholders, consumers, employees or taxpayers? Concurrent changes in output and input prices, productivity and firm size have made answering this question difficult. This paper uses a new indexing method allowing changes in a firm's gross return to capital to be broken down into separate effects due to productivity change, price changes and growth in the firm's size. This allows us to construct a series of "what-if" scenarios where the separate contribution of productivity, output and input price changes and changes in firm size can clearly be seen. This in turn allows us to calculate the distribution of the benefits of productivity improvements between consumers, labor and shareholders. The methodology will be of interest to consumers, utilities, shareholders and regulators and could form the basis of a new approach to utility regulation.

Lawrence, Robert

PD July 1999. **TI** Trade and Growth: Import-Led or Export-Led? Evidence from Japan and Korea. **AU** Lawrence, Robert; Weinstein, David. **AA** Lawrence: Council of Economic Advisors and NBER. Weinstein: Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 7264; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F13, F41, F43, O47. **KW** International Trade. Commercial Policy. Productivity Growth. Open Economy. Imports.

AB It is commonly argued that Japanese trade protection has enabled the nurturing and development of internationally competitive firms. The results in our paper suggest that when it comes to TFP growth, this view of Japan is seriously erroneous. We find that lower tariffs and higher import volumes would have been particularly beneficial for Japan during the period of 1964 to 1973. Our results also lead us to question whether Japanese exports were a particularly important source of productivity growth. Our findings on Japan suggest that the salutary impact of imports stems more from their contribution to competition than to intermediate inputs. Furthermore our results indicate a reason for why imports are important. Greater imports of competing products spur innovation. Our results suggest that competitive pressures and potentially learning from foreign rivals are important conduits for growth. These channels are even more important as industries converge with the market leader. This suggests that further liberalization by Japan and other East Asian countries may result in future dynamic gains. Our results thus call the views of both the World Bank and the revisionists into question and provide support for those who advocate more liberal trade policies.

Leisen, Dietmar P. J.

PD May 1999. **TI** Stock Evolution under Stochastic Volatility: A Discrete Approach. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: B/407R; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 16. **PR** no charge. **JE** G13. **KW** Binomial Model. Option Pricing. Lattice Approach. Stochastic Volatility.

AB This paper examines the pricing of options by approximating extensions of the Black-Scholes setup in which volatility follows a separate diffusion process. It generalizes the well-known binomial model, constructing a discrete two-dimensional lattice. We discuss convergence issues extensively and calculate prices and implied volatilities for European- and American-style put options.

Lettau, Martin

PD September 1999. **TI** Consumption, Aggregate Wealth and Expected Stock Returns. **AU** Lettau, Martin; Ludvigson, Sydney. **AA** Lettau: Federal Reserve Bank of New York and New York University. Ludvigson: Federal Reserve Bank of New York. **SR** Centre for Economic Policy Research Discussion Paper: 2223; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 64. **PR** 5 pounds, 8 euros, or $8. **JE** E21, G12. **KW** Stock Returns. Consumption. Wealth. Human Capital. Forecasting. Cointegration.

AB This paper studies the role of detrended wealth in predicting stock returns. Using quarterly stock market data we find that trend deviations in wealth (i.e. transitory movements) are strong predictors of both real stock returns and excess returns over a Treasury bill rate. We also find that this variable is a better forecaster of future returns at short and intermediate horizons than is the dividend yield, the earnings yield, the dividend payout ratio and several other popular forecasting variables. Why should wealth, detrended in this way, forecast asset returns? We show that a wide class of optimal models of consumer behavior imply that the log consumption-aggregate (human and nonhuman) wealth ratio forecasts the expected return on aggregate wealth, or the market portfolio. Although this ratio is not observable, we demonstrate that its important predictive components may be expressed in terms of observable variables, namely in terms of consumption, nonhuman wealth and labor income. The framework implies that these variables are cointegrated, and that deviations from this shared trend summarize agents' expectations of future returns on the market portfolio.

Lettau, Michael

TI Has Compensation Become More Flexible? **AU** Cannon, Sandra A.; Fallick, Bruce C.; Lettau, Michael; Saks, Raven.

Levin, Andrew

TI Patience, Persistence, and Welfare Costs of Incomplete Markets in Open Economies. **AU** Kim, Jinill; Kim, Sunghyun Henry; Levin, Andrew.

Levy, Frank

TI Upstairs, Downstairs: Computer-Skill Complementarity and Computer- Labor Substitution on Two Floors of a Large Bank. **AU** Autor, David H.; Levy, Frank; Murnane, Richard J.

Lewin-Solomons, Shira B.

PD September 2000. **TI** Asset Specificity and Hold-up in Franchising and Grower Contracts: A Theoretical Rationale for Government Regulation? **AA** University of Cambridge and Iowa State University. **SR** University of Cambridge, DAE Working Paper: 0013; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 23. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D23, D45, J41, L22, L50. **KW** Franchising. Regulation. Efficiency Wages. Agriculture. Contracts.

AB There has been much controversy over the merits of government regulation to protect growers and franchisees from hold-up at the hands of integrators and franchisors. Typically, economic arguments have discouraged regulation, since direct evidence for hold-up is weak and bargaining should yield second-best efficiency. This paper questions direct tests for hold-up, arguing that hold-up occurs only off the equilibrium path but nevertheless influences equilibrium payoffs as a counterfactual. Moreover, when markets do no clear, bargaining may fail to yield net efficiency. In such circumstances, integrators or franchisors will force excessively high levels of asset specificity onto growers or franchisees, and will insist that these small parties be excessively vulnerable to being dismissed, since such an arrangement shifts the distribution of wealth by alleviating the need for high efficiency wages. Market power aggravates this effect. Nevertheless, misguided regulations may also be detrimental if their direct economic effects are not well understood.

PD July 1998. **TI** The Plural Form in Franchising: A Synergism of Market and Hierarchy. **AA** University of Cambridge and Iowa State University. **SR** University of Cambridge, DAE Working Paper: 0027; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 29. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D23, D82, L22, L14, O31. **KW** Franchising. Firm Organization. Incentives. Plural Form. Innovation.

AB In a plural form, two or more organizational arrangements possess a synergism when used simultaneously. For example, rather than specializing, many chains contain a large proportion of both franchised and company-owned stores. By franchising some stores while they own others, franchise systems can achieve dynamic efficiency that would be impossible in a homogenous system. Chains value their franchisees because franchisees exercise initiative. However, unless a chain includes a sufficiently high proportion of company stores, it lacks proper incentives to evaluate innovations efficiently. Therefore, despite the dynamism of franchises, a chain must maintain a certain proportion of company stores.

PD September 1998. **TI** Autonomy, Contractibility and the Franchise Relationship. **AA** University of Cambridge and Iowa State University. **SR** University of Cambridge, DAE Working Paper: 0016; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 30. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D23, D82, L14, L22, O31. **KW** Franchising. Innovation. Organizations. Contractibility. Incentives.
AB Franchises are peculiar in two ways: first, the authority of franchisees is largely informal rather than formal. The efficiency of franchises is often attributed to their initiative and autonomy. Yet, in franchise contracts, franchisees agree to submit to the sometimes arbitrary will of the chain. Second, a franchisee pays her chain a royalty based on revenues that are not dependent on costs, despite such an arrangement creating distorted incentives for the chain. Why? One possible answer is the noncontrability of costs. Yet costs are contracted on in many economic relationships, so why not in this institution? This paper attempts to answer this question by relating the royalty scheme to the existence of informal authority. Although costs in theory might be contractible, in reality contractibility would require the gathering of information that would create incentives for a chain to interfere with franchisee actions, thus undermining innovative behavior and reducing efficiency.

PD July 1999. **TI** Innovation and Authority in Franchise Systems: An Empirical Exploration of the Plural Form. **AA** University of Cambridge and Iowa State University. **SR** University of Cambridge, DAE Working Paper: 0015; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 25. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** L13, L22, L80, M10, O31. **KW** Franchising. Corporate Governance. Organizations. Innovation. Plural Form.
AB The coexistence of franchised and company-owned stores influences the dynamic of innovation in franchise systems as well as the balance of power between franchisees and their chain. We report on case studies of five franchise systems. We focus on how innovation and authority are interrelated in franchise systems, and we illustrate how a synergism exists between the franchised and company-owned sectors. We relate these findings to a theoretical model which predicts that franchisees will have moderate power when there are many company stores, and either very low or very high power when there are few company stores.

Ley, Eduardo

TI The Plutocratic Bias in the CPI: Evidence from Spain. **AU** Ruiz-Castillo, Javier; Ley, Eduardo; Izquierdo, Mario.

Li, David

PD August 1999. **TI** Anonymous Banking and Financial Repression: How Does China's Reform Limit Government Predation without Reducing Its Revenue? **AU** Li, David; Qian, Yingyi; Wang, Yijiang; Bai, Chong-en. **AA** Li: University of Michigan. Qian: Stanford University. Wang: University of Minnesota. Bai: Boston College. **SR** Centre for Economic Policy Research Discussion Paper: 2221; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 64. **PR** 5 pounds, 8 euros, or $8. **JE** G28, O16, O17, P26. **KW** State Predation. Information Decentralization. Anonymous Banking. Financial Repression. Transitional Government. Government Commitment. Sectoral Dual-Track.
AB China's economic performance of the past two decades presents a puzzle for the economics of transition and development: Enormous private business incentives were unleashed that have fueled rapid economic growth despite the fact that China has had very weak "conventional institutions" (such as the rule of law and separation of powers) to constrain the government from arbitrary intrusion into economic activities. We argue that one mechanism that has limited the government's ability for predation and harassment is commitment through information decentralization, where the key institution is "anonymous banking," that is, a combination of the use of cash for transactions and the use of anonymous savings deposits. Meanwhile, the government has benefited from the improved private incentives by collecting quasi- fiscal revenues from the state banking system through "financial repression," a combination of controls on international capital flows with restrictions on domestic interest rates. We show that the major features of China's economy concerning its fiscal decline, financial deepening, and the sectoral dual-track can be better understood using this analytical framework.

Liang, Hong

TI Will the Emergence of the Euro Affect World Commodity Prices? **AU** Cuddington, John; Liang, Hong.

Lippi, Francesco

PD August 1999. **TI** Strategic Monetary Policy with Non-Atomistic Wage Setters: A Case for Non-Neutrality. **AA** Banca d'Italia. **SR** Centre for Economic Policy Research Discussion Paper: 2218; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, 8 euros, or $8. **JE** E52, J52. **KW** Inflation. Unemployment. Monopolistic Power. Non-Atomism. Non- Neutrality. Unions.
AB The literature on monetary policy games establishes that policy makers' attempts to boost employment above the "natural" rate are futile and result in an inflationary bias when wage setters have rational expectations and the policy maker cannot precommit. This implies that a variation of the policy maker's degree of inflation aversion does not have a systematic effect on the employment level. This paper shows that this last neutrality result hinges crucially on the assumption that wage setters are atomistic. In the presence of non- atomistic agents, who set nominal wages and have monopolistic power, the policy maker's inflation aversion may have a systematic effect on equilibrium employment even if agents have rational expectations and complete information. The model is used to re-assess the welfare implications of monetary policy delegation to a "conservative" central bank.

Littlechild, Stephen C.

PD August 2000. **TI** Why We Need Electricity Retailers:

A Reply to Joskow on Wholesale Spot Price Pass-Through. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0008; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 42. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D78, L94, Q48. **KW** Electricity Supply. Utility Regulation. Retail Competition. Wholesale Pass-Through. Policy Making.

AB Paul Joskow and others propose that, with the opening of retail electricity markets, distribution utilities should be required to enable residential customers to buy at (averaged) wholesale spot market prices. They argue that retail electricity competitors should concentrate on value-added services rather than price competition. However, they have not acknowledged the importance of retail price competition, neglected the role of contract markets, and underestimated the costs and disadvantages of this proposed obligation. Recent experience in San Diego illustrates some of the problems. An alternative policy of maximum caps has been adopted in the UK that is facilitating a transition to a competitive regulated residential retail market.

PD November 2000. **TI** A Review of UK Electricity Regulation 1999-2000. **AA** University of Cambridge. **SR** University of Cambridge. DAE Working Paper: 0026; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 21. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** L51, L52, L94, Q48. **KW** Electricity. Regulation. Price Control. Market Power. Energy.

AB The greatest impact of the Utilities Act may be on social and environmental issues, such as the cost of new renewables targets. The cost of energy regulation, even after allowance for exceptional items, is about double the level of five years ago. Regulation has contributed to unmatched efficiency improvements in the electricity networks, and to generation and supply sectors as competitive as anywhere in the world. Present policy innovations are as fundamental as any since privatization, casting doubts on any future decrease in regulation.

Lloyd-Braga, Teresa

TI Endogenous Business Cycles and Stabilization Policies. **AU** Aloi, Marta; Jorgen Jacobsen, Hans; Lloyd-Braga, Teresa.

Loayza, Noman

TI Country Portfolios. **AU** Kraay, Aart; Loayza, Noman; Serven, Luis; Ventura, Jaume.

Longhofer, Stanley D.

TI Anatomy of a Fair-Lending Exam: The Uses and Limitations of Statistics. **AU** Calem, Paul S.; Longhofer, Stanley D.

Lotz, Christopher

PD August 1999. **TI** Optimal Shortfall Hedging of Credit Risk. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: B/457; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni- bonn.de/bgse/liste.html. **PG** 38. **PR** no charge. **JE** G12, G13, G33. **KW** Value at Risk. Credit Risk. Quantile Hedging. Incomplete Markets.

AB This paper examines the problem of partially hedging a given credit risk exposure. The authors derive hedges which satisfy certain optimality criteria: For a given investment into the hedge they minimize the remaining risk, or vice versa. The authors' hedging strategies try to minimize either the shortfall probability (SP) or the expected shortfall (ES). In incomplete markets this methodology introduces a new way to find a hedging strategy which minimizes the shortfall risk. The authors apply this to a credit risk model. In this stylized model the authors compare hedging strategies for defaultable bonds and credit default swaps which minimize either the SP (Quantile Hedging) or the ES. They consider first a complete market where the martingale measure is unique and derive explicit results. In the incomplete markets setting, they consider two situations: In the first, they assume that the default risk premium is unknown from the beginning, and therefore they have to select the worst-case martingale measure from the set of possible martingale measures. In the second, the market is complete at the beginning, but at a future time point the default risk parameter will change randomly, for example because of a rating change, and this makes the market incomplete.

Lotz, Sebastien

PD May 2000. **TI** Launching of a New Currency in a Simple Random Matching Model. **AU** Lotz, Sebastien; Rocheteau, Guillaume. **AA** Lotz: Universite de Paris II. Rocheteau: University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 00/10; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 46. **PR** no charge. **JE** D61, D62, D83, E41, E42. **KW** Money. Search. Currency Reform. Legal Tender Laws. Network Externalities.

AB This paper studies the launching of a new fiat currency within a search-theoretic framework. We show that legal tender laws may not be sufficient to guarantee the acceptability of the new currency, and that the withdrawal of a large fraction of the competing currency is essential to avoid the failure of such a launching. The possibility of converting the old currency into the new one can ease the transition to the new currency only if it is combined with strict legal tender laws. Finally, a network externality is identified that may generate inefficiencies in the conversion decision.

Ludvigson, Sydney

TI Consumption, Aggregate Wealth and Expected Stock Returns. **AU** Lettau, Martin; Ludvigson, Sydney.

Luelfesmann, Christoph

TI Monitoring and Internal Efficiency: A Comparison of Public and Private Ownership. **AU** Kessler, Anke S.; Luelfesmann, Christoph.

Luski, Israel

TI Innovative Activity and Sunk Cost. **AU** Kaplan, Todd R.; Luski, Israel; Wettstein, David.

Lutkepohl, Helmut

TI Comparison of Bootstrap Confidence Intervals for Impulse Responses of German Monetary Systems. **AU** Benkwitz, Alexander; Lutkepohl, Helmut; Wolters, Jurgen.

Lux, Thomas

PD August 1999. **TI** Multi-Fractal Processes as Models for Financial Returns: A First Assessment. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: B/456; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 18. **PR** no charge. **JE** C20, G12. **KW** Multi-Fractality. Long-Range Dependence. Holder Spectrum. Long Memory. Asset Pricing.
AB Multi-fractal processes have been proposed as a new formalism for modeling the time series of returns in finance. The major attraction of these processes is their capability of generating various degrees of long-memory in different powers of returns -- a feature that has been found to characterize virtually all financial prices. Furthermore, elementary variants of multi-fractal models are very parsimonious formalizations as they are essentially one-parameter families of stochastic processes. The aim of this paper is to provide a first assessment of the goodness-of-fit of this new class of models by applying them to four long time series from different financial markets (one exchange rate, two stock market indices and the price of gold). Our results are very encouraging in that the estimated models provide an astonishingly good fit to the unconditional distribution of the data and even outperform estimates from a GARCH(1,1) specification. However, we also remark that a trade-off exists between goodness-of-fit for the unconditional distribution and the capability of the estimated processes to match the autocorrelation patterns of various moments.

PD September 1999. **TI** On Rational Bubbles and Fat Tails. **AU** Lux, Thomas; Sornette, Didier. **AA** Lux: University of Bonn. Sornette: CNRS and UCLA. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: B/458; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 17. **PR** no charge. **JE** C32, D84, G12. **KW** Rational Bubbles. Difference Equations. Multiplicative Processes. Fat Tails. Asset Pricing.
AB This paper addresses the statistical properties of time series driven by rational bubbles a la Blanchard and Watson (1982). Using insights on the behavior of multiplicative stochastic processes, we demonstrate that the tails of the unconditional distribution emerging from such bubble processes follow power-laws (exhibit hyperbolic decline). More precisely, we find that rational bubbles predict a "fat" power tail for both the bubble component and price differences with an exponent m smaller than one. The distribution of returns is dominated by the same power-law over an extended range of large returns. Although power-law tails are a pervasive feature of empirical data, these numerical predictions are in disagreement with the usual empirical estimates. It, therefore, appears that exogenous rational bubbles are hardly reconcilable with some of the stylized facts of financial data at a very elementary level.

Maasoumi, Esfandiar

TI A Retrospective on J. Denis Sargan and His Contributions to Econometrics. **AU** Ericsson, Neil R.; Maasoumi, Esfandiar; Mizon, Grayham E.

TI A Retrospective on J. Denis Sargan and His Contributions to Econometrics. **AU** Ericsson, Neil R.; Maasoumi, Esfandiar; Mizon, Grayham E.

MacDonald, Ronald

TI A Real Differential View of Equilibrium Real Exchange Rates. **AU** Hoffmann, Mathias; MacDonald, Ronald.

PD August 1999. **TI** Currency Spillovers and Tri-Polarity: A Simultaneous Model of the US Dollar, German Mark and Japanese Yen. **AU** MacDonald, Ronald; Marsh, Ian W. **AA** MacDonald: University of Strathclyde. Marsh: City University Business School. **SR** Centre for Economic Policy Research Discussion Paper: 2210; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 44. **PR** 5 pounds, 8 euros, or $8. **JE** F31, F41. **KW** Exchange Rates. Spillovers. Forecasting. PPP. Exchange Rate Rules. Impulse Response.
AB This paper presents a simultaneous model of exchange rates between the three major countries. In addition to incorporating long-run equilibria and short-run dynamics, the model is designed to capture complex interactions between currencies not normally considered in exchange rate models. These interactions are shown to be important via generalized impulse response analysis, and the model as a whole to be an economically and statistically superior forecasting tool over relatively short horizons.

Madan, Dilip

TI Investigating the Sources of Default Risk: Lessons from Empirically Evaluating Credit Risk Models. **AU** Bakshi, Gurdip; Madan, Dilip; Zhang, Frank.

Maggi, Jenny

TI Definition des priorites sanitaires et rationnement: L'opinion des Suisses, des Administrateurs hospitaliers et des Departements sanitaires des Cantons. **AU** Domenighetti, Gianfranco; Maggi, Jenny.

Mairesse, Jacques

TI Organizational Change in French Manufacturing: What Do We Learn From Firm Representatives and From Their Employees? **AU** Greenan, Nathalie; Mairesse, Jacques.

Maki, Dean M.

PD February 2000. **TI** The Growth of Consumer Credit and the Household Debt Service Burden. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/12; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 27. **PR** no charge. **JE** D12, E21, G20. **KW** Consumer Credit. Household Debt. Consumption. Debt Service Burden.
AB Household debt is at a record high relative to disposable income. Some analysts are concerned that this unprecedented level of debt might pose a risk to the financial health of American households and ultimately lead them to curtail their

spending. In this paper, I summarize some of the relevant facts concerning the growth of consumer credit and the household debt service burden, outline the results of the research that has been conducted in this area, and look at the questions that might be answered with additional research.

TI Disentangling the Wealth Effect: A Cohort Analysis of Household Saving in the 1990s. **AU** Palumbo, Michael G.; Maki, Dean M.

TI Does Stock Market Wealth Matter for Consumption? **AU** Dynan, Karen E.; Maki, Dean M.

Makris, Miltos

PD November 2000. **TI** A Large Poisson Currency Crises Game: Towards a Theory of Both the Onset and the Swiftness of Currency Attacks. **AA** University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 00/15; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 20. **PR** no charge. **JE** D89, F31. **KW** Currency Crises. Large Poison Games.

AB Existing models of self-fulfilling crises fail to explain both the onset and the abruptness of recent currency attacks. In this paper we follow the suggestion by Myerson (1998) that in games with a very large number of players "a more realistic model should admit some uncertainty about the number of players in the game." In particular, we build a Large Poisson Currency Crises Game that turns out to be consistent with sudden attacks and unique equilibrium.

TI An OLG Model of Endogenous Growth and Ageing. **AU** Cipriani, Giam Pietro; Makris, Miltos.

Maloney, John

PD May 2001. **TI** Behind the Cube Rule: Implications of and Evidence Against a Fractal Electoral Geography. **AU** Maloney, John; Pearson, Bernard R.; Pickering, Andrew. **AA** Maloney and Pearson: University of Exeter. Pickering: University of Bristol. **SR** University of Exeter Department of Economics Discussion Paper: 01/03; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 26. **PR** no charge. **JE** D31, D72. **KW** Fractal. Election. Voting. Cubic.

AB In 1909 Parker Smith showed that the ratio of seats won by the two major parties in Britain was close to the cube of the ratio of their votes. Taagepera and Shugart argue, wrongly, that a fractal electoral map implies this. In fact their premises imply that the seats' ratio will be the votes' ratio to the power of root three, not three. However, in the six countries we examine, the figure is between two and three. This implies that the electoral map is nonfractal, political allegiances becoming less "clustered" as you move from a macro to a micro scale. Taking the U.K., we ask if this is due to the geographical pattern of income distribution, and find that this is even further away from fractality than is voting. This fits the well-known 'chameleon effect' whereby poor (rich) people in rich (poor) constituencies vote as if richer (poorer) than they really are.

Mangano, Gabriel

PD June 1999. **TI** Monetary Policy in EMU: A Voting-Power Analysis of Coalition Formation in the European Central Bank. **AA** University of Lausanne and London School of Economics. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9908; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 54. **PR** no charge. **JE** D72, D78, E52, E58, F33. **KW** Central Banks. Monetary Policy. Voting Power. European Monetary Union. International Finance.

AB On January 1st, 1999, the European Central Bank (ECB) started operating a common monetary policy on behalf of the 11 founding members of the European Monetary Union (EMU). There is a legitimate concern about the practicalities and the effectiveness of the decision-making process inside the ECB. This paper addresses this concern by using standard measures of voting power to quantify what is likely to be the relative influence of individual EMU members on common monetary-policy decisions. Postulating the a priori formation of certain voting coalitions, it shows, among others, that the 6-member Executive Board (EB) can claim, in certain circumstances, voting power of up to 66%, but policy impact of only up to 25%, i.e. respectively much more and much less than its number of votes would imply. Also, it is not at all clear that the 6 countries which managed to elect one of their nationals at the EB have an interest in pressing the 6 EB members to vote along national rather than EMU-wide lines, or that EMU member countries with no representative at the EB are necessarily worse off when each EB member focuses on his or her own country's developments, rather than on EMU-wide aggregates.

Marcellino, Massimiliano

TI A Markov-Switching Vector Equilibrium Correction Model of the UK Labour Market. **AU** Krolzig, Hans-Martin; Marcellino, Massimiliano; Mizon, Grayham E.

PD January 2001. **TI** Small System Modelling of Real Wages, Inflation, Unemployment and Output Per Capita in Italy 1970-1994. **AU** Marcellino, Massimiliano; Mizon, Grayham E. **AA** Marcellino: Bocconi University. Mizon: University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 0106; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. **PG** 23. **PR** annual subscription 40 pounds ($80); individual copies on application. **JE** C32, C50, E24, E37. **KW** Regime Shifts. Forecasting. Cointegration. Inflation. Unemployment.

AB The relationships between real wages, output per capita, inflation and unemployment in Italy between 1970 and 1994, are modeled using a cointegrated vector autoregression. There is evidence of a change in the underlying equilibria and in the dynamic evolution of the variables, probably associated with the substantial changes in many sectors of the Italian economy after 1979. Alternative ways to model structural change in the Italian labor market are considered. In adopting a split sample approach the results favor an hysteresis interpretation of unemployment.

TI Fiscal Forecasting: The Track Record of the IMF, OECD, and EC. **AU** Artis, Michael J.; Marcellino, Massimiliano.

Margo, Robert A.

TI Race and Home Ownership, 1900 to 1990. **AU** Collins, William J.; Margo, Robert A.

Marquez, Jaime

PD September 2000. **TI** Modeling the IMF's Statistical Discrepancy in the Global Current Account. **AU** Marquez, Jaime; Workman, Lisa. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 678; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 32. **PR** no charge. **JE** C51, C52, C53, F32, F47. **KW** Forecasting. Uncertainty. Global Discrepancies. IMF. Current Accounts.

AB This paper offers a framework for judging when the discrepancy embodied in current-account forecasts is large. The first step in implementing this framework involves developing an econometric model explaining the components of the aggregate discrepancy, estimating the associated parameters, and generating the aggregate discrepancy's conditional expectation. The second step is to compare this model-based forecast with the discrepancy embodied in countries' current-account forecasts. If the gap in discrepancies is below a critical value, then the discrepancy embodied in the countries' current-account forecasts is not large. Otherwise, the discrepancy is large and calls for a careful re-examination of the associated current-account forecasts.

Marsh, Ian W.

TI Currency Spillovers and Tri-Polarity: A Simultaneous Model of the US Dollar, German Mark and Japanese Yen. **AU** MacDonald, Ronald; Marsh, Ian W.

PD September 1999. **TI** How Do UK-Based Foreign Exchange Dealers Think Their Market Operates? **AU** Marsh, Ian W.; Cheung, Yin-Wong; Chinn, Menzie David. **AA** Marsh: City University Business School, London. Cheung and Chinn: University of California. **SR** Centre for Economic Policy Research Discussion Paper: 2230; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 40. **PR** 5 pounds, 8 euros, or $8. **JE** F31, F33, F36. **KW** Foreign Exchange. Survey Data. Microstructure. Technical Analysis.

AB This paper summarizes the results of a survey of UK based foreign exchange dealers conducted in 1998. It addresses topics in three main areas: The microeconomic operation of the foreign exchange market; the beliefs of dealers regarding the importance, or otherwise, of macroeconomic fundamental factors in affecting exchange rates; microstructure factors in FX. We find that heterogeneity of traders' beliefs is evident from the results but that it is not possible to explain such disagreements in terms of institutional detail, rank or trading technique (e.g. technical analysts versus fundamentalists). As expected, non-fundamental factors are thought to dominate short horizon changes in exchange rates, but fundamentals are deemed important over much shorter horizons that the mainstream empirical literature would suggest. Finally, market "norms" and behavioral phenomena are very strong in the FX market and appear to be key determinants of the bid- ask spread.

Martin Alcazar, Fernando

PD July 2000. **TI** Corporate Strategy, Career Management and Recruitment: Do Spanish Firms Adhere to a Contingency Model. **AU** Martin Alcazar, Fernando; Romero Fernandez, Pedro Miguel; Valle Cabrera, Ramon; Dolan, Shimon. **AA** Martin Alcazar and Romero Fernandez: Universidad de Cadiz. Valle Cabrera: Universidad Pablo de Olavide. Dolan: Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 483; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 14. **PR** papers only available on web page; no hard copies. **JE** D23, J41, L21, M12, M14. **KW** Career Management. Business Strategy. Recruitment. Spanish Culture. Firm Objectives.

AB The study attempts to evaluate empirically the orientation that organizations accord to career management (i.e. focuses on six parameters pertaining to the career process) within a context of broader business strategy (i.e. Miles and Snow typology) as well as HR policies, namely recruitment (internal or external). Analysis is based on data obtained from 136 Spanish industrial companies employing more than 500 people. Results seem to indicate the existence of two distinct models of career management, each of which has different contingencies with certain organizational variables. All in all, however, the findings failed to support the dominance of the contingency approach in the Spanish organizational culture. Furthermore, although two models of careers were identified, there is a certain tendency for the majority of Spanish firms to adhere to the use of one of the career models. The possible contingent character of both models does not seem to be explained through the contextual variables considered in this research, namely: the orientation in the recruitment and the business strategy of the firm.

Mason, Molly

TI The Geography of Capital Flows: What We Can Learn From Benchmark Surveys of Foreign Equity Holdings. **AU** Warnock, Francis E.; Mason, Molly.

Masson, Julien

TI Comparing Investments on New Transport Infrastructure: Roads vs. Railways? **AU** Affuso, Luisa; Masson, Julien; Newbery, David.

Mauro, Paolo

PD November 2000. **TI** Emerging Market Spreads: Then Versus Now. **AU** Mauro, Paolo; Sussman, Nathan; Yafeh, Yishay. **AA** Mauro: International Monetary Fund. Sussman and Yafeh: Hebrew University of Jerusalem. **SR** International Monetary Fund Working Paper: WP/00/190; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 45. **PR** not available. **JE** G15, N25, N26, N27. **KW** Emerging Markets. Bond Returns. International Integration. Financial Integration.

AB This paper analyzes yield spreads on sovereign debt issued by emerging markets using modern data from the 1990s and newly-collected historical data on debt traded in London during 1870-1913, a previous "golden era" for international capital market integration. Applying several empirical approaches, we show that the co-movement of spreads across emerging markets is higher today than it was in the historical sample. We also show that sharp changes in spreads today tend to be mostly related to global events, whereas country-specific events played a bigger role in 1870-1913. Although we find some evidence that economic fundamentals, too, co-move more strongly today than at that earlier time, our interpretation of the results is that today's investors pay less attention to country-specific events than their predecessors did in 1870-1913.

McAfee, R. Preston

TI Measuring Industry Concentration in Intermediate Goods. **AU** Hendricks, Kenneth; McAfee, R. Preston.

McCarthy, Jonathan

TI Microeconomic Inventory Adjustment: Evidence From U.S. Firm-Level Data. **AU** Zakrajsek, Egon; McCarthy, Jonathan.

McClellan, Mark B.

TI Is Hospital Competition Socially Wasteful? **AU** Kessler, Daniel P.; McClellan, Mark B.

McCorriston, Steve

PD July 2000. **TI** Recent Developments on the Links between Foreign Direct Investment and Trade. **AA** University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 00/05; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 48. **PR** no charge. **JE** F12, F13, F14, F23. **KW** Foreign Direct Investment. Trade Flows.

AB This paper outlines recent themes in the literature on foreign direct investment with particular reference to the links between foreign investment and trade. A discussion of the research into the recent surge of foreign direct investment is also presented. The paper emphasizes the need for appropriate data to test recent theoretical developments with special attention paid to the aggregation of the data in order to distinguish between vertical and horizontal foreign direct investment and, at the product level, to distinguish between trade in final and intermediate goods. Moreover, the country coverage of empirical studies needs to be extended, in particular to include FDI from European Union countries.

Meara, Ellen

TI The Concentration of Medical Spending: An Update. **AU** Cutler, David M.; Meara, Ellen.

Mehta, Paras

TI Ferreting Out Tunneling: An Application to Indian Business Groups. **AU** Bertrand, Marianne; Mehta, Paras; Mullainathan, Sendhil.

Meng, Qinglai

PD July 1999. **TI** Can Capital Mobility be Destabilizing? **AU** Meng, Qinglai; Velasco, Andres. **AA** Meng: New York University. Velasco: New York University and NBER. **SR** National Bureau of Economic Research Working Paper: 7263; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 19. **PR** $5.00. **JE** E32, E44, E50, F32, F41. **KW** Capital Mobility. Indeterminacy. Open Economy. Macroeconomics.

AB In a standard two-sector neoclassical model with distortions, capital mobility can render the steady state indeterminate, in the sense that there exist infinitely many convergent paths. In the closed economy with no international capital mobility, the utility function must be linear or close to it for indeterminacy to occur, while in the open economy the shape of the utility function makes no difference. The reason is that in the no mobility case changes in aggregate investment must be matched by changes in aggregate consumption, while in the case of full capital mobility they can simply be financed by borrowing abroad. The paper provides some theoretical underpinnings to the concerns that de-regulating the capital account may be destabilizing.

Meyer, Laurence H.

PD January 2001. **TI** NAIRU Uncertainty and Nonlinear Policy Rules. **AU** Meyer, Laurence H.; Swanson, Eric T.; Wieland, Volker W. **AA** Meyer and Swanson: Board of Governors of the Federal Reserve System. Wieland: Goethe Universitat Frankfurt am Main. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/01; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 14. **PR** no charge. **JE** D83, E24, E52. **KW** Nonlinear Policy Rules. Signal Extraction. Nonlinear Updating. Monetary Policy. Unemployment.

AB The Federal Reserve allowed unemployment to fall substantially in the late 1990s, to a level well below earlier estimates of the NAIRU, without a corresponding tightening of monetary policy. In addition, Meyer (1999) has suggested that episodes of heightened uncertainty about the NAIRU may warrant a nonlinear policy response to changes in the unemployment rate. This paper attempts to offer an explanation for the Fed's behavior and a theoretical justification for such a nonlinear policy rule, and provides some empirical evidence on the relative performance of linear and nonlinear rules when there is heightened uncertainty about the NAIRU.

Michalsen, Dag

TI Firms and their Distressed Banks: Lessons from the Norwegian Banking Crisis (1988-1991). **AU** Ongena, Steven; Smith, David C.; Michalsen, Dag.

Milesi-Ferretti, Gian Maria

PD October 2000. **TI** Good, Bad or Ugly? On the Effects of Fiscal Rules with Creative Accounting. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/172; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 25. **PR** not available. **JE** E62, H61, H62. **KW** Fiscal Rules. Creative Accounting. Budget Transparency.

AB Do fiscal rules likely lead to fiscal adjustment, or do they encourage the use of "creative accounting"? This question is studied with a model in which fiscal rules are imposed on "measured" fiscal variables, which can differ from "true" variables because there is a margin for creative accounting. The probability of detecting creative accounting depends on its size and the transparency of the budget. The model studies the effects on fiscal policy of different rules, separating structural from cyclical effects, and examines how these effects depend on the underlying fiscal distortion and on the degree of transparency of the budget.

TI The External Wealth of Nations: Measures of Foreign Assets and Liabilities for Industrial and Developing Countries. **AU** Lane, Philip; Milesi-Ferretti, Gian Maria.

Milligan, Kevin

PD May 2001. **TI** Tax-Preferred Savings Accounts and Marginal Tax Rates: Evidence on RRSP Participation. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/20; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 28. **PR** International. **JE** D91, H24, H31, H55, J26. **KW** Retirement. Saving. Fiscal Policy. Income Tax. Household Behavior.

AB The percentage of Canadians with earned income who contributed to a Registered Retirement Savings Plan increased from 18.7 per cent in 1982 to 46.0 percent in 1996. This period also saw many changes to the income tax structure. Using household expenditure survey data, I examine the influence of taxes on the decision to contribute to Registered Retirement Savings Plans. I improve on existing work by identifying the tax effect from within jurisdiction variation through time, rather than cross-sectional variation alone. I find that taxes do play a role in the contribution decision, but the effect of taxes is much smaller than suggested by the existing literature. A 10 percentage point increase in the marginal tax rate is estimated to increase the probability of participation by 8 percent. This suggests that increases in marginal tax rates can explain only 5.1 percent of the increase in Registered Retirement Savings Plan participation between 1982 and 1996. A carry forward mechanism for unused contribution room was introduced in 1991. I find evidence that the sensitivity of participation to future marginal tax rates increased after the introduction of the carry forward. This is consistent with the predictions of the model.

PD May 2001. **TI** Subsidizing the Stork: New Evidence on Tax Incentives and Fertility. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/21; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 28. **PR** International. **JE** D11, H24, H31, I38, J13. **KW** Taxation. Fertility. Children. Household Behavior. Fiscal Policy.

AB Variation in tax policy presents an opportunity to estimate the responsiveness of fertility to prices. The available evidence relies on questionable identifying assumptions or focuses on narrow segments of the population. This paper exploits the introduction of a pro-natalist tax policy in the Canadian province of Quebec that paid up to C$8,000 to families having a child. I implement a quasi-experimental strategy by forming treatment and control groups defined by time, jurisdiction, and family type. The estimates suggest a 25 percent increase in fertility for families eligible for the full benefit. A C$1,000 increase in annual benefits is estimated to increase the probability of having a child by 16.9 percent. Finally, I present evidence indicating that the responsiveness of women to the fiscal incentives was increasing in household income, which may reconcile these results with those from the AFDC and fertility literature.

Minford, Patrick

PD August 1999. **TI** Nominal Contracts and Monetary Targets. **AU** Minford, Patrick; Nowell, Eric; Webb, Bruce. **AA** Minford and Webb: Cardiff University. Nowell: University of Liverpool. **SR** Centre for Economic Policy Research Discussion Paper: 2215; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, 8 euros, or $8. **JE** E31, E52. **KW** Monetary Targets. Base Drift. Nominal Rigidity. Indexation of Loans.

AB We look for a theoretical justification of nominal wage contracts in household diversification of risk. We assume it is more costly for households than for firms to use financial markets for this purpose. In a calibrated general equilibrium model we find from stochastic simulation that if both productivity and monetary shocks are temporary then optimal wage contracts are overwhelmingly nominal. When the dominant shock -- usually money -- is persistent, wage indexation or the auction wage share (each a form of "real wage protection") rises sharply. OECD experience in the 1970s fits the model's prediction of high wage protection; for the 1990s the model predicts little reduction in protection. The model suggests that the persistence in monetary shocks- implying that the central bank targets the growth rate rather than the level of the money supply (or the price level), or "base drift" as currently practiced throughout the OECD -- not only raises wage protection but also reduces welfare in a world where productivity shocks are persistent, as both theory and our empirical results suggest they are. This suggests that this central bank practice is due for review.

Mitchell, Olivia S.

TI Taxing Retirement Income: Nonqualified Annuities and Distributions from Qualified Accounts. **AU** Brown, Jeffery R.; Mitchell, Olivia S.; Poterba, James M.; Warshawsky, Mark J.

Mizon, Grayham E.

TI Reformulating Empirical Macro-Econometric Modelling. **AU** Hendry, David F.; Mizon, Grayham E.

TI A Markov-Switching Vector Equilibrium Correction Model of the UK Labour Market. **AU** Krolzig, Hans-Martin; Marcellino, Massimiliano; Mizon, Grayham E.

TI Small System Modelling of Real Wages, Inflation, Unemployment and Output Per Capita in Italy 1970-1994. **AU** Marcellino, Massimiliano; Mizon, Grayham E.

TI Congruence and Encompassing. **AU** Bontemps, Christophe; Mizon, Grayham E.

TI A Retrospective on J. Denis Sargan and His Contributions to Econometrics. **AU** Ericsson, Neil R.; Maasoumi, Esfandiar; Mizon, Grayham E.

TI A Retrospective on J. Denis Sargan and His Contributions to Econometrics. **AU** Ericsson, Neil R.; Maasoumi, Esfandiar; Mizon, Grayham E.

Mollgaard, Peter H.

PD November 2000. **TI** Strategic Inventories in a Two-Period Oligopoly. **AU** Mollgaard, Peter H.; Poddar, Sougata; Sasaki, Dan. **AA** Mollgaard: Copenhagen Business School. Poddar: National University of Singapore. Sasaki: University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 00/17; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 25. **PR** no charge. **JE** D43, E22, L13. **KW** Supply Slope. Strategic Stocks. Intertemporal Strategies.

AB A general model of two-period duopoly is set up to show how inventories can serve a strategic purpose, enabling the firm to commit to raise its latter-period output. The strategic effect of inventories depends on the convexity of the cost function, on the cost of storage, and on the slopes of each firm's individual supply schedules. Our analysis encompasses general up-sloping supply schedules, with horizontal Bertrand supply schedules and vertical Cournot supply schedules as the two polar cases, via one continuous parameter which has a straightforward one-to-one correspondence with what has been broadly known as the conjectural variation parameter. A closed form of the strategic inventories is then established for a parametrized two-period n-firm linear oligopoly, which can be treated as a user-friendly package for empirical estimation as well as for regulatory policy making.

Mongin, Philippe

TI Social Aggregation Without the Expected Utility Hypothesis. AU Blackorby, Charles; Donaldson, David; Mongin, Philippe.

Motta, Massimo

PD August 1999. TI Foreign Direct Investment and Spillovers through Workers' Mobility. AU Motta, Massimo; Fosfuri, Andrea; Ronde, Thomas. AA Motta and Ronde: Universitat Pompeu Fabra. Fosfuri: Universidad Carlos III. SR Centre for Economic Policy Research Discussion Paper: 2194; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. PG 32. PR 5 pounds, 8 euros, or $8. JE F23, J63, O12. KW Multinational Corporations. Externalities. Spillovers. Training. Labor Mobility.

AB We analyze a model where a multinational firm can use a superior technology in a foreign subsidiary only after training a local worker. Technological spillovers from foreign direct investment arise when a local firm later hires this worker. Pecuniary spillovers arise when the foreign affiliate pays the trained worker a higher wage to prevent her from moving to a local competitor. We study conditions under which these spillovers occur. We also show that the multinational firm might find it optimal to export instead of investing abroad to avoid dissipation of its intangible assets or the payment of a higher wage to the trained worker.

Mourmouras, Alex

PD October 2000. TI Smuggling, Currency Substitution and Unofficial Dollarization: A Crime-Theoretic Approach. AU Mourmouras, Alex; Russell, Steven H. AA Mourmouras: International Monetary Fund. Russell: Iowa State University. SR International Monetary Fund Working Paper: WP/00/176; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 43. PR not available. JE E41, E42, E51, F31, F41. KW Dollarization. Currency Substitution. Smuggling. Seigniorage. Foreign Exchange.

AB Large stocks of U.S. dollars and other hard currencies circulate in the transition economies, in Latin America, and in other countries that have experienced macroeconomic mismanagement. Using a monetary model that combines the legal restrictions and crime-theoretic traditions, this paper demonstrates how leaky exchange controls lead to currency substitution and progressive dollarization. The paper also analyzes the impact of dollarization on the ability of governments to earn seigniorage, the dynamics of dollarization in a growing economy, and the central role of expectations -- specifically, confidence in the domestic currency -- in determining the extent of dollarization and, potentially, in reversing it.

Mullainathan, Sendhil

TI Agents With and Without Principals. AU Bertrand, Marianne; Mullainathan, Sendhil.

TI Do CEOs Set Their Own Pay? The Ones Without Principals Do. AU Bertrand, Marianne; Mullainathan, Sendhil.

PD September 2000. TI Behavioral Economics. AU Mullainathan, Sendhil; Thaler, Richard. AA Mullainathan: Massachusetts Institute of Technology and NBER. Thaler: University of Chicago and NBER. SR Massachusetts Institute of Technology, Department of Economics Working Paper: 00/27; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. PG 10. PR $7.00 US, Canada, Mexico; $10.00 other international. JE A12, D81, D91, E21, G10. KW Behavioral Economics. Arbitrage. Finance. Saving. Bounded Rationality.

AB Behavioral Economics is the combination of psychology and economics that investigates what happens in markets when agents display human limitations. We begin with a preliminary question. Does some combination of market forces, learning and evolution render these human qualities irrelevant? No. Because of limits of arbitrage less than perfect agents survive and influence market outcomes. We then discuss three important ways in which humans deviate from the standard economic model: bounded rationality, bounded willpower, and bounded self- interest. We then illustrate how these concepts can be applied in two settings: finance and savings. Financial markets have greater arbitrage opportunities than other markets, so behavioral factors might be thought to be less important here, but we show that even here the limits of arbitrage create anomalies that the psychology of decision making helps explain. Since saving for retirement requires both complex calculations and willpower, behavioral factors are essential elements of any complete descriptive theory.

TI Ferreting Out Tunneling: An Application to Indian Business Groups. AU Bertrand, Marianne; Mehta, Paras; Mullainathan, Sendhil.

TI Do People Mean What They Say? Implications for Subjective Survey Data. AU Bertrand, Marianne; Mullainathan, Sendhil.

PD January 2001. TI Do Firm Boundaries Matter? AU Mullainathan, Sendhil; Scharfstein, David. AA Massachusetts Institute of Technology. SR Massachusetts Institute of Technology, Department of Economics Working Paper: 01/05; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. PG 6. PR $7.00 US, Canada, Mexico; $10.00 other international. JE L20, L65. KW Production Capacity. Investment. Vertical Integration. Firm Behavior. Manufacturing.

AB In his famous article, "The Nature of the Firm," Ronald Coase (1937) raised two fundamental questions: Do firm boundaries affect the allocation of resources? And, what determines where firm boundaries are drawn? Most empirical work has addressed the second question by analyzing the determinants of vertical integration. Thus we know relatively little empirically about how these boundaries affect actual firm behavior. To begin to assess this, we focus on producers of vinyl chloride monomer (VCM), the sole use of which is in the production of the widely used waterproof plastic polyvinyl chloride (PVC). VCM is a homogenous commodity and is traded in relatively liquid markets. Moreover, there is no obvious production link between VCM and PVC other than that one is an input into the other. Nevertheless, two thirds of VCM producers in our sample are integrated downstream into PVC. We ask whether integrated and non-integrated VCM producers invest differently in production capacity.

Mullin, Wallace P.

TI Gradual Incorporation of Information: Pharmaceutical Stocks and the Evolution of Clinton's Healthcare Reform. **AU** Ellison, Sara Fisher; Mullin, Wallace P.

Munshi, Kaivan D.

TI Networks, Migration and Investment: Insiders and Outsiders in Tirupur's Production Cluster. **AU** Banerjee, Abhijit V.; Munshi, Kaivan D.

Murnane, Richard J.

TI Upstairs, Downstairs: Computer-Skill Complementarity and Computer- Labor Substitution on Two Floors of a Large Bank. **AU** Autor, David H.; Levy, Frank; Murnane, Richard J.

Myles, Gareth D.

TI Individually-Rational Union Membership. **AU** Bulkley, George; Myles, Gareth D.

TI On the Membership of Decision-Making Committees. **AU** Bulkley, George; Myles, Gareth D.; Pearson, Bernard R.

PD November 2000. **TI** Product Quality and Environmental Taxation. **AU** Myles, Gareth D.; Uyduranoglu, Ayse. **AA** Myles: IFS and University of Exeter. Uyduranoglu: Pamukkale University. **SR** University of Exeter Department of Economics Discussion Paper: 00/10; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 31. **PR** no charge. **JE** H21, H23, R41, R48. **KW** Cars. Environment. Taxes.
AB In developed countries, car use is one of the most significant contributors to air pollution. It is also a notable fact that larger, heavier cars consume more fuel and hence contribute more to pollution. This observation has lead to policy proposals to structure taxation to encourage the use of smaller, lighter cars. A model of vertical product differentiation is used to explain why different types of car are chosen. The correct policy response to the externality problem is then investigated using this model. It is shown that there are reasons why the standard policy response may be flawed and that it may even be optimal to subsidize large cars at the expense of small. A comparison of policies reveals that the relative merits of differentiated annual taxes and differentiated fuel taxes are dependent on the degree of income inequality.

Nagel, Rosemarie

TI Choice of Partners in Multiple Two-Person Prisoner's Dilemma Games: An Experimental Study. **AU** Hauk, Esther; Nagel, Rosemarie.

Nakamura, Alice O.

PD September 2000. **TI** New Approaches to Public Income Support in Canada. **AU** Nakamura, Alice O.; Wong, Ging; Diewert, W. Erwin. **AA** Nakamura: University of Alberta. Wong: Human Resources Development Canada. Diewert: University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/09; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 33. **PR** International. **JE** H23, I38, J24, J32, J65. **KW** Unemployment Insurance. Welfare Programs. Payroll Taxes. Public Finance. Labor Supply.
AB This paper outlines five interconnected recent Canadian policy initiatives fostered by Human Resources Development Canada in collaboration with other federal and provincial partners: (1) the EI reforms of unemployment insurance; (2) the COEP panel data surveys instituted to enable scientific, information-based monitoring and evaluation of EI and other unemployment insurance reforms; (3) the National Child Benefit (NCB) program of support for children in low- income families with at least one working parent; (4) the Self Sufficiency Project (SSP) that makes it financially more desirable for low income parents to take jobs and achieve wage growth over time; and (5) the array of Internet Recruitment Information (IRI) services that HRDC and Industry Canada have created or encouraged, including the Career Owl service started as a volunteer community service project by staff, students and alumni of the universities of Alberta, British Columbia and Western Ontario. This paper discusses how these initiatives have laid the foundation for a new approach to Canadian social policy that supports the economic health of the nation and is based on careful research and evaluation of observable outcomes.

PD September 2000. **TI** Insurance for the Unemployed: Canadian Reforms and their Relevance for the United States. **AU** Nakamura, Alice O.; Diewert, W. Erwin. **AA** Nakamura: University of Alberta. Diewert: University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/10; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 36. **PR** International. **JE** H22, H23, J32, J65. **KW** Unemployment Insurance. Employment Insurance. Payroll Taxes. Public Finance. Labor Supply.
AB Early in 1994, Lloyd Axworthy, then Minister of Human Resources Development, launched a reform of Canada's Unemployment Insurance (UI) program. UI expenditures had grown rapidly in Canada. This stimulated the adoption of new worker-side experience rating provisions. The United States also has problems of planned repeat UI program use that the US employer-side experience rating does not adequately control. This paper explains the mechanisms of Canadian worker-side experience rating as this has been introduced in Canada, and suggests how this could be adapted for the United States. Also, this paper provides a conceptual model for the UI taxes and benefits that is more suitable for considering the repeat use problem and alternative measures to deal with that than the simple proportional UI tax models that appear in the public finance literature and textbooks. Furthermore, the conceptual

framework we provide makes it possible to more fully characterize the main insurance side reforms that were adopted in Canada in 1996 with the passage of Bill C-12: a Bill that changed the name of the Canadian program from Unemployment Insurance (UI) to Employment Insurance (EI).

Narayanan, V. G.

PD July 1999. **TI** ABC at Insteel Industries. **AU** Narayanan, V. G.; Sarkar, Ratna G. **AA** Harvard Business School. **SR** National Bureau of Economic Research Working Paper: 7270; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 19. **PR** $5.00. **JE** D24, D83, L21, L23, M11. **KW** Activity-Based Costing. Organizational Change. Managers. Information. Production.

AB This paper seeks to provide empirical documentation of the effect of Activity-Based Costing (ABC) information on product and customer-related decisions made by managers in a company. The study conducts a statistical analysis of firm-level data in order to shed light on whether (ABC) provides new information to managers and whether ABM (Activity Based Management) significantly impacts product and customer related decisions. The authors supplement this analysis with interviews with top managers in the company on whether and to what extent the (ABC) analysis influenced managerial decision making. The authors do not find much support for the hypothesis that product prices reflect all costs even when a company does not have (ABC) information. They find that after the (ABC) analysis, Insteel displayed a higher propensity to discontinue or increase prices of products that were found unprofitable in the (ABC) study and to discontinue customers that were found unprofitable in the (ABC). The changes to the portfolio of customers served were similar but not as striking as the product mix and pricing decisions. This finding is consistent with senior managers' intuition that product level can be made faster than customer level decisions.

Nason, James M.

PD October 2000. **TI** Investment and the Current Account in the Short Run and the Long Run. **AU** Nason, James M.; Rogers, John H. **AA** Nason: University of British Columbia. Rogers: Board of Governors of the Federal Reserve System. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/13; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 25. **PR** International. **JE** C32, E22, F21, F32, F41. **KW** Investment. Current Account. Small Open Economy. Identification. Structural Shocks.

AB Theoretical models of the relationship between investment and the current account impose restrictions on the joint dynamic behavior of these variables. These restrictions come in two forms. One imposes causal orderings on investment and the current account. The other restriction concerns the permanent responses of these variables to different shocks. We use these restrictions to identify empirically structural shocks from vector autoregressions of investment and the current account for Canada. Under certain identifications, our results support the implications of the intertemporal, small open economy model. However, these results are sensitive to perturbations of the identifications.

PD October 2000. **TI** Appendix to: Investment and the Current Account in the Short Run and the Long Run. **AU** Nason, James M.; Rogers, John H. **AA** Nason: University of British Columbia. Rogers: Board of Governors of the Federal Reserve System. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/14; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 37. **PR** International. **JE** C32, E22, F21, F32, F41. **KW** Investment. Current Account. Small Open Economy. Identification. Structural Shocks.

AB Theoretical models of the relationship between investment and the current account impose restrictions on the joint dynamic behavior of these variables. These restrictions come in two forms. One imposes causal orderings on investment and the current account. The other restriction concerns the permanent responses of these variables to different shocks. We use these restrictions to identify empirically structural shocks from vector autoregressions of investment and the current account for Canada. Under certain identifications, our results support the implications of the intertemporal, small open economy model. However, these results are sensitive to perturbations of the identifications.

Nehring, Klaus

PD September 1999. **TI** A Theory of Diversity. **AU** Nehring, Klaus; Puppe, Clemens. **AA** Nehring: UC Davis. Puppe: University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: A/605; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/ liste.html. **PG** 51. **PR** no charge. **JE** D11, Q20. **KW** Diversity. Endangered Species. Similarity. Set Function. Conjugate Moebius Inverse.

AB How can diversity be measured? What does it mean to value biodiversity? Can we assist Noah in constructing his preferences? To address these questions following Weitzman (1992,1998), the authors propose a multi-attribute approach under which the diversity of a set of species is the sum of the values of all attributes possessed by some species in the set. They develop the basic intuitions and requirements for a theory of diversity and show that the multi-attribute approach satisfies them in a highly flexible yet tractable manner. Conjugate Moebius inversion serves as the unifying mathematical tool. A basic starting point is to think of the diversity of a set as an aggregate of the dissimilarities between its elements. This intuition is made formally precise, and the exact conditions of its applicability are characterized: the family of relevant attributes must satisfy a condition of acyclicity. The two most important attribute structures satisfying acyclicity, taxonomic hierarchies and lines representing uni- dimensional qualities, are studied in depth, and the entailed restrictions on the dissimilarity metric are characterized. Using a parametrization of the hypercube as the simplest high-dimensional model, the authors discuss the new issues and phenomena that arise.

PD December 1999. **TI** Modelling Economies of Scope. **AU** Nehring, Klaus; Puppe, Clemens. **AA** Nehring: UC Davis. Puppe: University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: A/607; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni- bonn.de/bgse/liste.html. **PG** not

https://doi.org/10.1017/S0951007900005337 Published online by Cambridge University Press

available. **PR** no charge. **JE** D21, D24, L11, L22. **KW** Economies of Scope. Cost Functions. Public Inputs. Similarity. Conjugate Moebius Inverse.

AB Economies of scope arise from synergies in the production of similar goods. The classical notion of joint production explains instances of such synergies by the fact that some factors of production are pure public inputs. We argue that this explanation applies much more generally than is usually assumed in the literature. Specifically, we show that the applicability of the joint public input explanation is essentially characterized by the property that synergies are decreasing as the scope of production increases; we also argue that the latter property of "substitutive" synergies represents the normal case. Secondly, we formalize a notion of comparative similarity of goods both in terms of the structure of inputs and in terms of the cost function itself. This leads to a structured repertoire of models of economies of scope, among which we determine a privileged subclass that combines flexibility with reduction of complexity and interpretability.

Nelson, Charles R.

PD September 2000. **TI** Markov Regime-Switching and Unit Root Tests. **AU** Nelson, Charles R.; Piger, Jeremy; Zivot, Eric. **AA** Nelson and Zivot: University of Washington. Piger: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 683; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 33. **PR** no charge. **JE** C12, C22, C52, E32. **KW** Unit Roots. Stochastic Trends. Deterministic Trends. Markov Switching. Heteroskedasticity.

AB We investigate the power and size performance of unit root tests when the true data generating process undergoes Markov regime- switching. All tests, including those robust to a single break in trend growth rate, have very low power against a process with a Markov- switching trend growth rate as in Lam (1990). However, for the case of business cycle non-linearities, unit root tests are very powerful against models used as alternatives to Lam (1990) that specify regime- switching in the transitory component of output. Under the null hypothesis, the received literature documents size distortions in Dickey-Fuller type tests caused by a single break in trend growth rate or variance. We find these results do not generalize to most parameterizations of Markov-switching in trend or variance. However, Markov-switching in variance can lead to over-rejection in tests robust to a single break in the level of trend.

Neuman, Shoshana

PD August 1999. **TI** On the Age at Marriage: Theory and Evidence from Jews and Moslems in Israel. **AU** Neuman, Shoshana; Danziger, Leif. **AA** Neuman: Bar-Ilan University. Danziger: York University. **SR** Centre for Economic Policy Research Discussion Paper: 2209; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 32. **PR** 5 pounds, 8 euros, or $8. **JE** J11, J12. **KW** Marriage Age. Jews and Moslems.

AB In this paper we extend the Becker-Keeley and Bergstrom-Bagnoli theories of the optimal age at marriage and derive systematic cross- cultural differences in the marriage pattern. We then examine the empirical relevance of the hypotheses for Jewish and Moslem population groups in Israel. The empirical analysis is more detailed than previous studies by, for example, splitting the sample according to the wife's labor market status. The evidence supports the Becker-Keeley prediction about the effects of the spouses' wage rates, the Bergstrom-Bagnoli prediction about the effect of the husband's wage rate in a traditional society, and the various hypotheses we propose.

Neven, Damien J.

PD July 1999. **TI** Politique de la Concurrence en Suisse (1996-1998): Evaluation et Perspectives d'evolution. **AU** Neven, Damien J.; Raess, Pascal. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9911; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 35. **PR** no charge. **JE** K21, L41, L42, L44. **KW** Competition Policy. Case Law. Switzerland. Antitrust.

AB This paper is written in a language other than English.

PD September 1999. **TI** The Allocation of Jurisdiction in International Antitrust. **AU** Neven, Damien J.; Roller, Lars-Hendrik. **AA** Neven: University of Lausanne. Roller: Humboldt University and INSEAD. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9916; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/ cahiers/cah-list.htm. **PG** 16. **PR** no charge. **JE** F23, K21, K33, L40. **KW** International Antitrust. Jurisdiction. Merger Control. International Law. Multinational Firms.

AB In this paper, we consider the organization of international antitrust as an issue of institution design which involves a trade-off between an inadequate internalization of external effects across jurisdictions and the risk of capture in a centralized agency. We focus on the first element of the trade-off and on merger control. We first point out that the current framework of public international law allows for wide discretion in the assertion of jurisdiction. We then consider various allocations of jurisdictions in a stylized model of international merger control which attempts to capture the essential features of the objectives being pursued and of the procedures being implemented in the major jurisdictions. We find that in this framework, much of the scope for conflict disappears. The fact that conflicts actually often arise in global industries must then be associated with the pursuit of objectives that antitrust authorities are not supposed to pursue. We also find that the allocation of jurisdiction matters surprisingly little for the final outcome.

Newbery, David

TI The Environmental Benefits from Road Pricing. **AU** Santos, Georgina; Rojey, Laurent; Newbery, David.

TI Comparing Investments on New Transport Infrastructure: Roads vs. Railways? **AU** Affuso, Luisa; Masson, Julien; Newbery, David.

Nolan, Charles

TI An Examination of UK Business Cycle Fluctuations: 1871-1997. **AU** Chadha, Jagjit S.; Janssen, Norbert; Nolan, Charles.

TI Supply Shocks and the 'Natural Rate of Interest': An Exploration. AU Chadha, Jagjit S.; Nolan, Charles.

Nowell, Eric

TI Nominal Contracts and Monetary Targets. AU Minford, Patrick; Nowell, Eric; Webb, Bruce.

O'Brien, James M.

PD November 2000. TI Estimating the Value and Interest Rate Risk of Interest-Bearing Transactions Deposits. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/53; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. PG 46. PR no charge. JE C52, G13, G21. KW Transactions Deposits. Valuation. Interest Rate Risk. Banking. Contingent Claims.

AB A valuation model is developed within an interest rate contingent claims framework to estimate NOW account and MMDA premiums and interest rate risk for a sample of commercial banks. As has been previously done, bank deposit rate and balances dynamics are represented by autoregressive processes but with attention given here to alternative specifications and to the deposit rent processes and dynamics implied by these specifications. Alternative deposit rate specifications studied include asymmetric adjustment to market rate changes. In examining the implied deposit rent processes, special attention is given to the importance of distant rent forecasts and forecast dynamics for the deposit premium and interest rate risk estimates.

Oechssler, Jorg

PD November 1999. TI Evolutionary Dynamics on Infinite Strategy Spaces. AU Oechssler, Jorg; Riedel, Frank. AA Oechssler: University of Bonn. Riedel: Humboldt University. SR University of Bonn, Sonderforschungsbereich Discussion Paper: A/606; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni- bonn.de/bgse/liste.html. PG 28. PR no charge. JE C72, C73. KW Replicator Dynamics. Evolutionary Stability. Strategy Spaces. Game Theory. Continuous Time.

AB The study of evolutionary dynamics was so far mainly restricted to finite strategy spaces. In this paper we show that this unsatisfying restriction is unnecessary. We specify a simple condition under which the continuous time replicator dynamics are well defined for the case of infinite strategy spaces. Furthermore, we provide new conditions for the stability of rest points and show that even strict equilibria may be unstable. Finally, we apply this general theory to a number of applications like the Nash demand game, the War of Attrition, linear- quadratic games, the harvest preemption game, and games with mixed strategies.

Oh, Seonghwan

TI Endogenous Money Supply and Money Demand. AU Choi, Woon Gyu; Oh, Seonghwan.

Oliner, Stephen D.

PD May 2000. TI The Resurgence of Growth in the Late 1990s: Is Information Technology the Story? AU Oliner, Stephen D.; Sichel, Daniel E. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/20; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. PG 58. PR no charge. JE D24, E22, E23, O33, O47. KW Growth. Productivity. Computers. Information Technology. Investment.

AB The performance of the U.S. economy over the past several years has been remarkable, including a rebound in labor productivity growth after nearly a quarter century of sluggish gains. To assess the role of information technology in the recent rebound, this paper re-examines the growth contribution of computers and related inputs with the same neoclassical framework that we have used in earlier work. Our results indicate that the contribution to productivity growth from the use of information technology -- including computer hardware, software, and communication equipment -- surged in the second half of the 1990s. In addition, technological advance in the production of computers appears to have contributed importantly to the speed-up in productivity growth. All in all, we estimate that the use of information technology and the production of computers accounted for about two-thirds of the 1 percentage point step-up in productivity growth between the first and second halves of the decade. Thus, to answer the question posed in the title of this paper, information technology largely is the story.

Olson, Lars J.

TI Optimal Inventory Policies when the Demand Distribution is not Known. AU Larson, C. Erik; Olson, Lars J.; Sharma, Sunil.

Olters, Jan-Peter

PD October 2000. TI Voting on the "Optimal" Size of Government. AA International Monetary Fund. SR International Monetary Fund Working Paper: WP/00/174; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 21. PR not available. JE D72, E61, H11, H30, P16. KW Party Programs. Median Delegates. Elections. Income Taxes. Fiscal Policy.

AB Viewing fiscal policies as the outcome of democratically resolved conflicts of households over public goods and taxes, the "economic model of politics" proposes a public choice approach, which does not rely on social welfare functions. With it, a country's overall budget can be derived endogenously, electoral fluctuations explained on the basis of changes to the individuals' income and wealth, and political behavior described in terms of the individuals' decisions regarding votes, abstentions, and party membership. The model suggests that a country's wealth distribution is a crucial variable affecting its economic stability and the government's size relative to output.

Ongena, Steven

TI The Impact of Bank Consolidation on Commercial Borrower Welfare. AU Karceski, Jason; Ongena, Steven; Smith, David C.

PD November 2000. TI Firms and their Distressed

Banks: Lessons from the Norwegian Banking Crisis (1988-1991). **AU** Ongena, Steven; Smith, David C.; Michalsen, Dag. **AA** Ongena: Tilburg University. Smith: Board of Governors of the Federal Reserve System. Michalsen: Norwegian School of Management. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 686; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 45. **PR** no charge. **JE** C41, G12, G21, G32. **KW** Bank Distress. Norway. Banking. Corporate Finance. Stock Returns.

AB We use the near-collapse of the Norwegian banking system during the period 1988-91 to measure the impact of bank distress announcements on the stock prices of firms maintaining a relationship with a distressed bank. We find that although banks experienced large and permanent downward revisions in their equity value during the event period, firms maintaining relationships with these banks faced only small and temporary changes, on average, in stock price. In other words, the aggregate impact of bank distress on listed firms in Norway appears small. Our results stand in contrast to studies that document large welfare declines to similar borrowers after crises hit Japan and other East Asian countries. We hypothesize that because banks in Norway are precluded from maintaining significant ownership control over loan customers, Norwegian firms were freer to choose financing from sources other than their distressed banks. We provide cross-sectional evidence to support this hypothesis.

Oppers, Stefan Erik

PD December 2000. **TI** Dual Currency Boards: A Proposal for Currency Stability. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/199; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 21. **PR** not available. **JE** E58, F33. **KW** Exchange Rate Regimes. Fixed Exchange Rates. Currency Board.

AB This paper shows that extending the convertibility guarantee of the traditional currency board to a second reserve currency brings about an automatic, market-driven change of the peg when the initial reserve currency appreciates beyond a specified level. The "dual" currency board thus maintains the advantages of a hard peg, but avoids the economic difficulties associated with the link to an overvalued reserve currency. As an added benefit, the system has the potential to promote global currency stability, with the reserves of the dual currency board country acting as a buffer stock to the exchange cross-rate of the chosen reserve currencies.

Orphanides, Athanasios

PD February 2000. **TI** Activist Stabilization Policy and Inflation: The Taylor Rule in the 1970s. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/13; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 20. **PR** no charge. **JE** E31, E32, E52, E58, E63. **KW** Inflation. Monetary Policy. Taylor Rule. Output Gap. Stabilization Policy.

AB A number of recent studies have suggested that activist stabilization policy rules responding to inflation and the output gap can attain simultaneously a low and stable rate of inflation as well as a high degree of economic stability. The foremost example of such a strategy is the policy rule proposed by Taylor (1993). In this paper, I demonstrate that the policy settings that would have been suggested by this rule during the 1970s, based on real-time data published by the U.S. Commerce Department, do not greatly differ from actual policy during this period. To the extent macroeconomic outcomes during this period are considered unfavorable, this raises questions regarding the usefulness of this strategy for monetary policy. To the extent the Taylor rule is believed to provide a reasonable guide to monetary policy, this finding raises questions regarding earlier critiques of monetary policy during the 1970s.

TI Monetary Policy When the Nominal Short-Term Interest Rate is Zero. **AU** Clouse, James; Henderson, Dale; Orphanides, Athanasios; Small, David; Tinsley, Peter.

TI Monetary Policy When the Nominal Short-Term Interest Rate is Zero. **AU** Clouse, James; Henderson, Dale; Orphanides, Athanasios; Small, David; Tinsley, Peter.

PD December 1999. **TI** Efficient Monetary Policy Design Near Price Stability. **AU** Orphanides, Athanasios; Wieland, Volker W. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 1999/67; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 50. **PR** no charge. **JE** E31, E52, E58, E61. **KW** Price Stability. Zero Bound. Monetary Policy. Liquidity Trap. Inflation.

AB The authors study the design of monetary policy in a low inflation environment taking into account the limitations imposed by the zero bound on nominal interest rates. Using numerical dynamic programming methods, they compute optimal policies in a simple, calibrated open- economy model and evaluate the effect of the liquidity trap generated by the zero bound. They consider the possibility that the quantity of base money may affect output and inflation even when the interest rate is constrained at zero and explicitly account for the substantial degree of uncertainty regarding such quantity effects. As an example of such a quantity effect, the authors focus on the portfolio balance channel through which changes in relative money supplies influence the exchange rate. They find that the optimal policy near price stability is asymmetric, that is, as inflation declines policy turns expansionary sooner and more aggressively than would be optimal in the absence of the zero bound. As a consequence, the average level of inflation is biased upwards. These results indicate that policy-makers are faced with a tradeoff between the level of inflation and economic stabilization performance when the economy is operating near the zero bound.

Orsmond, David W. H.

TI Israeli Inflation from an International Perspective. **AU** Fischer, Stanley; Orsmond, David W. H.

Otoo, Maria Ward

PD July 1999. **TI** Temporary Employment and the Natural Rate of Unemployment. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 1999/66; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551.

Website: www.federalreserve.gov/pubs/feds. **PG** 18. **PR** no charge. **JE** E24, J24, J41, J64, J65. **KW** Natural Rate. Temporary Employment. Matching Function. Unemployment. Labor Markets.

AB This paper examines the determinants of the natural rate of unemployment using a combined cross section and time series data set. The results suggest that industry composition affects the natural rate. In particular, a higher share of temporary employment in a local labor market tends to lower the natural rate of unemployment -- most likely through the matching function. The results suggest that the increase in the share of temporary employment may have reduced the natural rate as much as 1/4 percentage point. The results also indicate that unemployment insurance benefits tend to boost the natural rate, while having a more highly educated work force tends to lower it. However, the degree of union presence in a local labor market had little impact on the natural rate.

Ottaviano, Gianmarco I. P.

PD July 1999. **TI** Integration, Agglomeration and the Political Economics of Factor Mobility. **AU** Ottaviano, Gianmarco I. P.; Thisse, Jacques-Francois. **AA** Ottaviano: Universita di Bologna. Thisse: Universite Catholique de Louvain. **SR** Centre for Economic Policy Research Discussion Paper: 2185; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 36. **PR** 5 pounds, 8 euros, or $8. **JE** F12, F22, R13, R38. **KW** Integration. Agglomeration. Political Economy. Mobility.

AB This paper tackles the issue of the optimality of agglomeration in a two-region economy with skilled/mobile and unskilled/immobile workers. The market leads to the optimal outcome when transport costs are high or low. However, for intermediate values, it yields agglomeration whereas dispersion is socially desirable. We show that competitive lobbying on factor mobility by the two groups of workers sustains the second best optimum.

Owen, Ann L.

TI Finance and Macroeconomic Volatility. **AU** Denizer, Cevdet; Iyigun, Murat F.; Owen, Ann L.

Pagano, Marco

TI Information Sharing, Lending and Defaults: Cross-Country Evidence. **AU** Jappelli, Tullio; Pagano, Marco.

Palumbo, Michael G.

PD January 2001. **TI** A Primer on the Economics and Time Series Econometrics of Wealth Effects. **AU** Palumbo, Michael G.; Davis, Morris A. **AA** Palumbo: Board of Governors of the Federal Reserve System. Davis: ReturnBuy, Inc. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/09; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 67. **PR** no charge. **JE** C32, D91, D92, E21, E23. **KW** Consumption Function. Life Cycle Models. Wealth. Income. Consumer Choice.

AB This paper reviews the statistical approach typically applied by macroeconomists to investigate the empirical link between aggregate data on consumption, income, and wealth. In particular, we focus on studies determining whether and how much changes in net worth, such as those generated by the stock-market boom in the U.S. over the latter 1990s, are responsible for subsequent swings in the growth rate of consumer spending. We show how simple economic theory is used to motivate an econometric strategy that consists of two stages of analysis. First, regressions are used to identify trend movements shared by consumption, income, and wealth over the long run, then deviations of these series from their common long-run trends are used to help forecast consumption growth over the short run. Our discussion highlights the various judgments that researchers must make in the course of implementing this empirical approach, and we detail how specific parameter estimates describing the magnitude of the wealth effect on consumption -- and even broad conclusions about its existence -- are affected by making alternative choices.

PD April 2001. **TI** Disentangling the Wealth Effect: A Cohort Analysis of Household Saving in the 1990s. **AU** Palumbo, Michael G.; Maki, Dean M. **AA** Palumbo: Board of Governors of the Federal Reserve System. Maki: Putnam Investments. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/21; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 38. **PR** no charge. **JE** C51, D91, E21. **KW** Consumption Function. Wealth Effects. Household Behavior. Saving.

AB In the U.S., household net worth rose substantially in the latter half of the 1990s and the personal saving rate dropped sharply. Researchers do not agree about just what behavior links these two events, or how to interpret the negative correlation between wealth and the saving rate over a longer time span. In this paper, we combine household-level data from the triennial Survey of Consumer Finances with quarterly, aggregate data from the Flow of Funds Accounts to estimate net worth and saving for different cohorts of households in the 1990s. We find that the groups of households whose balance sheets were boosted the most by surging equity prices were also the groups that substantially decreased their saving rates. Further, econometric analysis of these data produces propensities to consume out of wealth in the range of typical estimates obtained from aggregate data. Taken together, our results corroborate a direct view of the wealth effect on consumption.

Panigirtzoglou, Nikolaus

TI Liquidity Traps: How to Avoid Them and How to Escape Them. **AU** Buiter, Willem H.; Panigirtzoglou, Nikolaus.

Papapanagiotou, Panagiotis

TI Measuring Integrated Market and Credit Risks in Bank Portfolios: An Application to a Set of Hypothetical Banks Operating in South Africa. **AU** Barnhill, Theodore M., Jr..; Papapanagiotou, Panagiotis; Schumacher, Liliana.

TI Measuring Integrated Market and Credit Risks in Bank Portfolios: An Application to a Set of Hypothetical Banks Operating in South Africa. **AU** Barnhill, Theodore M., Jr..; Papapanagiotou, Panagiotis; Schumacher, Liliana.

Paparoditis, Efstathios

PD March 2001. **TI** Unit Root Testing via the Continuous-Path Block Bootstrap. **AU** Paparoditis, Efstathios; Politis, Dimitris N. **AA** Paparoditis: University of

Cyprus. Politis: University of California, San Diego. **SR** University of California, San Diego Department of Economics Working Paper: 2001/06; Department of Economics, 0508, University of California, San Diego, La Jolla, CA 92093-0508. Website: econ.ucsd.edu/papers. **PG** 21. **PR** $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. **JE** C12, C14, C15, C22. **KW** Block Bootstrap. Cointegration. Resampling. Nonstationary Data. Unit Roots.

AB A new resampling procedure, the continuous-path block bootstrap, is proposed in the context of testing for integrated (unit root) time series. The continuous-path block bootstrap (CBB) is a nonparametric procedure that successfully generates unit root integrated pseudo time series retaining the important characteristics of the data, e.g., the dependence structure of the stationary process driving the random walk. As a consequence, the CBB can accurately capture the distribution of many unit root test statistics. Large sample theory for the new bootstrap methodology is developed and the asymptotic validity of CBB-based unit root testing is shown via a bootstrap functional limit theorem. Applications of the new procedure to least squares and Dickey- Fuller type test statistics of the unit root hypothesis are given. Finite-sample simulations confirm a good alpha-level accuracy and an increased power associated with CBB-based unit root testing.

Parker, Jonathan A.

TI Consumption Over the Life Cycle. **AU** Gourinchas, Pierre-Olivier; Parker, Jonathan A.

Parlour, Christine A.

TI Competition for Listings. **AU** Foucault, Thierry; Parlour, Christine A.

Passmore, Wayne

TI Credit Scoring and Mortgage Securitization: Do They Lower Mortgage Rates? **AU** Heuson, Andrea; Passmore, Wayne; Sparks, Roger.

Pastor, Lubos

PD August 1999. **TI** Comparing Asset Pricing Models: An Investment Perspective. **AU** Pastor, Lubos; Stambaugh, Robert F. **AA** Pastor: University of Chicago. Stambaugh: University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 7284; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge. MA 02138. Website: www.nber.org. **PG** 26. **PR** $5.00. **JE** C11, G11, G12. **KW** Asset Pricing. Portfolio Choice. Uncertainty. Position Size. Bayesian Analysis.

AB We investigate the portfolio choices of mean-variance-optimizing investors who use sample evidence to update prior beliefs centered on either risk-based or characteristic-based pricing models. With dogmatic beliefs in such models and an unconstrained ratio of position size to capital, optimal portfolios can differ across models to economically significant degrees. The differences are substantially reduced by modest uncertainty about the models' pricing abilities. When the ratio of position size to capital is subject to realistic constraints, the differences in portfolios across models become even less important, nonexistent in some cases.

Paterson, Donald G.

PD July 2001. **TI** Wheat, Railways and Cycles: The 1840s Reassessed. **AU** Paterson, Donald G.; Shearer, Ronald A. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/17; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 37. **PR** International. **JE** E32, F41, N11, N51, N71. **KW** Economic History. Agriculture. Open Economy. Railroads. Business Cycles.

AB This study re-examines the macroeconomic behavior of Canada in the decade of the 1840s. It challenges the view that the Canadian market for wheat was independent of the British market by showing a close coherence of British and Montreal prices. Second, it shows the relationship of domestic prosperity to the British capital market and the British railway mania of the late 1840s. The depression of the late 1840s in Canada was no mere re-adjustment after the repeal of the protective Corn Laws but a lengthy depression of substantial magnitude.

PD July 2001. **TI** Price Levels and the North Atlantic Economy of the Mid-19th Century: A New Canadian Wholesale Price Index. **AU** Paterson, Donald G.; Shearer, Ronald A. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/18; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 34. **PR** International. **JE** E31, E32, N11, N21, O40. **KW** Wholesale Price Index. Business Fluctuations. Economic Integration. Inflation. Economic History.

AB This study presents a new wholesale price index for Canada of the period 1840-1871. The index is monthly. With this indicator we describe the fluctuations in the Canadian macroeconomy and compare those with fluctuations in similar indexes from the United States and Britain. Canadian prices move through several distinct phases in this period. These include: the rise in prices in the 1840s and the subsequent decline in the depression of 1848/9; the great Victorian economic boom of mid-century culminating in the depression of 1857; the periods of the US Civil War inflation and the apparent insulation of Canadian prices by the creation of a flexible exchange rate regime due to the US withdrawal from gold; and the non-inflationary period of the boom following Confederation. After adjustment for the US greenback issue, there is a broad coherence of the various indexes of Canada, the US and Britain that suggests highly integrated commodity markets.

PD July 2001. **TI** Another Tale of Another Two Cities: Liverpool and London Markets in the Mid-19th Century. **AU** Paterson, Donald G.; Shearer, Ronald A. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/19; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 27. **PR** International. **JE** E31, F15, N13, N53, N73. **KW** Price Indexes. Commodities. Bulk Trade. Market Integration. Economic History.

AB This is a study of British prices and the degree of commodity market integration between Liverpool, the bulk

https://doi.org/10.1017/S0951007900005337 Published online by Cambridge University Press

commodity port of the mid-19th century, and London. A new wholesale commodity price index is presented for Liverpool and this is compared with the Klovland-Sauerbeck index. Second, specific tests are made with identically described goods in both Liverpool and London using indexes and a vector correction model. Third, wheat and flour prices in the two markets are examined. In all cases it is found that the markets were very highly integrated and that shocks in one caused a swift reaction in the other and that the adjustment was complete in a relatively short period of time -- much shorter than assumed by the standard literature.

Pearson, Bernard R.

TI On the Membership of Decision-Making Committees. **AU** Bulkley, George; Myles, Gareth D.; Pearson, Bernard R.

TI Behind the Cube Rule: Implications of and Evidence Against a Fractal Electoral Geography. **AU** Maloney, John; Pearson, Bernard R.; Pickering, Andrew.

Penalva, Jose

PD April 2000. **TI** Insurance with Frequent Trading: A Dynamic Analysis of Efficient Insurance Markets. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 460; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 24. **PR** papers only available on web page; no hard copies. **JE** D81, G11, G13, G14, G22. **KW** Risk Sharing. Insurance. Complete Markets. Insurable Risks.

AB This paper extends existing insurance results on the type of insurance contracts needed for insurance market efficiency to a dynamic setting. I extend the notion of insurable risks and define them in terms of the actuarial properties of the underlying risk process (independently of preferences and endowments), including catastrophic events as insurable. Then, taking risks that are insurable, I look at agent's optimal trading behavior which turns out to be quite natural: agents purchase private insurance on themselves and use fully diversified redundant assets to supply insurance, making the insurance market self-contained.

PD April 2000. **TI** Optimal Insurance Trading: Full Insurance with Unfair Prices and Asymmetric Information. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 461; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 30. **PR** papers only available on web page; no hard copies. **JE** D81, D82, G11, G22. **KW** Insurance. Asymmetric Information. Hedging. Portfolio Choice. Endowment Risks.

AB In this paper we analyze trading behavior in an economy with substantial individual heterogeneity and individual agent-specific endowment risks. We establish that markets can be made effectively complete with a very small number of assets. In particular, if full insurance contracts are available, agents will only actively trade in two assets: a mutual fund and a bond. We also establish that contrary to standard results in the insurance demand literature, agents' optimal insurance demand can include in equilibrium full insurance in the presence of insurance prices which are actuarially unfair and that this demand will be independent of the correlation of insurance payments and the payments of other assets. Finally, we introduce asymmetric information concerning agents' risks into the economy and we show that adding a restriction on agents' possible insurance trades rather than introduce additional inefficiencies serves to ensure the attainability of efficient net trades.

Perez Quiros, Gabriel

PD June 2000. **TI** The Daily Market for Funds in Europe: Has Something Changed with the EMU? **AU** Perez Quiros, Gabriel; Rodriguez, Hugo. **AA** Perez Quiros: European Central Bank. Rodriguez: Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 474; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 27. **PR** papers only available on web page; no hard copies. **JE** E44, E51, E52. **KW** Overnight Rates. Reserve Demand. Martingale Hypothesis. Monetary Policy. European Monetary Union.

AB This paper presents evidence that the existence of deposit and lending facilities combined with an averaging provision for the reserve requirement are powerful tools to stabilize the overnight rate. We reach this conclusion by comparing the behavior of this rate in Germany before and after the start of Stage III of the EMU. The analysis of the German experience is useful because it allows us to isolate the effects on the overnight rate of these particular instruments of monetary policy. To show that this outcome is a general conclusion and not a particular result of the German market, we develop a theoretical model of reserve management that is able to reproduce our empirical findings.

Peri, Giovanni

TI Human Capital and Externalities in Cities. **AU** Ciccone, Antonio; Peri, Giovanni.

TI Capital, Wages and Growth: Theory and Evidence. **AU** Ciccone, Antonio; Peri, Giovanni; Almond, Douglas.

Perotti, Enrico C.

PD August 1999. **TI** Red Barons or Robber Barons? Governance and Financing in Russian FIG. **AU** Perotti, Enrico C.; Gelfer, Stanislav. **AA** Perotti: Universiteit van Amsterdam. Gelfer: Russian-European Center for Economic Policy. **SR** Centre for Economic Policy Research Discussion Paper: 2204; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 32. **PR** 5 pounds, 8 euros, or \$8. **JE** E58, G21, P52. **KW** Conglomerate Groups. Credit Constraints. Emerging Markets. Corporate Governance. RU.

AB We study the governance role of Russian Financial-Industrial Groups (FIG) and their impact on financing of investment. We compare member firms of a group with a control set of large firms categorized by dispersed ownership or/and management and employee control. We find that investment is sensitive to internal finance for the second set of firms but not for the first; in fact, we find that cash flow is negatively correlated with investment in the FIG group firms. One interpretation is that groups have an internal capital market which redirects finance to firms with better investment opportunities. We test this view against the alternative possibility that financial reallocation hide opportunistic value transfer across firms. The result supports the notion that group firm allocate capital better than independent firms, although it does not rule out the possibility of private appropriation of value. We then distinguish between bank-led groups, which are more hierarchical, and industry-centered groups which may be more defensive arrangements.

Perotti, Roberto

TI An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output. **AU** Blanchard, Olivier; Perotti, Roberto.

Philippopoulos, Apostolis

TI Normative Aspects of Fiscal Policy in an Economic Union: A Review. **AU** Kollintzas, Tryphon; Philippopoulos, Apostolis; Vassilatos, Vanghelis.

TI Normative Aspects of Fiscal Policy in an Economic Union: A Review. **AU** Kollintzas, Tryphon; Philippopoulos, Apostolis; Vassilatos, Vanghelis.

Phillips, Steven

TI Does IMF Financing Result in Moral Hazard? **AU** Lane, Timothy; Phillips, Steven.

Pickering, Andrew

TI Behind the Cube Rule: Implications of and Evidence Against a Fractal Electoral Geography. **AU** Maloney, John; Pearson, Bernard R.; Pickering, Andrew.

Piger, Jeremy

TI Common Stochastic Trends, Common Cycles, and Asymmetry in Economic Fluctuations. **AU** Kim, Chang-Jin; Piger, Jeremy.

TI Markov Regime-Switching and Unit Root Tests. **AU** Nelson, Charles R.; Piger, Jeremy; Zivot, Eric.

TI The Use and Abuse of "Real-Time" Data in Economic Forecasting. **AU** Koenig, Evan F.; Dolmas, Sheila; Piger, Jeremy.

TI Permanent and Transitory Components of Business Cycles: Their Relative Importance and Dynamic Relationship. **AU** Kim, Chang-Jin; Piger, Jeremy; Startz, Richard.

Pines, David

PD September 2000. **TI** Urban Systems: Market and Efficiency. **AU** Pines, David; Thisse, Jacques-Francois. **AA** Pines: Tel Aviv University. Thisse: Universite Catholique de Louvain. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 22/2000; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 15. **PR** no charge. **JE** H11, H70, R12, R14, R52. **KW** Urban Systems. Efficiency. Cities. Land Use. Spatial Economics.

AB Under some "ideal" conditions (the four assumptions of Section 2), the market for cities seems to deliver an efficient outcome. Furthermore, the supply of local public goods would obey principles that are not fundamentally different from those governing the efficient supply of differentiated goods. All these results rest on the assumption of an efficient land market. This suggests that the problem of land property rights should receive more attention than it does nowadays. However, the conditions for a competitive market for cities to work might be hard to achieve. First, the instrument menu available to developers is likely to be constrained. Second, nonreplicability and indivisibility may give rise to additional difficulties. In either case, the market would fail to sustain the optimum for reasons which are not always well understood. Even though there is a priori no presumption regarding the direction in which governments should move in their urban policies, a better understanding of the (positive or negative) urban externalities should allow us to make more sensible recommendations.

Pinkse, Joris

PD March 2000. **TI** Mergers, Brand Competition, and the Price of a Pint. **AU** Pinkse, Joris; Slade, Margaret E. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/05; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 52. **PR** International. **JE** C14, G34, L13, L41, L81. **KW** Beer. Mergers. Brand Competition. Differentiated Products. Semiparametric Estimation.

AB Mergers in the UK brewing industry in the last decade have reduced the number of national brewers from six to four. The number of brands, in contrast, has remained relatively constant. We analyze the effects of the mergers on brand competition and pricing. Brand-level demand equations are estimated from a panel that includes all draft beers that accounted for at least 1/2% of local markets. We model brand-substitution possibilities in a very flexible way. In particular, we estimate the matrix of cross-price elasticities of demand nonparametrically. We use the estimated demand equations to assess the strength of brand competition along various dimensions, and we evaluate the effects of the mergers by computing equilibria of pricing games with different numbers of players.

Pinto, Jose Luis

TI An Experimental Test of Loss Aversion and Scale Compatibility. **AU** Bleichrodt, Han; Pinto, Jose Luis.

TI The Significance of Distributive Effects in Social Assessment of Health Care. **AU** Rodriguez, Eva; Pinto, Jose Luis.

TI The Social Value of Health Programs: Is Age a Relevant Factor? **AU** Rodriguez, Eva; Pinto, Jose Luis.

TI Equity Considerations in Health Care: An Axiomatic Bargaining Approach. **AU** Cuadras-Morato, Xavier; Pinto, Jose Luis; Abellan-Perpinan, Jose-Maria.

Pischke, Jorn-Steffen

TI Changes in the Wage Structure, Family Income, and Children's Education. **AU** Acemoglu, Daron; Pischke, Jorn-Steffen.

Poddar, Sougata

TI Strategic Inventories in a Two-Period Oligopoly. **AU** Mollgaard, Peter H.; Poddar, Sougata; Sasaki, Dan.

PD May 2001. **TI** Strategic Advance Production. **AU** Poddar, Sougata; Sasaki, Dan. **AA** Poddar: National

University of Singapore. Saski: University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 01/04; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 29. **PR** no charge. **JE** D43, E22, L13. **KW** Inventory. Storage Costs. Time Preferences. Pre-Emption. Strategic Substitution.

AB Advance production serves as a means of quantity commitment. Therefore an oligopolist, unlike a monopolist, may have an incentive to invest in advance production in order to pre-empt its opponent(s) even when [i] it is technologically more costly than on-spot production, and [ii] it does not entitle the firm to Stackelberg leadership in the subsequent marketing stage. When firms set quantities, such pre-emption acts as strategic substitutes between oligopolists. Namely, in a pure strategy subgame perfect equilibrium, some but not all firms may engage in advance production, whether the firms are a priori symmetric or not. More generally, a firm's incentive for advance production arises only if there is a quantity- setting opponent, irrespective of the firm's own strategic variable (i.e., price or quantity) and the characteristics of the concerned products (i.e., substitutes or complements).

Politis, Dimitris N.

TI Unit Root Testing via the Continuous-Path Block Bootstrap. **AU** Paparoditis, Efstathios; Politis, Dimitris N.

Pollitt, Michael G.

TI The Restructuring and Privatisation of Electricity Distribution and Supply Businesses in England and Wales: A Social Cost Benefit Analysis. **AU** Domah, Preetum; Pollitt, Michael G.

TI Benchmarking and Regulation of Electricity Transmission and Distribution Utilities: Lessons from International Experience. **AU** Jamasb, Tooraj; Pollitt, Michael G.

Pope, Robin

TI Experimental Evidence for Attractions to Chance. **AU** Albers, Wulf; Pope, Robin; Selten, Reinhard; Vogt, Bodo.

Porojan, Anca

PD June 2000. **TI** Trade Flows and Spatial Effects: The Gravity Model Revisited. **AA** University of Derby. **SR** University of Exeter Department of Economics Discussion Paper: 00/04; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 24. **PR** no charge. **JE** F17, R15. **KW** Spatial Econometrics. Trade Forecasting. Gravity Model.

AB The paper revisits the popular gravity model of trade in the light of the increasingly acknowledged findings of spatial econometrics and interprets the results in view of some recent theoretical developments from the economic literature that contribute to its foundation. When the inherent spatial effects are explicitly taken into account, the magnitude of the estimated parameters changes considerably and, with it, the measures on the predicted trade flows. This result is illustrated on the case of predicted trade flows between the EU and some of its potential members.

Portes, Richard

PD September 1999. **TI** The Determinants of Cross-Border Equity Flows. **AU** Portes, Richard; Rey, Helene. **AA** Portes: London Business School and CEPR. Rey: London School of Economics. **SR** Centre for Economic Policy Research Discussion Paper: 2225; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 40. **PR** 5 pounds, 8 euros, or $8. **JE** F12, F21, F36. **KW** Equity Flows. Cross-Border Investment. Portfolio Investment. Information Asymmetries. Gravity Model.

AB We apply a new approach to a new panel data set on bilateral gross cross-border equity flows between 14 countries, 1989-96. The remarkably good results have strong implications for theories of asset trade. We find that the geography of information heavily determines the pattern of international transactions. Our model integrates elements of the finance literature on portfolio composition and the international macroeconomics and asset trade literature. Gross asset flows depend on market size in both source and destination country as well as trading costs, in which both information and the transaction technology play a role. The resulting augmented "gravity" equation has equity market capitalization representing market size and distance proxying some informational asymmetries, as well as a variable representing openness of each economy. But other variables explicitly represent information transmission an information asymmetry between domestic and foreign investors and the efficiency of transactions This equation accounts for almost 70% of the variance of the transaction flows. The key role of informational asymmetries is confirmed. Our information transmission variables also substantially improve standard gravity equations for trade in goods.

Postlewaite, Andrew

TI Rhetoric and Analogies. **AU** Aragones, Enriqueta; Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David.

TI Rhetoric and Analogies. **AU** Aragones, Enriqueta; Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David.

Poterba, James M.

TI Taxing Retirement Income: Nonqualified Annuities and Distributions from Qualified Accounts. **AU** Brown, Jeffery R.; Mitchell, Olivia S.; Poterba, James M.; Warshawsky, Mark J.

TI Taxing Retirement Income: Nonqualified Annuities and Distributions from Qualified Accounts. **AU** Brown, Jeffery R.; Mitchell, Olivia S.; Poterba, James M.; Warshawsky, Mark J.

Powell, Robert

TI External Debt Management in Low-Income Countries. **AU** Bangura, Sheku; Kitabire, Damoni; Powell, Robert.

Prakash, Tej

TI The Cost of Government and the Misuse of Public Assets. **AU** Tanzi, Vito; Prakash, Tej.

Prati, Alessandro

TI Day-to-Day Monetary Policy and the Volatility of the Federal Funds Interest Rate. **AU** Bartolini, Leonardo; Bertola, Giuseppe; Prati, Alessandro.

Pritsker, Matthew

TI Improving Grid-Based Methods for Estimating Value at Risk of Fixed- Income Portfolios. **AU** Gibson, Michael S.; Pritsker, Matthew.

Puppe, Clemens

TI A Theory of Diversity. **AU** Nehring, Klaus; Puppe, Clemens.

TI Modelling Economies of Scope. **AU** Nehring, Klaus; Puppe, Clemens.

Qian, Yingyi

TI Anonymous Banking and Financial Repression: How Does China's Reform Limit Government Predation without Reducing Its Revenue? **AU** Li, David; Qian, Yingyi; Wang, Yijiang; Bai, Chong-en.

Raess, Pascal

PD March 1999. **TI** Der Vorschlag des Bundesrates zum neuen Mietrecht: Eine okonomische Analyse. **AU** Raess, Pascal; von Ungern-Sternberg, Thomas. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9904; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 20. **PR** no charge. **JE** D78, K12, L51, R31, R38. **KW** Housing. Hold Up. Regulation. Indexation. Leasing.

AB This paper critically analyzes the proposed law for regulating the rental housing market. The Swiss tenants have had mostly negative experiences with the rate of return regulation practiced in the last 20 years. Nevertheless, the new law does not address these problems. If the new proposed law were to be enacted, it would probably lead to a significant rise in real rents in the near future. The shortcomings of the proposal are such that it has to be completely revised. We advocate a laissez-faire solution for the contracting of new leases combined with indexation on the CPI for on-going leases. Such a measure would permit a market evolution satisfying both landlords and tenants. (This paper is written in a language other than English.).

PD March 1999. **TI** La Proposition du Conseil Federal pour le Nouveau Droit du Bail a Loyer: Une Analyse Economique. **AU** Raess, Pascal; von Ungern-Sternberg, Thomas. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9905; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 20. **PR** no charge. **JE** D78, K12, L51, R31, R38. **KW** Housing. Hold Up. Regulation. Indexation. Leasing.

AB This paper critically analyses the proposed law for regulating the rental housing market. The swiss tenants have made mostly negative experiences with the rate of return regulation practiced in the last 20 years. Nevertheless, the new law does not address these problems. If the new proposed law were to be enacted, it would probably lead to a significant rise in real rents in the near future. The shortcomings of the proposal are such that it has to be completely revised. We advocate a laissez-faire solution for the contracting of new leases combined with indexation on the CPI for on-going leases. Such a measure would permit a market evolution satisfying both landlords and tenants. (This paper is written in a language other than English.).

TI Politique de la Concurrence en Suisse (1996-1998): Evaluation et Perspectives d'evolution. **AU** Neven, Damien J.; Raess, Pascal.

Raiser, Martin

PD December 2000. **TI** The Measurement and Determination of Institutional Change: Evidence from Transition Economies. **AU** Raiser, Martin; Di Tommaso, Maria L.; Weeks, Melvyn. **AA** Raiser: European Bank of Reconstruction and Development. Di Tommaso and Weeks: University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0029; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 34. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** C33, C51, O17, P21, P30. **KW** Institutional Change. Economic Transition. MIMIC Model. Latent Variables. Reform.

AB It is widely appreciated that institution building is at the heart of the transition process. Without functioning institutions, markets cannot work effectively and the sustainability of the economic transition process can be undermined. The crisis in Russia provided just one piece of evidence in this regard. While institutions are central to the transition process, institutional reform is not an area that is well understood by researchers and policy makers alike. In this paper we examine the determinants of institutional change using a panel dataset comprising 25 transition economies. One of the defining characteristics of our approach is that we treat institutional change as a multidimensional unobserved variable, accounting for the fact that each of our indicators represents a noisy signal.

Rajan, Raghuram G.

TI What Determines Firm Size? **AU** Zingales, Luigi; Rajan, Raghuram G.; Kumar, Krishna B.

Razin, Assaf

PD September 2000. **TI** The Aging Population and the Size of the Welfare State. **AU** Razin, Assaf; Sadka, Efraim; Swagel, Phillip. **AA** Razin and Sadka: Tel Aviv University. Swagel: CEA, US Government. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 23/2000; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 26. **PR** no charge. **JE** D72, H23, H24, H55, J14. **KW** Aging. Dependency Ratio. Social Insurance. Median Voter. Labor Income Tax.

AB This paper develops an overlapping generations model of Social Security and human capital formation in which -- somewhat against the conventional wisdom -- an increase in the dependency ratio can lead to a reduced tax burden or less generous social transfers. A higher dependency ratio resulting from the aging of the population therefore reduces the extent of redistribution. Data on 12 European countries over the period 1974 to 1992 are consistent with the implications of this model: A higher dependency ratio leads to a lower tax rate on labor income, with the effects statistically significant even after controlling for income inequality as suggested by the standard theory of the tax burden, per capita GDP growth, the international exposure of the economy, and the share of government jobs out of total employment. Similarly, a higher dependency ratio leads to lower per capita transfers, again after controlling for these socio-economic factors.

Redmond, Gerry

PD June 2000. **TI** Employment Polarisation and Inequality in the UK and Hungary. **AU** Redmond, Gerry; Kattuman, Paul. **AA** Redmond: University of New South Wales, Australia. Kattuman: University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0006; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 19. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D31, I32, J21, P24, P52. **KW** Income Inequality. Employment Polarization. Economic Transition. Economic Systems. Gender Gap.

AB This paper uses household budget survey microdata to explore the growth in household income inequality in Hungary for the period 1987 to 1995, and compares it with inequality in the UK in 1995/96. Decomposition of inequality according to both household characteristics and income sources shows that, while inequality did grow rapidly in Hungary over the early Transition period, several factors prevented its growth to even higher levels. One of these factors, the distribution of employment and earnings between households with and without employed members was less of a feature in Hungary than in the UK. A narrowing of the gender pay gap and a continued high level of female participation appears to have ensured that, though earnings inequality in Hungary increased to surpass that in the UK, the distribution of household earnings and the distribution of household incomes remained more equal in Hungary.

Reinhart, Vincent R.

TI Making News: Financial Market Effects of Federal Reserve Disclosure Practices. **AU** Bomfim, Antulio N.; Reinhart, Vincent R.

Reinsdorf, Marshall B.

PD December 2000. **TI** Additive Decompositions for Fisher, Tornqvist and Geometric Mean Indexes. **AU** Reinsdorf, Marshall B.; Diewert, W. Erwin; Ehemann, Christian. **AA** Reinsdorf and Ehemann: U.S. Bureau of Economic Analysis. Diewert: University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/01; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 16. **PR** International. **JE** C43, E31, O47. **KW** Superlative Indexes. Additive Decompositions. Fisher Ideal Index. Tornqvist Index. Index Numbers.

AB Users of a price or quantity index often want to know how much each item included in the index contributes to its overall change. Consequently, statistical agencies generally publish items' contributions to changes in the indexes that they publish. With the Laspeyres or Paasche index formulas that agencies have traditionally used, calculation of contributions to index change that add up to the correct total is straightforward. Recently statistical agencies have begun to use additional types of index formulas besides the Laspeyres and Paasche indexes. With these more complicated index formulas, how to calculate additive contributions to the change in the index is no longer obvious. To choose among the many possible additive decompositions that exist for these indexes, we seek solutions that have important desirable properties. We use economic and axiomatic approaches to derive additive decompositions of changes in Fisher indexes. We next use an axiomatic approach to derive an additive decomposition of the change in the Tornqvist and other geometric mean indexes.

Rendon, Silvio

PD July 2000. **TI** Job Creation under Liquidity Constraints: The Spanish Case. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 488; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 26. **PR** papers only available on web page; no hard copies. **JE** E22, E24, J23, J32, J41. **KW** Job Creation. Employment. Labor Demand. Adjustment Costs. Liquidity Constraints.

AB This paper shows that liquidity constraints restrict job creation even when labor markets are flexible. In a dynamic model of labor demand, I show that in an environment of imperfect capital and imperfect labor markets, firms use temporary contracts to relax financial constraints. Evidence for the predictions of the model is presented using Spanish data from the CBBE (Central de Balances del Banco de Espana -- Balance Sheet data from Bank of Spain). It is shown that firms substitute temporary labor for permanent labor and use less debt as their financial position improves. In particular, it is rejected that Spanish firms operate in an environment of free capital markets and of no labor adjustment costs. The labor reform of 1984, which created temporary contracts, implied to some extent a relaxation of liquidity constraints. Accordingly, firms used these contracts more extensively and used less debt; however, as capital markets continue to be imperfect, permanent job creation continues to be slow. Consequently, relaxation of liquidity constraints should also be part of a job creation strategy.

Renner, Elke

TI An Experimental Bribery Game. **AU** Abbink, Klaus; Irlenbusch, Bernd; Renner, Elke.

Reviglio, Franco

PD October 2000. **TI** Health Care and Its Financing in Italy: Issues and Reform Options. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/166; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 27. **PR** not available. **JE** I11, I18. **KW** Health Care. Italy. Government Expenditures. Local Government. Public Health.

AB In Italy, health care budget ceilings are not effective. The poor control by the central government results in excessive use of expensive inputs, in long waiting lines for medical procedures, and in the emergence of large arrears to suppliers and commercial banks. To fully gain the benefits of its decentralized structure, Italy needs to clarify the rules of the game and strengthen controls on local health authorities. Full fiscal responsibility should be extended to local governments on both the expenditure and revenue sides. The central government should be involved neither in decisions on the services that local governments should supply, nor in their planning and management.

Rey, Helene

TI The Determinants of Cross-Border Equity Flows. **AU** Portes, Richard; Rey, Helene.

PD September 1999. **TI** International Trade and Currency Exchange. **AA** London School of Economics. **SR** Centre for Economic Policy Research Discussion Paper: 2226; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 52. **PR** 5 pounds, 8 euros, or $8. **JE** E42, F33, F41. **KW** International Currency. Liquidity. Exchange Rate.

AB On the international scene, away from national legal rules, the use of different currencies is largely due to the operation of the "Invisible Hand". The paper develops a three-country model of the world economy and links real trade patterns with currency exchange structures in a general equilibrium framework that includes transaction costs on foreign exchange markets. In the presence of strategic complementarities, there are multiple equilibrium structures of currency exchange for a given underlying real trade pattern. The existence conditions of these different equilibria are characterized, using the trade links between countries as the key parameters. Finally, repercussions of the choice of a currency exchange structure on world output are analyzed.

Rhoades, Stephen A.

PD August 2000. **TI** Bank Mergers and Banking Structure in the United States, 1980-98. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Staff Studies Paper: 174; Board of Governors of the Federal Reserve System, Division of Research and Statistics, Mail Stop 130, 20th and Constitution Ave. NW, Washington, DC 20551. Website: www.federalreserve.gov. **PG** 33. **PR** no charge. **JE** E44, L11, L16. **KW** Banks. Bank Mergers. Banking Structure.

AB Since 1980, the U.S., banking industry has experienced a sustained and unprecedented level of merger activity that has substantially affected banking structure. This paper extends through 1998 an earlier staff study that presented data on bank mergers and banking structure over 1980-1994.

Riba, Clara

TI Forest Fires: Evaluation of Government Intervention Measures. **AU** Ballart, Xavier; Riba, Clara.

PD May 2000. **TI** Voto dual y abstencion diferencial. Un estudio sobre el comportamiento electoral en Cataluna. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 465; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 34. **PR** papers only available on web page; no hard copies. **JE** D71, D72. **KW** Electoral Behavior. Regional Elections. Spain. Dual Vote. Differential Abstention.

AB This article presents the results of an empirical study about the reasons for the systematic change in the electoral results in Catalonia according to the type of elections. The hypothesis, positively tested with data from the period 1982-1993, is that the victory of the nationalist center-right party in the autonomous elections in a region where the socialist party always wins in general elections, is due to the combination of the dual vote and differential abstention phenomena. The rational choice methodological approach allows for the construction of groups of electors with different perceptions about the space in which the political race takes place, a fact that induces in them different electoral behavior. In combining these results with those obtained from the analysis with aggregated social and structural data, a profile of the dual voters and the differential non-voters is defined. Finally, an interpretation is given of the Catalan election results in 1995 and 1999 using as a clue the results of this study. (This paper is written in a language other than English.).

Riddell, Chris

PD June 2001. **TI** Changing Patterns of Unionization: The North American Experiences, 1984-1998. **AU** Riddell, Chris; Riddell, W. Craig. **AA** C. Riddell: University of Toronto and University of British Columbia. W. Riddell: University of British Columbia and Canadian Institute for Advanced Research. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/23; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 34. **PR** International. **JE** J23, J24, J51, J58. **KW** Union Density. Trade Unions. Structural Change. Unionization Gap.

AB A common explanation for the decline in unionization maintains that structural change has led to employment shifts away from sectors that are highly unionized and towards sectors with low union density. This paper examines the decline of unionization in Canada and the United States during 1984-1998 -- a period in which union coverage fell by 8 percentage points in the United States and 7 percentage points in Canada. We find that structural factors account for little of the observed change in union density -- about 20 percent of the American decline and none of the Canadian decline. The remainder is due to a substantial fall in the likelihood of a worker with a given set of characteristics being unionized. Factors that might cause such a drop include increased management opposition to unions, changes in legislation that make union organizing more difficult and growth in union substitute services.

Riddell, W. Craig

PD March 2000. **TI** Human Capital Formation in a Period of Rapid Change. **AU** Riddell, W. Craig; Sweetman, Arthur. **AA** Riddell: University of British Columbia. Sweetman: University of Victoria. **SR** University of British Columbia, Department of Economics Discussion Paper: 00/06; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 58. **PR** International. **JE** I21, J23, J24, J31, J64. **KW** Educational Attainment. Skills. Employment. Unemployment. Wages.

AB Large increases in the educational attainment of Canadians have occurred during the past three decades. While Canadians' average years of completed schooling remains slightly below that in the U.S., it is higher than many OECD countries. Further, international tests of adult literacy show that the skills of well-educated Canadians are comparable to their counterparts in other OECD countries. Despite this dramatic rise in the supply of educated workers, and their increasing supply of hours in the paid labor market, the unemployment rate of those with more education has fallen relative to the less educated. Further, the wage premium associated with higher education has remained relatively stable. This suggests a substantial increase in the demand for more highly educated workers. Women's educational attainment grew more rapidly than that of men and this, together with their higher rate of return to education, contributed to narrowing the gender wage gap. One notable feature of the Canadian education system is the size of its post-secondary non-university system, which is more than triple the OECD average. Its impact on the earnings and employability of graduates is intermediate between university and high school in accord with its duration.

TI Literacy, Numeracy and Labour Market Outcomes in Canada. **AU** Green, David A.; Riddell, W. Craig.

TI The Role of Credentials in the Canadian Labour Market. **AU** Ferrer, Ana; Riddell, W. Craig.

TI Changing Patterns of Unionization: The North American Experiences, 1984-1998. **AU** Riddell, Chris; Riddell, W. Craig.

Riedel, Frank

TI Evolutionary Dynamics on Infinite Strategy Spaces. **AU** Oechssler, Jorg; Riedel, Frank.

Rigobon, Roberto

PD April 2001. **TI** Measuring the Reaction of Monetary Policy to the Stock Market. **AU** Rigobon, Roberto; Sack, Brian. **AA** Sack: Board of Governors of the Federal Reserve System. Rigobon: MIT and NBER. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/14; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 30. **PR** no charge. **JE** E21, E44, E47, E52, G10. **KW** Monetary Policy. Stock Markets. Identification. Heteroskedasticity. Aggregate Demand.

AB Movements in the stock market can have a significant impact on the macroeconomy and are therefore likely to be an important factor in the determination of monetary policy. However, little is known about the magnitude of the Federal Reserve's reaction to the stock market. One reason is that it is difficult to estimate the policy reaction because of the simultaneous response of equity prices to interest rate changes. This paper uses an identification technique based on the heteroskedasticity of stock market returns to identify the reaction of monetary policy to the stock market. The results indicate that monetary policy reacts significantly to stock market movements, with a 5% rise (fall) in the S&P 500 index increasing the likelihood of a 25 basis point tightening (easing) by about a half. This reaction is roughly of the magnitude that would be expected from estimates of the impact of stock market movements on aggregate demand. Thus, it appears that the Federal Reserve systematically responds to stock price movements only to the extent warranted by their impact on the macroeconomy.

TI No Contagion, Only Interdependence: Measuring Stock Market Co- Movements. **AU** Forbes, Kristin; Rigobon, Roberto.

Roberts, Barbara M.

TI Strategy Choices of Firms and Market Concentration. **AU** Kattuman, Paul; Roberts, Barbara M.

Roberts, D. John

TI Organizational Design: Decision Rights and Incentive Contracts. **AU** Athey, Susan; Roberts, D. John.

Roberts, John M.

PD November 2000. **TI** Estimates of the Productivity Trend Using Time-Varying Parameter Techniques. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/08; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 42. **PR** no charge. **JE** C32, E32, O47. **KW** Productivity Growth. New Economy. Time Varying. Parameter Techniques. Capital Accumulation.

AB In the second half of the 1990s, U.S. productivity growth moved up to rates not seen in several decades. In this paper, I use time-varying parameter techniques to isolate trend from cyclical movements in productivity and to obtain an estimate of the trend rate of productivity growth. I examine models both with and without an explicit role for capital accumulation. I find that in the models without an explicit role for capital accumulation, trend productivity growth is estimated to have moved up from around 1-1/2 percent in the period from the early 1970s to the mid 1990s, to about 2-1/2 percent by the final observation used in this paper, the second quarter of 2000. I find that if I allow for an explicit role for capital accumulation, the recent pace of trend productivity growth is even higher, at around 3 percent.

PD February 2001. **TI** How Well Does the New Keynesian Sticky Price Model Fit the Data? **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/13; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 43. **PR** no charge. **JE** C50, E12, E31, E52. **KW** Inflation. Phillips Curve. New Keynesian. Monetary Policy. Sticky Prices.

AB The New Keynesian sticky-price model has become increasingly popular for monetary-policy analysis. However, there have been conflicting results on the empirical performance of the model. In this paper, I attempt to reconcile these conflicting claims by examining various specifications of the model within the context of a single framework. I find that the New Keynesian model does not fit the U.S. data well; in particular, the model requires additional lags of inflation not implied by the model under rational expectations. These additional lags have the interpretation that some fraction of the population uses a simple univariate rule for forecasting inflation.

Robinson, James A.

TI The Colonial Origins of Comparative Development: An Empirical Investigation. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A.

Rocheteau, Guillaume

PD January 2000. **TI** Working Time Regulation in a Search Economy with Worker Moral Hazard. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 00/06; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 36. **PR** no charge. **JE** D82, E24, J22, J41, J64. **KW** Working Time. Unemployment. Matching. Shirking. Labor Supply.

AB This paper analyzes the consequences of a working time reduction within a matching model with worker moral hazard. In the "laissez faire", workers and employers bargain over wages and working hours. When the no-shirking condition (NSC) is binding, the number of working hours is lower than the level that would be negotiated in the case of perfect monitoring and a work-sharing policy increases aggregate employment. At the opposite, for low unemployment countries, the NSC does not bind and a working time regulation always worsens the labor.

PD March 2000. **TI** Equilibrium Unemployment and Wage Formation with Matching Frictions and Worker Moral Hazard. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 00/07; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 23. **PR** no charge. **JE** D82, E24, J31, J41, J64. **KW** Unemployment. Matching Models. Moral Hazard. Wages. Efficiency Wages.

AB This paper synthesizes the shirking and the matching approaches of equilibrium unemployment in order to endogenize the wage formation process as a function of labor market conditions. The steady state equilibrium can take two forms depending on whether the no-shirking condition is binding or not. It is demonstrated that the efficiency wage approach is relevant when the unemployment rate is above a certain threshold. Furthermore, an efficiency wage is more likely when the disutility of effort is high, recruiting costs and workers' bargaining power are low, inspections are unlikely and the workers' productivity is weak.

TI Launching of a New Currency in a Simple Random Matching Model. **AU** Lotz, Sebastien; Rocheteau, Guillaume.

Rodriguez, Eva

PD June 2000. **TI** The Significance of Distributive Effects in Social Assessment of Health Care. **AU** Rodriguez, Eva; Pinto, Jose Luis. **AA** Rodriguez: University of Vigo. Pinto: Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 472; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html.
PG 29. **PR** papers only available on web page; no hard copies. **JE** D61, D63, I11, I18. **KW** QALY. Distributive Effects. Social Welfare Functions. Inequality Aversion. Health Care.

AB In this paper we address the importance of distributive effects in the social valuation of QALY's. We propose a social welfare function that generalizes the functions traditionally used in the health economic literature. The novelty is that, depending on the individual health gains, our function can represent either preferences for concentrating or preferences for spreading total gain or both together, an issue which has not been addressed until now. Based on an experiment, we observe that this generalization provides a suitable approximation to the sampled social preferences.

PD June 2000. **TI** The Social Value of Health Programs: Is Age a Relevant Factor? **AU** Rodriguez, Eva; Pinto, Jose Luis. **AA** Rodriguez: University of Vigo. Pinto: Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 473; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html.
PG 27. **PR** papers only available on web page; no hard copies. **JE** D61, D63, I11, I18. **KW** QALY. Age Weights. Social Welfare Function. Cost Effectiveness. Health Care.

AB In cost-effectiveness analysis (CEA) it is usually assumed that a QALY is of equal value to everybody, irrespective of the patient's age. However, it is possible that society assigns different social values to a QALY according to who gets it. In this paper we discuss the possibility of weighting health benefits for age in CEA. We also examine the possibility that age-related preferences depend on the size of the health gain. An experiment was performed to test these hypotheses. The results suggest that the patient's age is a relevant factor when assessing health gains.

Rodriguez, Hugo

TI The Daily Market for Funds in Europe: Has Something Changed with the EMU? **AU** Perez Quiros, Gabriel; Rodriguez, Hugo.

Rogers, John H.

TI Investment and the Current Account in the Short Run and the Long Run. **AU** Nason, James M.; Rogers, John H.

TI Appendix to: Investment and the Current Account in the Short Run and the Long Run. **AU** Nason, James M.; Rogers, John H.

TI News and Noise in G-7 GDP Announcements. **AU** Faust, Jon; Rogers, John H.; Wright, Jonathan H.

PD March 2001. **TI** Border Effects Within the NAFTA Countries. **AU** Rogers, John H.; Smith, Hayden P. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 698; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 36. **PR** no charge. **JE** E31, F31, F36, F41, F42. **KW** Relative Prices. Exchange Rates. Purchasing Power Parity. NAFTA. Border Effect.

AB Using consumer price indexes from cities in the U.S., Canada and Mexico, the authors estimate the "border effect" on U.S.-Mexican relative prices and find that it is nearly an order of magnitude larger than for U.S.-Canadian prices. However, during a very stable sub-period in Mexico, the "width" of the U.S.-Mexican border falls dramatically and becomes approximately equal to the U.S.-Canadian border. The authors then show that, when consideration is limited to cities lying geographically very close to the U.S.-Mexican border, the border width falls compared to that estimated with the full sample of U.S. and Mexican cities, but falls only very slightly. The authors also present evidence that the border effect in U.S.-Mexican prices is not primarily due to the border effect in U.S.-Mexican wages. Finally, using the prices of 276 highly disaggregated goods and services, the authors estimate the variability of relative prices of different items within Mexican cities. This measure of relative price variability declines during the stable peso sub-period, but by less than the decline in nominal and real (i.e., CPI-based) exchange rate variability. The results are strong evidence of a "nominal border effect" in relative prices within NAFTA.

PD March 2001. **TI** Price Level Convergence, Relative Prices, and Inflation in Europe. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 699; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 36. **PR** no charge. **JE** E31, F33, F36, F41. **KW** Price Level. Economic Integration. Exchange Rates. Purchasing Power Parity. Inflation.

AB If price levels are initially different across the euro area, convergence to a common level of prices would imply that inflation will be higher in countries where prices are initially low. Price level convergence thus provides a potential explanation for recent cross- country differences in European inflation. The author presents direct evidence on price level convergence in Europe, using a unique data set, and then investigates how much of the recent divergence of national inflation rates can be explained by price level convergence. He shows that between 1990 and 1999 prices did become less dispersed in the euro area. Convergence is especially evident for traded goods, and more in the first half of the 1990s than the second half. By some measures, traded goods price dispersion across the euro area is now close to that across U.S. cities. Despite an on-going process of convergence, deviations from the law of one price are large. Finally, the author finds a statistically-significant and robust negative relationship between the 1999 price level and 2000 inflation rate in Europe, and that the contribution of price level convergence to explaining inflation differentials is often quite important economically.

Rogoff, Kenneth

PD July 1999. **TI** International Institutions for Reducing Global Financial Instability. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 7265; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 32. **PR** $5.00. **JE** F02, F33, F34, F42, G21. **KW** International Finance. International Lending. Banking. Debt. Capital Flows.

AB This paper asks how recent developments in research on banking and sovereign lending can help inform the debate on choosing a new international financial architecture. A broad range of plans is considered, including a global lender of last resort facility, an international bankruptcy court, an international debt insurance corporation, and unilateral controls on capital flows.

Rojey, Laurent

TI *The Environmental Benefits from Road Pricing.* **AU** Santos, Georgina; Rojey, Laurent; Newbery, David.

Roland, Gerard

TI An Incomplete Contracts Approach to Corporate Bankruptcy. **AU** Berglof, Erik; Roland, Gerard; von Thadden, Ernst-Ludwig.

Roller, Lars-Hendrik

TI The Allocation of Jurisdiction in International Antitrust. **AU** Neven, Damien J.; Roller, Lars-Hendrik.

Romero Fernandez, Pedro Miguel

TI Corporate Strategy, Career Management and Recruitment: Do Spanish Firms Adhere to a Contingency Model. **AU** Martin Alcazar, Fernando; Romero Fernandez, Pedro Miguel; Valle Cabrera, Ramon; Dolan, Shimon.

TI Corporate Strategy, Career Management and Recruitment: Do Spanish Firms Adhere to a Contingency Model. **AU** Martin Alcazar, Fernando; Romero Fernandez, Pedro Miguel; Valle Cabrera, Ramon; Dolan, Shimon.

Romsas, Trond

PD November 2000. **TI** Preferred Bidders' Curse in a Simultaneous Ascending Auction -- With a Case Study on an Australian Broadband Spectrum Auction. **AU** Romsas, Trond; Sasaki, Dan. **AA** Romsas: Statkraft SF. Sasaki: University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 00/16; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 31. **PR** no charge. **JE** D44, L96. **KW** Privatization. Ascending Auction. Exposure. Bid Increment.

AB In this paper we try shedding light on the two popular questions on spectrum licensing auctions: [1] whether any geographical synergies between licenses can be detected, and if so, what would be possible alternatives and pros and cons thereof, and [2] whether the provision of entrants-only licenses truly serve to protect new (hence less established) entrants and encourage their participation. Our empirical analysis on [1] is mixed and inconclusive, leaving some concerns on the broadly adopted auction mechanism that ignores any potential synergistic interlink between geographically adjacent licenses. The Australian data also serves to cast a fresh doubt against [2], which we follow up by a simple theoretical discussion.

Ronde, Thomas

TI Foreign Direct Investment and Spillovers through Workers' Mobility. **AU** Motta, Massimo; Fosfuri, Andrea; Ronde, Thomas.

Rose, Nancy L.

PD September 2000. **TI** Regulating Executive Pay: Using the Tax Code to Influence CEO Compensation. **AU** Rose, Nancy L.; Wolfram, Catherine. **AA** Rose: Massachusetts Institute of Technology. Wolfram: University of California, Berkeley. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/24; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 23. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** G30, H24, J33, L51. **KW** Executive Compensation. CEO Pay. Tax Policy. Regulation. Section 162.

AB This study explores corporate responses to 1993 legislation, implemented as section 162(m) of the Internal Revenue Code, that capped the corporate tax deductibility of top management compensation at $1 million per executive unless it qualified as substantially "performance-based". The authors detail the provisions of this regulation, describe its possible effects, and test its impact on U.S. CEO compensation during the 1990s. Data on nearly 1400 publicly-traded U.S. corporations are used to explore the determinants of section 162(m) compensation plan qualification and the effect of section 162(m) on CEO pay. The analysis suggests that section 162(m) may have created a "focal point" for salary compensation, leading to some salary compression close to the deductibility cap. There is weak evidence that compensation plan qualification is associated with higher growth rates, as would be the case if qualification relaxed some political constraints on executive pay. There is little evidence that the deductibility cap has had significant effects on overall executive compensation levels or growth rates at firms likely to be affected by the deductibility cap, however, nor is there evidence that it has increased the performance sensitivity of CEO pay at these firms.

Rother, Philipp C.

PD December 2000. **TI** Inflation in Albania. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/207; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 27. **PR** not available. **JE** E31, N14, P24, P27. **KW** Inflation. Transition Economies.

AB As Albania has succeeded in reducing inflation to very low levels, understanding the driving forces behind the behavior of the price level becomes increasingly important for policy design. In particular, persistent changes in relative prices may contribute to movements of the aggregate price level, and policymakers need to decide to what extent such effects should be accommodated. The present study provides insight into the nature and extent of relative price adjustments during the transition period, and argues that some of their inflationary effects should not be resisted.

Rubinstein, Ariel

PD September 2000. **TI** Is It "Economics and Psychology"?: The Case of Hyperbolic Discounting. **AA** Tel Aviv University and Princeton University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 21/2000; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 15. **PR** no charge. **JE** A12, B41, C91, D12, D91. **KW** Hyperbolic Discounting. Consumer Choice. Experiments. Methodology. Decision Making.

AB The paper questions the methodology of "economics and psychology". It focuses on the case of hyperbolic discounting. Using some experimental results, I argue that the same sort of evidence which rejects the standard constant discount utility functions can just as easily reject hyperbolic discounting as well. Furthermore, a decision- making procedure based on similarity relations better explains the observations and is more intuitive. The paper concludes that combining "economics and psychology" requires opening the black box of decision-makers rather than modifying functional forms.

Rudd, Jeremy B.

PD April 2000. **TI** Assessing the Productivity of Public Capital with a Locational Equilibrium Model. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/23; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 36. **PR** no charge. **JE** E62, H40, H54, O40, R53. **KW** Public Capital. Infrastructure. Productivity. Location.

AB This paper employs Roback's locational-equilibrium model of public- goods pricing, cross-sectional data from the Census of Population and Housing, and SMSA-level estimates of public capital stocks in order to examine the productive contribution of public capital. I find that public capital has a small positive impact on private output.

PD October 2000. **TI** Empirical Evidence on Human Capital Spillovers. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/46; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 35. **PR** no charge. **JE** D62, I20, J24, O15, O18. **KW** Human Capital. Externalities. Endogenous Growth. Regional Development.

AB This paper examines whether the average level of human capital in a region affects the earnings of an individual residing in that region in a manner that is external to the individual's own human capital. I find little evidence of an external effect of human capital, which suggests that human capital spillovers of the form postulated by the new growth literature are unlikely to matter much in practice.

Ruffle, Bradley J.

PD December 2000. **TI** Here's Something You Never Asked For, Didn't Know Existed, and Can't Easily Obtain: A Search Model of Gift Giving. **AU** Ruffle, Bradley J.; Kaplan, Todd R. **AA** Ruffle: Ben-Gurion University. Kaplan: University of Exeter. **SR** University of Exeter Department of Economics Discussion Paper: 00/20; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4JR, England. Website: www.ex.ac.uk/sobe/. **PG** 31. **PR** no charge. **JE** A12, D61, D64, D83. **KW** Gift Giving. Search. Welfare. Refunds.

AB Gift giving is thought to be welfare decreasing. This claim rests on two key assumptions, namely, full information as to the whereabouts of all goods and the ability to reach the stores that contain desired goods costlessly. In this paper, we replace these two assumptions with the more realistic assumption of uncertainty about the location of goods and the ensuing search costs. In our model, gifts are given only when they enhance expected welfare, that is, the amount they save the receiver looking for the gift himself is higher than the expected price of unwanted gifts. The more difficult it is for the recipient to obtain the good he desires or the lower the price of this good, the more likely he is to receive it as a gift. Search costs affect not only the decision to give but also the choice of gift. We characterize the relationship between gift giving and the giver's information about the recipient's preferences as well as her information about the gifts available in the economy. We use our model to explain a number of stylized facts about gift giving in modern and primitive societies.

Ruiz-Castillo, Javier

PD October 2000. **TI** The Plutocratic Bias in the CPI: Evidence from Spain. **AU** Ruiz-Castillo, Javier; Ley, Eduardo; Izquierdo, Mario. **AA** Ruiz-Castillo: Universidad Carlos III de Madrid. Ley: International Monetary Fund. Izquierdo: FEDEA. **SR** International Monetary Fund Working Paper: WP/00/167; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 25. **PR** not available. **JE** C43, D31, D63, E31. **KW** Consumer Price Index. Cost of Living. Aggregation. Inflation.

AB The authors define the plutocratic bias as the difference between inflation measured according to the current official CPI and a democratic index in which all households receive the same weight. They estimate that during the 1990s the plutocratic bias in Spain amounts to 0.055 percent per year. However, positive and negative biases cancel off when averaging over the whole period. The mean absolute bias is significantly larger, 0.090. The authors can explain most of the oscillations in the plutocratic bias by the price behavior of three goods: a luxury good and two necessities.

Russell, Steven H.

TI Smuggling, Currency Substitution and Unofficial Dollarization: A Crime-Theoretic Approach. **AU** Mourmouras, Alex; Russell, Steven H.

Ryan, Paul

PD November 2000. **TI** The School-to-Work Transition: A Cross-National Perspective. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0014; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 74. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** J13, J24, J31, J41, J62. **KW** Employment. Unemployment. Human Capital. Labor Mobility. Education.

AB School-to-work patterns and issues are discussed for seven economies (France, Germany, Japan, the Netherlands, Sweden, UK and US). The emphasis is placed on differences across countries in both the current labor market position of young people and recent trends therein, along with the institutions that regulate youth education, training and employment. The power of public policies -- including labor market deregulation, labor market programs, the vocationalization of education, and apprenticeship -- to improve youth outcomes is discussed, drawing on national evaluation literatures. Evidence of extensive policy failure points up the need to develop nationally appropriate institutions to improve school-to-work transitions.

Sab, Randa

TI Government Spending, Rights, and Civil Liberties. **AU** de Mello, Luiz; Sab, Randa.

Sabarwal, Tarun

PD October 2000. **TI** Bankruptcy in General Equilibrium. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/48; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 43. **PR** no charge. **JE** C62, D51, D52, D61, G33. **KW** Bankruptcy. General Equilibrium. Incomplete Markets. Exemption. Credit Limits.

AB In this paper, I construct a model of an exchange economy in which bankruptcy arises in a manner similar to what we observe. This model is a more realistic representation of some markets in which intertemporal assets are traded. Using standard and natural assumptions, I show that every economy represented by this model has an equilibrium. Using examples, I highlight some welfare effects of bankruptcy.

Sack, Brian

PD May 2000. **TI** Deriving Inflation Expectations from Nominal and Inflation-Indexed Treasury Yields. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/33; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 29. **PR** no charge. **JE** D84, E31, E43. **KW** Inflation. Expectations. Treasury Market. Debt.

AB This paper derives a measure of inflation compensation from the yields of a Treasury inflation-indexed security and a portfolio of STRIPS that has similar liquidity and duration as the indexed security. This measure can be used as a proxy for inflation expectations if the inflation risk premium is small. The calculated measure suggests that the rate of inflation expected over the next ten years fell from just under 3% in mid-1997 to just under 1 3/4% by early 1999, before rising back to about 2 1/2% by the beginning of 2000. This variation is more extensive than would have been expected from a simple model of inflation dynamics or from a survey measure of long-run inflation expectations.

PD October 2000. **TI** Using Treasury STRIPS to Measure the Yield Curve. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/42; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 35. **PR** no charge. **JE** G12, G13. **KW** Treasury STRIPS. Yield Curve. Treasury Market. Asset Pricing. Contingent Pricing.

AB Treasury STRIPS derived from coupon payments of notes and bonds provide an effective reading of the zero-coupon yield curve. Among their advantages, coupon STRIPS are zero-coupon securities, have a complete range of maturities, and are fungible, which appears to make the coupon STRIPS yield curve relatively smooth. Yields on coupon STRIPS are compared to the zero-coupon yield curves derived from notes and bonds under the Nelson-Siegel and the Fisher-Nychka-Zervos methods. The results point to some shortcomings of these approaches and indicate that the zero-coupon yield curve could be estimated more precisely from coupon STRIPS.

TI Measuring the Reaction of Monetary Policy to the Stock Market. **AU** Rigobon, Roberto; Sack, Brian.

Sadka, Efraim

TI The Aging Population and the Size of the Welfare State.

AU Razin, Assaf; Sadka, Efraim; Swagel, Phillip.

Sadrieh, Abdolkarim

TI Zuschlag erhalten, aber Verlust gebucht -- Gefaehrdet der Fluch des Gewinners auch Kapitalmarktprofis? **AU** Hehn, Elisabeth; Sadrieh, Abdolkarim.

Saez, Emmanuel

TI Participation and Investment Decisions in a Retirement Plan: The Influence of Colleagues' Choices. **AU** Duflo, Esther; Saez, Emmanuel.

Saint-Paul, Gilles

PD April 2000. **TI** The 'New Political Economy': Two Recent Books. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 462; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/deehome/what/wpapers/listwork.html. **PG** 17. **PR** papers only available on web page; no hard copies. **JE** E61, E62, H11, H60, P16. **KW** Political Economy. Macroeconomics. Economic Policy.

AB This paper reviews two recent books on Political Economy by Allan Drazen and Torsten Persson and Guido Tabellini. It discusses some problems of the recent Political Economy literature.

Sakellaris, Plutarchos

PD August 2000. **TI** Patterns of Plant Adjustment. **AA** Board of Governors of the Federal Reserve System and University of Maryland. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/05; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 46. **PR** no charge. **JE** D24, D83, E22, L23, L60. **KW** Capital Investment. Employment Adjustment. Capacity Utilization. Productivity. Learning Effects.

AB This paper provides a description of the dynamic choices of manufacturing plants when they undertake rapid adjustment in output. The focus is on episodes that involve lumpy adjustment in capital or employment. I examine the behavior of variables such as capital utilization, hours per worker, overtime use, capacity utilization, materials and energy use. Finally I describe the observed patterns of productivity during those adjustment episodes and propose some hypotheses that seem to fit them. The costs associated with output adjustment seem to arise from building and destroying a particular organization of the structure of production and associated worker experience. As such they are related to learning-by-doing and investment in specific training.

PD August 2000. **TI** Production Function Estimation with Industry Capacity Data. **AA** Board of Governors of the Federal Reserve System and University of Maryland. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/06; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 16. **PR** no charge. **JE** D24, E22, E23, O40, L60. **KW** Productive Capacity. Capacity Utilization. Productivity Growth. Technological Change. Production Function.

AB This paper introduces a new data set for the analysis of productivity in U.S. manufacturing. It consists of data on production and input levels when the plants in an industry operate at capacity. The estimates are consistent with those obtained using data on actual operations from the ASM. As an application, I use this data to estimate the rate of growth of technological change that is embodied in equipment capital. The estimates imply a larger role of equipment investment and embodied technological change on economic growth than is conventionally assumed.

PD March 2001. **TI** The Production-Side Approach to Estimating Embodied Technological Change. **AU** Sakellaris, Plutarchos; Wilson, Daniel J. **AA** Sakellaris: Board of Governors of the Federal Reserve System, University of Maryland and University of Ioannina. Wilson: University of Maryland. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/20; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 64. **PR** no charge. **JE** D24, E22, L60, O33, O40. **KW** Productivity Growth. Embodied Technology. Technological Change. Equipment Investment. Producer Price Index.

AB We estimate the rate of embodied technological change directly from plant-level manufacturing data on current output and input choices along with histories on their vintages of equipment investment. Our estimates range between 8 and 17 percent for the typical U.S. manufacturing plant during the years 1972-1996. Any number in this range is substantially larger than is conventionally accepted with some important implications. First, the role of investment-specific technological change as an engine of growth is even larger than previously estimated. Second, existing producer durable price indices do not adequately account for quality change. As a result, measured capital stock growth is biased. Third, if accurate, the Hulten and Wykoff (1981) economic depreciation rates may primarily reflect obsolescence.

Saks, Raven

TI Has Compensation Become More Flexible? **AU** Cannon, Sandra A.; Fallick, Bruce C.; Lettau, Michael; Saks, Raven.

Samet, Dov

TI Utilitarian Aggregation of Beliefs and Tastes. **AU** Gilboa, Itzhak; Samet, Dov; Schmeidler, David.

Samiei, Hossein

TI The U.K. Business Cycle, Monetary Policy, and EMU Entry. **AU** Kontolemis, Zenon G.; Samiei, Hossein.

Santos, Georgina

PD October 2000. **TI** The Environmental Benefits from Road Pricing. **AU** Santos, Georgina; Rojey, Laurent; Newbery, David. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0020; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 10. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D62, H23, Q25, R41, R48. **KW** Congestion Tolls. Traffic Congestion. Environment. Externalities. Pollution.

AB In this paper the environmental benefits of optimal tolls in eight English towns are estimated. Tolls are simulated using the SATURN model (Simulation and Assignment of Traffic to Urban Road Networks) with associated software to simulate the changes in traffic patterns resulting from cordon tolls. With these results the optimal tolls are computed together with the resulting levels and speeds of traffic in each of our study towns. Changes in vehicle emissions are estimated and reduction in health and global warming costs computed. One of the main results is that any toll designed to reduce traffic congestion would yield positive environmental benefits.

Sarkar, Ratna G.

TI ABC at Insteel Industries. **AU** Narayanan, V. G.; Sarkar, Ratna G.

Sasaki, Dan

TI Preferred Bidders' Curse in a Simultaneous Ascending Auction -- With a Case Study on an Australian Broadband Spectrum Auction. **AU** Romsas, Trond; Sasaki, Dan.

TI Strategic Inventories in a Two-Period Oligopoly. **AU** Mollgaard, Peter H.; Poddar, Sougata; Sasaki, Dan.

TI Strategic Advance Production. **AU** Poddar, Sougata; Sasaki, Dan.

Satchell, Stephen

TI Bayesian Analysis of the Black-Scholes Option Price. **AU** Darsinos, Theofanis; Satchell, Stephen.

Scalise, Joseph M.

TI Did U.S. Bank Supervisors Get Tougher During the Credit Crunch? Did They Get Easier During the Banking Boom? Did It Matter to Bank Lending? **AU** Berger, Allen N.; Kyle, Margaret K.; Scalise, Joseph M.

Scharfstein, David

TI Do Firm Boundaries Matter? **AU** Mullainathan, Sendhil; Scharfstein, David.

Schemidler, David

TI Inductive Inference: An Axiomatic Approach. **AU** Gilboa, Itzhak; Schemidler, David.

Schimmelpfennig, Axel

PD October 2000. **TI** Pension Reform, Private Saving, and the Current Account in a Small Open Economy. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/171; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 29. **PR** not available. **JE** E13, E20, E62, F32, H55. **KW** Pension Reform. Saving. Current Account. Public Pensions.

AB The macroeconomic implications of a pension reform that substitutes a high-return fully-funded system for a low-return pay-as-you-go system are discussed in an overlapping generations, neoclassical growth model. With forward-looking individuals, a debt-financed reform worsens the current account, while a tax-financed reform leaves the current account unchanged. With myopic individuals, a debt-financed reform leaves the current account unchanged, while a tax-financed reform improves the current account. Hence, tax-financing, which is equivalent to pre- funding, should be the preferred reform strategy in a small open economy with a weak current account position.

Schjelderup, Guttorm

TI Competing for Capital in a "Lumpy" World. **AU** Kind, Hans Jarle; Knarvik, Karen-Helene; Schjelderup, Guttorm.

Schmeidler, David

TI Utilitarian Aggregation of Beliefs and Tastes. **AU** Gilboa, Itzhak; Samet, Dov; Schmeidler, David.

TI A Derivation of Expected Utility Maximization in the Context of a Game. **AU** Gilboa, Itzhak; Schmeidler, David.

Schmitz, Patrick

PD July 1999. **TI** On Synergies and Vertical Integration. **AU** Schmitz, Patrick; Sliwka, Dirk. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: A/602; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** not available. **PR** no charge. **JE** D23, L22. **KW** Synergies. Vertical Integration. Incomplete Contracts. Hold Up. Specialization.

AB We analyze in an incomplete contracts model whether a supplier should be integrated if in addition to his investment level he chooses the intensity of specialization towards the buyer's needs. A basic trade-off arises: While non-integration leads to higher investment incentives, potential synergies are foregone. Hence, integration can be optimal even though only the supplier makes an investment decision. This may also yield some insights for the discussion on which activities belong to a firm's core competencies. Furthermore, we show that if specialization is contractible, underspecialization will deliberately be chosen since investment incentives are thereby improved.

Schoors, Koen

PD September 1999. **TI** The Credit Squeeze During Russia's Early Transition: A Bank-Based View. **AA** Universiteit Ghent. **SR** Centre for Economic Policy Research Discussion Paper: 2229; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 56. **PR** 5 pounds, 8 euros, or $8. **JE** E51, G21, P52. **KW** Russia. Early Transition. Bank Liquidity. Lending Channel.

AB Russia's early transition is characterized by one of the most dramatic credit expansions and inflation experiences in recent history which led to a protracted inflation stabilization effort. This paper addresses the question whether the inflation stabilization might have caused a credit squeeze and hence might have contributed to the output collapse in the first three years of transition. The lending channel of monetary policy transmission might have caused a credit crunch in Russia. We perform an empirical analysis of Russian bank liquidity in 1994 on the basis of bank data. The paper concludes that the huge excess reserves of Russian banks in 1994 were at least partially due to excess liquidity in the banking system. This means that banks preferred to hold liquidity rather than to grant loans. The hypothesis that the credit crunch is due to the lending channel of monetary policy transmission is therefore rejected.

Selten, Reinhard

TI Experimental Evidence for Attractions to Chance. **AU** Albers, Wulf; Pope, Robin; Selten, Reinhard; Vogt, Bodo.

Senhadji, Abdelhak S.

TI Financial Development and Economic Growth: An Overview. **AU** Khan, Mohsin S.; Senhadji, Abdelhak S.

Senik-Leygonie, Claudia

TI Dynamism and Inertia on the Russian Labour Market: A Model of Segmentation. **AU** Grosfeld, Irena; Verdier, Thierry; Senik-Leygonie, Claudia; Kolenikov, Stanislav; Paltseva, Elena.

TI Dynamism and Inertia on the Russian Labour Market: A Model of Segmentation. **AU** Grosfeld, Irena; Verdier, Thierry; Senik-Leygonie, Claudia; Kolenikov, Stanislav; Paltseva, Elena.

Serra, Daniel

TI Supermarket Key Attributes and Location Decisions: A Comparative Study Between British and Spanish Consumers. **AU** Colome, Rosa; Serra, Daniel.

Serven, Luis

TI Country Portfolios. **AU** Kraay, Aart; Loayza, Noman; Serven, Luis; Ventura, Jaume.

Sharma, Sunil

TI Optimal Inventory Policies when the Demand Distribution is not Known. **AU** Larson, C. Erik; Olson, Lars J.; Sharma, Sunil.

Shearer, Ronald A.

TI Wheat, Railways and Cycles: The 1840s Reassessed. **AU** Paterson, Donald G.; Shearer, Ronald A.

TI Price Levels and the North Atlantic Economy of the Mid-19th Century: A New Canadian Wholesale Price Index. **AU** Paterson, Donald G.; Shearer, Ronald A.

TI Another Tale of Another Two Cities: Liverpool and London Markets in the Mid-19th Century. **AU** Paterson, Donald G.; Shearer, Ronald A.

Sheiner, Louise

TI Generational Aspects of Medicare. **AU** Cutler, David M.; Sheiner, Louise.

TI Should America Save for its Old Age? Population Aging, National Saving, and Fiscal Policy. **AU** Elmendorf, Douglas; Sheiner, Louise.

Shleifer, Andrei

TI Federalism With and Without Political Centralization: China Versus Russia. **AU** Blanchard, Olivier; Shleifer, Andrei.

Shrestha, Manik L.

TI Comprehensive Measures of GDP and the Unrecorded Economy. **AU** Bloem, Adriaan M.; Shrestha, Manik L.

Sichel, Daniel E.

TI The Resurgence of Growth in the Late 1990s: Is Information Technology the Story? **AU** Oliner, Stephen D.; Sichel, Daniel E.

Sinn, Hans-Werner

PD July 1999. **TI** The Competition Between Competition Rules. **AA** CESifo and NBER. **SR** National Bureau of Economic Research Working Paper: 7273; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D43, F15, F42, K21, L43. **KW** Regulation. Antitrust Policy. Oligopoly. Cartels. Open Economy.

AB Open borders imply systems competition. This paper studies the implications of systems competition for the national competition rules. It is shown that an equilibrium where all countries retain their antitrust laws does not exist, since abolishing this law makes it possible for a single country to establish a cartel that successfully appropriates foreign business profits. Instead of such an equilibrium, a deregulation race is likely to emerge in which all but the last country repeal their antitrust laws. The deregulation race results in a chain of Stackelberg leadership positions taken over by national cartels that renders lower profits and higher consumer rents than would have been the case with harmonization of the antitrust laws.

PD August 1999. **TI** The Competition Between Competition Rules. **AA** Universitat Munchen. **SR** Centre for Economic Policy Research Discussion Paper: 2214; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 40. **PR** 5 pounds, 8 euros, or $8. **JE** D43, H79, L43. **KW** Systems Competition. Deregulation. Oligopoly.

AB See the abstract for Sinn, Hans-Werner. July 1999, "The Competition Between Competition Rules". National Bureau of Economic Research Working Paper: 7273; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.

Sironi, Andrea

PD July 2000. **TI** Testing for Market Discipline in the European Banking Industry: Evidence from Subordinated Debt Issues. **AA** Universita' Luigi Bocconi. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/40; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 38. **PR** no charge. **JE** G15, G21, G28. **KW** Market Discipline. Banking. Rating. Subordinated Debt. Risk.

AB The question of whether private investors can rationally discriminate between the risk taken by banks is empirically investigated by testing the risk sensitivity of European banks' subordinated notes and debentures (SND) spreads. A unique dataset of issuance spreads, issues' and issuers' rating, accounting and market measures of bank risk is used for a sample of European banks' SND issued during the 1991-2000:Q1 period. Moody's Bank Financial Strength (MBFS) and FitchIBCA Individual (FII) ratings are used as proxies of banks' risk and found to perform better than accounting variables in explaining the cross-sectional variability of spreads. Empirical results support the hypothesis that SND investors are sensitive to bank risk. An exception to this conclusion is represented by SND issued by public banks, i.e. government owned or guaranteed institutions such as the

German Landesbank. Results also show that market discipline on European banks has been improving during the nineties, with the risk sensitivity of SND spreads increasing from the first to the second half of the decade.

PD October 2000. **TI** An Analysis of European Banks SND Issues and Its Implications for the Design of a Mandatory Subordinated Debt Policy. **AA** Universita' Luigi Bocconi. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/41; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 35. **PR** no charge. **JE** G15, G21, G28. **KW** Capital Regulation. Banking. Rating. Subordinated Debt.
AB During the last twenty years an increasing number of proposals to improve bank market discipline through the introduction of a mandatory subordinated debt policy have been drafted and critically discussed by academic economists and bank regulators. While theoretical issues are key in this debate, a proper understanding of the market of banks' subordinated notes and debentures (SND) and of the securities' main features is also considered as relevant for the potential introduction, design, and goals setting of such a policy. This paper builds on information concerning issuers, investors, markets, and securities' technical features to critically discuss these aspects. Data on over 1,800 European banks' SND issues completed during the 1988-2000 period together with information on primary and secondary market functioning is presented.

Skinner, Jonathan

TI Do the Rich Save More? **AU** Dynan, Karen E.; Skinner, Jonathan; Zeldes, Stephen P.

Skudelny, Frauke

TI Social Conflict and Growth in Euroland. **AU** De Grauwe, Paul; Skudelny, Frauke.

Slade, Margaret E.

TI Mergers, Brand Competition, and the Price of a Pint. **AU** Pinkse, Joris; Slade, Margaret E.

PD March 2001. **TI** Assessing Market Power in UK Brewing. **AA** University of British Columbia. **SR** University of British Columbia, Department of Economics Discussion Paper: 01/04; University of British Columbia, Department of Economics, Room 997, Buchanan Tower, 1873 East Mall, Vancouver, B.C. V6T 1Z1 Canada. Website: www.econ.ubc.ca. **PG** 51. **PR** International. **JE** D43, L13, L41, L66, L81. **KW** Market Power. Oligopoly. Mergers. Differentiated Products. Multiproduct Firms.
AB Market power in UK brewing is examined. To do this, quantitative methods that can be used to estimate price/cost margins and to decompose those margins into economic factors are assessed. Two classes of demand equations are estimated: the nested logit of McFadden (1978a) and the distance-metric method of Pinkse, Slade, and Brett (1998). Marginal costs are approximated in three ways. Finally, various notions of industry equilibrium are compared. With this application, the most important decision from the point of view of market-power assessment turns out to be the choice of demand model. Different classes of demand equations yield very different predictions concerning elasticities and markups, whereas, within a demand-model class, all methods of assessing market power result in similar predictions concerning industry performance. With a distance-metric demand equation, a static Nash equilibrium in which players set the prices of the brands that they own receives greatest empirical support. Furthermore, both differentiation and fewness endow the firms in the brewing industry with the power to charge prices in excess of marginal costs, but no evidence of collusion is uncovered.

Sliwka, Dirk

PD July 1999. **TI** On the Costs and Benefits of Delegation in Organizations. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: A/600; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** not available. **PR** no charge. **JE** D23, D82, L21, L23, M12. **KW** Delegation. Decentralization. Asymmetric Information. Empowerment. Decision Making.
AB We examine the question whether a decision should be delegated to a subordinate and whether this is done efficiently. We illustrate that delegation is useful for several reasons. First, it serves to test agents with unknown ability. Then, it may improve their motivation when carrying out decisions. Moreover, delegation to subordinates may be useful to limit the power of middle managers. Costs of delegation arise due to the risk of having lower quality decisions and because after having made a successful decision a subordinate's power is increased. The latter may lead to inefficient delegation decisions.

PD July 1999. **TI** On Organizational Decision Rules and Innovative Activity. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: A/601; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** not available. **PR** no charge. **JE** D23, L21, L23, M10. **KW** Delegation. Decentralization. Organizational Behavior. Initiative. Decision Rules.
AB We analyze a model in which agents exert effort to create innovations within an organization. When payments are infeasible, the decision on the implementation of a proposal is shown to be made by simple monotonic decision rules. Then we look for optimal rules in several contexts. A trade-off arises between the use of information and the incentives created by a rule. If the former dominates it will currently be optimal to install a hierarchy. Otherwise granting autonomy to the innovators may be better. The unanimity rule may be optimal if average proposals are bad for the organization and a strong filtering is necessary.

TI On Synergies and Vertical Integration. **AU** Schmitz, Patrick; Sliwka, Dirk.

TI Do New Brooms Sweep Clean? -- Why and When Dismissing Managers Increases a Firm's Performance. **AU** Hvffler, Felix; Sliwka, Dirk.

Sloth, Birgitte

TI The Evolution of Conventions under Incomplete Information. **AU** Jorgen Jacobsen, Hans; Jensen, Mogens; Sloth, Birgitte.

TI On the Structural Difference between the Evolutionary Approach of Young and that of Kandori, Mailath, and Rob. **AU** Jorgen Jacobsen, Hans; Jensen, Mogens; Sloth, Birgitte.

Smarzynska, Beata

PD September 1999. **TI** Composition of Foreign Direct Investment and Protection of Intellectual Property Rights in Transition Economies. **AA** World Bank. **SR** Centre for Economic Policy Research Discussion Paper: 2228; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 56. **PR** 5 pounds, 8 euros, or $8. **JE** F23, O34. **KW** Foreign Direct Investment. Intellectual Property. Transition Economies.

AB Using a unique firm-level dataset this study shows that, contrary to the hopes of transition economies, foreign investors in the region are characterized by low, rather than high, R&D intensity. The results also indicate that investors with higher R&D spending are more likely to engage in non-manufacturing projects than in local production. The empirical analysis links these findings to weak protection of intellectual property rights (IPRs). It shows that weak protection deters foreign investment. This negative effect is especially strong in those technology-intensive sectors that, according to surveys, rely heavily on IPRs. Weak IPR protection also encourages investors to undertake non-manufacturing projects rather than local production. The study contributes to the literature on transition, in which the issue of IPR protection has been neglected. It also adds to the literature on intellectual property rights by providing empirical evidence on the effect of IPR protection on the composition of FDI inflows.

Smith, David C.

TI The Impact of Bank Consolidation on Commercial Borrower Welfare. **AU** Karceski, Jason; Ongena, Steven; Smith, David C.

TI Firms and their Distressed Banks: Lessons from the Norwegian Banking Crisis (1988-1991). **AU** Ongena, Steven; Smith, David C.; Michalsen, Dag.

Smith, Hayden P.

TI Border Effects Within the NAFTA Countries. **AU** Rogers, John H.; Smith, Hayden P.

Soloaga, Isidro

TI Regionalism in the Nineties: What Effect on Trade? **AU** Winters, L. Alan; Soloaga, Isidro.

Song, Inwon

TI Loan Review, Provisioning, and Macroeconomic Linkages. **AU** Cortavarria, Luis; Dziobek, Claudia; Kanaya, Akihiro; Song, Inwon.

Sornette, Didier

TI On Rational Bubbles and Fat Tails. **AU** Lux, Thomas; Sornette, Didier.

Sparks, Roger

TI Credit Scoring and Mortgage Securitization: Do They Lower Mortgage Rates? **AU** Heuson, Andrea; Passmore, Wayne; Sparks, Roger.

Spector, David

PD December 2000. **TI** The Noisy Duopolist. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/09; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 22. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** C72, D21, L13. **KW** Oligopoly. Price Theory. Noisy Pricing. Game Theory. Industrial Organization.

AB This paper provides an explanation for noisy pricing based on the strategic interaction of two firms competing in prices. When a firm adds noise to its prices, undercutting it becomes harder. Therefore, noisy pricing allows a firm to either exclude a competitor while charging supracompetitive prices, or to soften competition and have both firms earn supracompetitive profits. Such behavior leads to prices lying between the competitive and monopolistic levels, and harms consumers and social welfare. It occurs in equilibrium if firms set prices sequentially, and in some equilibria of a repeated game of simultaneous price-setting if one firm is patient.

PD January 2001. **TI** Definitions and Criteria of Predatory Pricing. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/10; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 26. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** K21, L13, L41. **KW** Predatory Pricing. Competition Policy. Exclusionary Conduct. Antitrust Law.

AB This paper is an attempt to clarify the definition of predatory pricing, and to compare various legal criteria for the investigation of predation claims. By constructing a simple but full-fledged model, I show that (i) several definitions of what constitutes predatory pricing, often considered as equivalent, are in fact different; and (ii) the existing justifications for the use of price-cost comparisons (the Areeda-Turner test and its variants) are logically flawed. Other proposed rules, such as Williamson's output restriction rule or Baumol's "permanence of price reduction" rule are also problematic if courts hesitate between viewing a particular market as characterized by competition in prices or by competition in quantities. These remarks lend support to the use of two-tier procedures such as the one advocated by Joskow and Klevorick and, more generally, lead us to view the rule of reason as superior to any per se rule.

Spiegel, Yossi

TI On the Evolutionary Emergence of Optimism. **AU** Heifetz, Aviad; Spiegel, Yossi.

Spilimbergo, Antonio

TI What Happened to Asian Exports During the Crisis? **AU** Duttagupta, Rupa; Spilimbergo, Antonio.

Stambaugh, Robert F.

TI Comparing Asset Pricing Models: An Investment Perspective. **AU** Pastor, Lubos; Stambaugh, Robert F.

Starr-McCluer, Martha

PD January 2000. **TI** The Effects of Weather on Retail

Sales. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/08; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 25. **PR** no charge. **JE** D11, D21, E21, E32, L81. **KW** Consumption. Retail Sales. Weather. Business Fluctuations.

AB Monthly fluctuations in consumer spending are often attributed to the weather. This paper presents a model in which weather affects the productivity of time in nonmarket activities (such as shopping or recreation), and so, via time and budget constraints, may induce substitution in spending across goods and over time. Using monthly data on retail sales and weather data from the National Weather Service, I find that unusual weather has a modest but significant role in explaining monthly sales fluctuations. However, lagged effects often offset original effects, so that weather's influence tends to wash out at a quarterly frequency.

TI Household Portfolios in the United States. **AU** Bertaut, Carol; Starr-McCluer, Martha.

TI Market Definition in Banking: Recent Evidence. **AU** Amel, Dean F.; Starr-McCluer, Martha.

Startz, Richard

TI Permanent and Transitory Components of Business Cycles: Their Relative Importance and Dynamic Relationship. **AU** Kim, Chang-Jin; Piger, Jeremy; Startz, Richard.

Steiner, Roberto

TI Depositor Behavior and Market Discipline in Colombia. **AU** Barajas, Adolfo; Steiner, Roberto.

Strawczynski, Michel

TI Fiscal Policy Dynamics with a Public-Debt Guideline. **AU** Hercowitz, Zvi; Strawczynski, Michel.

Sullivan, Kenneth

PD November 2000. **TI** Transparency in Central Bank Financial Statements Disclosures. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/186; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 129. **PR** not available. **JE** E58, G28. **KW** Central Banks. Financial Statements. Disclosure. Transparency. Accounting Standards.

AB The IMF's development of the code of good practices on transparency in monetary and financial policies and introduction of safeguard assessments has increased the importance of the transparency of the disclosures found in central bank financial statements. This study looks at the disclosure requirements for central banks under International Accounting Standards and provides practical guidance for those responsible for preparing central bank financial statements.

Sumner, Steven

TI The Comovements Between Real Activity and Prices in the G7. **AU** den Haan, Wouter J.; Sumner, Steven.

Surette, Brian J.

TI Have the Doors Opened Wider? Trends in Homeownership Rates by Race and Income. **AU** Bostic, Raphael W.; Surette, Brian J.

Sussman, Nathan

TI Emerging Market Spreads: Then Versus Now. **AU** Mauro, Paolo; Sussman, Nathan; Yafeh, Yishay.

Svensson, Lars E. O.

PD August 1999. **TI** Price Stability as a Target for Monetary Policy: Defining and Maintaining Price Stability. **AA** Stockholm University and NBER. **SR** National Bureau of Economic Research Working Paper: 7276; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E31, E37, E42, E52, E58. **KW** Price Stability. Monetary Policy. Inflation. Forecast Targeting.

AB This paper discusses how price stability can be defined and how price stability can be maintained in practice. With regard to defining price stability, the choice between price-level stability and low (including zero) inflation and decisions about the price index, the quantitative target and the role of output stabilization are examined. With regard to maintaining price stability, three main alternatives are considered, namely a commitment to a simple instrument rule (like a Taylor rule), forecast targeting (like inflation-forecasting targeting) and intermediate targeting (like money-growth targeting). A simple instrument rule does not provide a substitute for a systematic framework for monetary policy decisions. Such a framework is provided by forecast targeting. Forecast targeting can incorporate judgmental adjustments, extra-model information, and different indicators (including indicators of "risks to price stability"). By extending mean forecast targeting to distribution forecast targeting, nonlinearity, nonadditive uncertainty and model uncertainty can be incorporated. Eurosystem arguments in favor of its money-growth indicator and against inflation-forecast targeting are scrutinized and found unconvincing.

PD August 1999. **TI** The Equilibrium Degree of Transparency and Control in Monetary Policy. **AU** Svensson, Lars E. O.; Faust, Jon. **AA** Svensson: Stockholm University. Faust: Board of Governors of the Federal Reserve System. **SR** Centre for Economic Policy Research Discussion Paper: 2195; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 32. **PR** 5 pounds, 8 euros, or $8. **JE** E52, E58. **KW** Commitment. Discretion. Central Bank.

AB We examine a central bank's endogenous choice of degree of control and degree of transparency, under both commitment and discretion. Under commitment, we find that the deliberate choice of sloppy control is far less likely under a standard central-bank loss function than reported for a less standard loss function by Cukierman and Meltzer. Under discretion, maximum degree of control is the only equilibrium. With regard to the degree of transparency, under commitment, a sufficiently patient bank with sufficiently low average inflation bias will always choose minimum transparency. Under discretion, both minimum and maximum transparency are equilibria. We argue that discretion is the more realistic assumption for the choice of control and that commitment is more realistic for the choice of transparency. A maximum feasible degree of control with a minimum degree of transparency is then a likely outcome. The Bundesbank and the Federal Reserve System are, arguably, examples of this outcome.

PD August 1999. **TI** Price Stability as a Target for Monetary Policy: Defining and Maintaining Price Stability. **AA** Stockholm University. **SR** Centre for Economic Policy Research Discussion Paper: 2196; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 56. **PR** 5 pounds, 8 euros, or $8. **JE** E42, E52, E58. **KW** Inflation Targeting. Intermediate Targeting. Monetary Targeting. Eurosystem.
AB See the abstract for Svensson, Lars E. O. August 1999, "Price Stability as a Target for Monetary Policy: Defining and Maintaining Price Stability". National Bureau of Economic Research Working Paper: 7276; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.

PD August 1999. **TI** Monetary Policy Issues for the Eurosystem. **AA** Stockholm University. **SR** Centre for Economic Policy Research Discussion Paper: 2197; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 60. **PR** 5 pounds, 8 euros, or $8. **JE** E42, E52, E58. **KW** Inflation Targeting. Monetary Targeting. ECB. Transparency.
AB The paper discusses the choice between inflation targeting and monetary targeting as a strategy for the Eurosystem, the actual strategy the Eurosystem announced in the fall of 1998, the framework for policy decisions appropriate for achieving the goals of the Eurosystem, the role of exchange rate management in the EMU, and the accountability and transparency of the Eurosystem. The choice between inflation targeting and monetary targeting is, in effect, a choice between high and low transparency. The Eurosystem has specified an operational inflation target, although in a somewhat ambiguous way. The Council of finance ministers in the EMU controls exchange rate policy; this is a major inconsistency in the Maastricht Treaty and a possible threat to the independence of the Eurosystem. The European Parliament may have a crucial role in ensuring the accountability of the Eurosystem; the minimum transparency needed for effective outside monitoring and evaluation of the Eurosystem's policy decisions seem to require published inflation forecasts and, most likely, published minutes and voting records of the Governing Council.

PD August 1999. **TI** Does the P* Model Provide Any Rationale for Monetary Targeting? **AA** Stockholm University. **SR** Centre for Economic Policy Research Discussion Paper: 2198; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 20. **PR** 5 pounds, 8 euros, or $8. **JE** E42, E52, E58. **KW** Real Balances. Reference Value. Inflation Targeting.
AB The so-called P* model is frequently used or referred to in discussions of monetary targeting. This gives the impression that the P* model might provide some rationale for monetary targeting or for the monetary reference value used by the Eurosystem. The P* model implies that inflation is determined by the level of and changes in the "real money gap" (the deviation of current real balances from their long-run equilibrium level), and hence that the real money gap is an important indicator for future inflation. Nevertheless, the P* model does not seem to provide any rationale for either a Bundesbank-style money- growth target or a Eurosystem-style money-growth indicator.

Swagel, Phillip

TI The Aging Population and the Size of the Welfare State. **AU** Razin, Assaf; Sadka, Efraim; Swagel, Phillip.

Swanson, Eric T.

PD May 2000. **TI** On Signal Extraction and Non-Certainty-Equivalence in Optimal Monetary Policy Rules. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/32; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 30. **PR** no charge. **JE** E52, E58. **KW** Signal Extraction. Certainty Equivalence. Monetary Policy. Taylor Rule. Uncertainty.
AB A standard result in the literature on monetary policy rules is that of certainty equivalence: given the expected values of all the state variables of the economy, policy should be set in a way that is independent of all higher moments of those variables. Some exceptions to this rule have been pointed out by Smets (1998), who restricts policy to respond to only a limited subset of state variables, and by Orphanides (1998), who restricts policy to respond to estimates of the state variables that are biased. In contrast, this paper studies unrestricted, fully optimal policy rules with optimal estimation of state variables. The rules in this framework exhibit certainty equivalence with respect to estimates of an unobserved, possibly complicated, state of the economy X, but are not certainty-equivalent when 1) a signal-extraction problem is involved in the estimation of X, and 2) the optimal rule is expressed as a reduced form that combines policy-makers' estimation and policy-setting stages. In general, I show that it is optimal for policy-makers to attenuate their reaction coefficient on a variable about which uncertainty has increased, while responding more aggressively to all other variables, about which uncertainty hasn't changed.

TI NAIRU Uncertainty and Nonlinear Policy Rules. **AU** Meyer, Laurence H.; Swanson, Eric T.; Wieland, Volker W.

Swanson, Norman R.

TI A Consistent Test for Nonlinear Out of Sample Predictive Accuracy. **AU** Corradi, Valentina; Swanson, Norman R.

TI Bootstrap Specification Tests with Dependent Observations and Parameter Estimation Error. **AU** Corradi, Valentina; Swanson, Norman R.

TI A Randomized Procedure for Choosing Data Transformation. **AU** Corradi, Valentina; Swanson, Norman R.

Sweetman, Arthur

TI Human Capital Formation in a Period of Rapid Change. **AU** Riddell, W. Craig; Sweetman, Arthur.

Taksar, Michael I.

PD July 1999. **TI** Optimal Risk/Dividend Distribution Control Models: Applications to Insurance. **AA** State University of New York at Stony Brook. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: B/455; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni-bonn.de/bgse/ liste.html. **PG** 40. **PR** no charge. **JE** C60, G10, G22. **KW** Stochastic

Control. Stochastic Processes. Proportional Reinsurance. Dividend Optimization. Ruin Probabilities.

AB The current paper presents a short survey of stochastic models of risk control and dividend optimization techniques for a financial corporation. In a typical model of this sort, in the absence of control, the reserve (surplus) process, which represents the liquid assets of the company, is governed by a Brownian motion with constant drift and diffusion coefficient. Risk control action corresponds to reinsuring part of the claims the cedent is required to pay simultaneously diverting part of the premiums to a reinsurance company. This translates into controlling the drift and the diffusion coefficient of the approximating process. The dividend distribution policy consists of choosing the times and the amounts of dividends to be paid out to shareholders. Mathematically, the cumulative dividend process is described by an increasing functional which may or may not be continuous with respect to time. The objective in the models presented here is maximization of the dividend pay-outs. The authors will discuss models with different types of conditions imposed upon a company and different types of reinsurances available. They will show that in most cases the optimal dividend distribution scheme is of a barrier type, while the risk control policy depends substantially on the nature of reinsurance available.

Tanzi, Vito

PD November 2000. **TI** The Cost of Government and the Misuse of Public Assets. **AU** Tanzi, Vito; Prakash, Tej. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/180; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 19. **PR** not available. **JE** H29, H50, H61, H82. **KW** Public Assets. Capital Charges. Government Efficiency. Budget. Cadastres.

AB This paper deals with efficiency in the public sector. It argues that the habit of relating efficiency to public spending, as is generally done, may give wrong results when, as is often the case, public institutions use public assets (land, buildings, etc.) without imputing a cost for that use. The paper argues that, because of lack of incentives, governments are often wasteful in their use of publicly held assets. It recommends the creation of "cadastres" of publicly owned assets that could be used for several purposes including increasing public sector efficiency.

PD November 2000. **TI** Globalization, Technological Developments, and the Work of Fiscal Termites. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/181; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 22. **PR** not available. **JE** F02, F41, H20, H87, O33. **KW** Globalization. Electronic Commerce. Tax Evasion. Taxation. Technological Change.

AB Deepening globalization and associated or parallel technological and institutional developments are creating conditions which may reduce the industrial countries' ability to sustain high levels of taxation. The paper identifies and discusses eight trends which may generate revenue falls. It also discusses some measures that might neutralize or reduce the impact of these trends.

PD November 2000. **TI** Corruption, Growth, and Public Finances. **AU** Tanzi, Vito; Davoodi, Hamid R. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/182; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 26. **PR** not available. **JE** E22, H26, K42, O38, O40. **KW** Corruption. Growth. Bribes. Investment. Public Finance.

AB The paper discusses some channels through which corruption affects growth such as the impact of corruption on enterprises, on the allocation of talent, and on investment. It also discusses the impact of corruption on some aspects of public finance.

Tauras, John A.

PD July 1999. **TI** Determinants of Smoking Cessation: An Analysis of Young Adult Men and Women. **AU** Tauras, John A.; Chaloupka, Frank J. **AA** Tauras: University of Michigan and NBER. Chaloupka: University of Illinois and NBER. **SR** National Bureau of Economic Research Working Paper: 7262; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 20. **PR** $5.00. **JE** I12, I18, K32. **KW** Smoking. Regulation. Health. Cigarettes. Government Policy.

AB Substantial econometric efforts have been devoted to examining the impacts prices and tobacco control policies have on smoking propensity and intensity. However, little is known about the effects prices, smoking restrictions, and other influences have on smoking cessation. This paper uses longitudinal data from the Monitoring the Future Surveys, augmented with cigarette price and policy-related measures to estimate smoking cessation equations for young adult males and females separately. These estimates clearly indicate that increases in cigarette prices would lead a significant number of young adults to quit smoking. In addition, policies restricting smoking in private worksites increase the probability of smoking cessation among employed young adult females.

Taylor, Michael W.

TI Issues in the Unification of Financial Sector Supervision. **AU** Abrams, Richard K.; Taylor, Michael W.

Temin, Peter

TI The Antebellum Tariff on Cotton Textiles Revisited. **AU** Irwin, Douglas A.; Temin, Peter.

TI Made in Germany: The German Currency Crisis of July 1931. **AU** Ferguson, Thomas; Temin, Peter.

PD February 2001. **TI** A Market Economy in the Early Roman Empire. **AA** Massachusetts Institute of Technology. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/08; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 32. **PR** $7.00 US, Canada, Mexico; $10.00 other international. **JE** N13, N43. **KW** Early Roman Empire. Roman Economy. Market Economies. Economic History.

AB I argue here that the economy of the early Roman Empire was primarily a market economy. The parts of this economy located far from each other were not tied together as tightly as markets often are today, but they still functioned as part of a comprehensive Mediterranean market. There are two reasons why this conclusion is important. First, it brings the description of the Roman economy as a whole into accord with the fragmentary evidence we have about individual market transactions. Second, this synthetic view provides a platform on which to investigate further questions about the origins and eventual demise of the Roman economy and about conditions for the formation and preservation of markets in general.

Tetlow, Robert J.

PD May 2000. **TI** Robust Monetary Policy with Misspecified Models: Does Model Uncertainty Always Call for Attenuated Policy? **AU** Tetlow, Robert J.; von zur Muehlen, Peter. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/28; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 46. **PR** no charge. **JE** C51, C60, E52, E58. **KW** Model Uncertainty. Robust Control. Monetary Policy. Stackelberg Games. Misspecification.

AB This paper explores Knightian model uncertainty as a possible explanation of the considerable difference between estimated interest rate rules and optimal feedback descriptions of monetary policy. We focus on two types of uncertainty: (i) unstructured model uncertainty reflected in additive shock error processes that result from omitted- variable misspecifications, and (ii) structured model uncertainty, where one or more parameters are identified as the source of misspecification. For an estimated forward-looking model of the U.S. economy, we find that rules that are robust against uncertainty, the nature of which is unspecifiable, or against one-time parametric shifts, are more aggressive than the optimal linear quadratic rule. However, policies designed to protect the economy against the worst- case consequences of misspecified dynamics are less aggressive and turn out to be good approximations of the estimated rule. A possible drawback of such policies is that the losses incurred from protecting against worst-case scenarios are concentrated among the same business cycle frequencies that normally occupy the attention of policymakers.

PD December 1999. **TI** Inflation Targeting and Target Instability. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/01; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 57. **PR** no charge. **JE** C63, E31, E52, E61, E63. **KW** Monetary Policy. Inflation Targeting. Macroeconomic Modeling. Computational Methods. Rational Expectations.

AB Monetary policy is modeled as governed by a known rule, except for a time-varying target rate of inflation. The variable target is taken as representative of either discretionary deviations from the rule, or as the outcome of a policy-making committee that is unable to arrive at a consensus. Stochastic simulations of FRB/US, the Board of Governors' large, rational-expectations model of the U.S. economy, are used to examine the benefits of reducing the variability in the target rate of inflation. The authors find that putting credible boundaries on target variability introduces an important non-linearity in expectations. This improves policy performance by focusing agents' expectations on policy objectives. But it does not generally pay to reduce target variability to zero. The non-linearity in expectations can be used to conduct a policy with greater attention to output stabilization than otherwise. The results provide insights as to why inflation-targeting countries use bands and why the bands are narrower than studies suggest they should be. Also, a numerical technique that approximates to arbitrary precision a non-linear process with a linear method is also demonstrated. This greatly speeds the simulations and makes them more robust.

Tevlin, Stacey

PD March 2000. **TI** Explaining the Investment Boom of the 1990s. **AU** Tevlin, Stacey; Whelan, Karl. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/11; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 32. **PR** no charge. **JE** E22. **KW** Investment. Cost of Capital. Depreciation. Computers. Disaggregation.

AB Real equipment investment in the United States has boomed in recent years, led by soaring investment in computers. We find that traditional aggregate econometric models completely fail to capture the magnitude of this recent growth -- mainly because these models neglect to address two features that are crucial (and unique) to the current investment boom. First, the pace at which firms replace depreciated capital has increased. Second, investment has been more sensitive to the cost of capital. We document that these two features stem from the special behavior of investment in computers and therefore propose a disaggregated approach. This produces an econometric model that successfully explains the 1990s equipment investment boom.

TI Do Firms Share their Success with Workers? The Response of Wages to Product Market Conditions. **AU** Estevao, Marcello; Tevlin, Stacey.

Thaler, Richard

TI Behavioral Economics. **AU** Mullainathan, Sendhil; Thaler, Richard.

Thisse, Jacques-Francois

TI Urban Systems: Market and Efficiency. **AU** Pines, David; Thisse, Jacques-Francois.

TI Integration, Agglomeration and the Political Economics of Factor Mobility. **AU** Ottaviano, Gianmarco I. P.; Thisse, Jacques-Francois.

Tomlin, KaSaundra

TI Size and Growth of Japanese Plants in the United States. **AU** Blonigen, Bruce A.; Tomlin, KaSaundra.

Trajtenberg, Manuel

PD April 2001. **TI** Government Support for Commercial R&D: Lessons From the Israeli Experience. **AA** Tel Aviv University, NBER and CIAR. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 08/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 53. **PR** no charge. **JE** L52, O31, O38. **KW** Research and Development. High-Tech Innovation. Government Policy.

AB Israel constitutes an interesting "laboratory case" of government intervention in the realm of R&D policy. The recognized scientific and technological prowess of the country was leveraged by extensive government support to commercial

R&D projects. The Israeli High Tech sector has grown remarkably fast since the mid-1980s, and it is quite likely that government policies significantly contributed to its success. This paper reviews in detail these policies, as well as the challenges that confront them: The design of alternative allocation schemes for R&D grants in view of a rigid budget constraint; possible ways of departing from "neutrality", the conditionality of production in Israel; the difficulties in setting a policy target for R&D spending, etc. The authors also lay out the more general issues and possible lessons for other countries that arise from the Israeli case: What should be the policy goal in terms of total resources devoted to R&D; to what extent should these policies target supply versus demand in the market for R&D inputs; which types of support can one envision in the context of R&D policies, and how these may be affected by international spillovers.

Trionfetti, Federico

TI Home-Biased Demand and International Specialisation: A Test of Trade Theories. **AU** Brulhart, Marius; Trionfetti, Federico.

Tryon, Ralph W.

TI Output and Inflation in the Long Run. **AU** Ericsson, Neil R.; Irons, John S.; Tryon, Ralph W.

Tulip, Peter

PD August 2000. **TI** Do Minimum Wages Raise the NAIRU? **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/38; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 36. **PR** no charge. **JE** E24, E31, J38. **KW** Minimum Wage. NAIRU. Unemployment. Wages. Inflation.

AB A high minimum wage (relative to average wages) raises nominal wage growth and hence inflation. This effect can be offset by extra unemployment; so the minimum wage increases the Non-Accelerating Inflation Rate of Unemployment or NAIRU. This effect is clearly discernable and robust to variations in model specification and sample period. It is consistent with international comparisons and the behavior of prices. I estimate that the reduction in the relative level of the minimum wage over the last two decades accounts for a reduction in the NAIRU of about 1 1/2 percentage points. It can also account for the substantial reduction in the NAIRU in the USA relative to continental Europe.

Udell, Gregory F.

TI Efficiency Barriers to the Consolidation of the European Financial Services Industry. **AU** Berger, Allen N.; DeYoung, Robert; Udell, Gregory F.

TI Globalization of Financial Institutions: Evidence from Cross-Border Banking Performance. **AU** Berger, Allen N.; DeYoung, Robert; Genay, Hesna; Udell, Gregory F.

Uyduranoglu, Ayse

TI Product Quality and Environmental Taxation. **AU** Myles, Gareth D.; Uyduranoglu, Ayse.

Vahey, Shaun P.

TI The Transparency and Accountability of UK Debt Management: A Proposal. **AU** Coe, Patrick; Vahey, Shaun P.; Wakerly, Elizabeth C.

van Wincoop, Eric

TI Does Exchange Rate Stability Increase Trade and Welfare? **AU** Bacchetta, Philippe; van Wincoop, Eric.

Velasco, Andres

TI Can Capital Mobility be Destabilizing? **AU** Meng, Qinglai; Velasco, Andres.

TI Liquidity Crises in Emerging Markets: Theory and Policy. **AU** Chang, Roberto; Velasco, Andres.

Ventura, Jaume

TI Country Portfolios. **AU** Kraay, Aart; Loayza, Noman; Serven, Luis; Ventura, Jaume.

TI The World Income Distribution. **AU** Acemoglu, Daron; Ventura, Jaume.

Verdier, Thierry

TI Dynamism and Inertia on the Russian Labour Market: A Model of Segmentation. **AU** Grosfeld, Irena; Verdier, Thierry; Senik-Leygonie, Claudia; Kolenikov, Stanislav; Paltseva, Elena.

Viaene, Jean-Marie

PD May 2001. **TI** Human Capital Formation, Income Inequality and Growth. **AU** Viaene, Jean-Marie; Zilcha, Itzhak. **AA** Viaene: Erasmus University and Tinbergen Institute. Zilcha: Tel Aviv University. **SR** Tel Aviv Foerder and Sackler Institutes for Economic Research Working Paper: 13/2001; Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 20. **PR** no charge. **JE** D31, D91, E20, J24, O40. **KW** Human Capital. Income Distribution. Endogenous Growth. Overlapping Generations.

AB The paper studies the determinants of income distribution and growth in an overlapping generations economy with heterogeneous households. The authors' framework has the following main features: (1) heterogeneity of consumers with respect to wealth and parental human capital; (2) intergenerational transfers are accomplished via investment in the education of the younger generation. Heterogeneity in income results from the distribution of human capital across individuals in a nondegenerate way. The human capital production is affected by the "home-education", provided by the parents, as well as the "public-education" which is provided equally to all young individuals of the same generation. Due to investments in human capital the economy is an endogenous growth model. First, the authors explore the effects of technological improvements in the human capital process upon the distribution of income at each date along the equilibrium path. Second, they study the impact of such technological progress on growth and relate these results to the income distribution inequality. Third, they provide numerical simulations to quantify the effect of changes in the parameters of the model.

Vinay, V.

TI Analyzing the Structure of Large Graphs. **AU** Kannan, Ravi; Vinay, V.

Vogt, Bodo

TI Experimental Evidence for Attractions to Chance. **AU** Albers, Wulf; Pope, Robin; Selten, Reinhard; Vogt, Bodo.

von Thadden, Ernst-Ludwig

TI European Financial Markets After EMU: A First Assessment. **AU** Danthine, Jean-Pierre; Giavazzi, Francesco; von Thadden, Ernst-Ludwig.

TI An Incomplete Contracts Approach to Corporate Bankruptcy. **AU** Berglof, Erik; Roland, Gerard; von Thadden, Ernst-Ludwig.

PD June 1999. **TI** The Changing Corporate Governance Paradigm: Implications for Transition and Developing Countries. **AU** von Thadden, Ernst-Ludwig; Berglof, Erik. **AA** von Thadden: University of Lausanne and CEPR. Berglof: Stockholm School of Economics and CEPR. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9912; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 29. **PR** no charge. **JE** D23, G32, G38, K22, O17. **KW** Corporate Governance. Corporate Law. Economic Transition. Economic Development.
AB The rapidly growing literature studying the relationship between legal origin, investor protection, and finance has stimulated an important debate in academic circles. It has also generated a number of applied research projects and strong policy statements. This paper discusses the implications, in particular for developing and transition countries, from this literature. We conclude that its focus on the plight of small investors is too narrow when applied to these countries. We argue that this group is unlikely to play an important role in most developing and transition countries. External investors may still be crucial, but they are more likely to come in as strategic investors or creditors. The paper also proposes a broader paradigm including other stakeholders and mechanisms of governance in order to better understand the problems facing these countries and generate policy implications that compensate for the weaknesses of capital markets.

von Ungern-Sternberg, Thomas

PD March 2000. **TI** Abolishing Housing Insurance Monopolies in Germany: Lessons for Switzerland. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 00/05; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 26. **PR** no charge. **JE** H42, K23, L12, L32, L51. **KW** Property Insurance. Germany. State Monopoly. Deregulation. Premium Rates.
AB We study what Switzerland can learn from the disappearance of the property insurance monopolies in Germany. We show that the German insurance monopolies did not fight hard enough to defend their interests. a) Most of them knew that they would be bought up by another public insurance company. The monopoly was not for them a question of survival. b) The German monopolies did not have their own interest group. They were defended by the Association of Public Insurers. This association has much wider interests to defend than just the monopolies in the property insurance market. c) For the small customer the disappearance of the state monopolies was a painful event. Within five years their premium rates rose by about 50%, and the contributions paid by the insurance companies for fire prevention fell massively. It is well known, however, that consumers do not constitute a powerful pressure group. (This paper is written in a language other than English.).

TI Der Vorschlag des Bundesrates zum neuen Mietrecht: Eine okonomische Analyse. **AU** Raess, Pascal; von Ungern-Sternberg, Thomas.

TI La Proposition du Conseil Federal pour le Nouveau Droit du Bail a Loyer: Une Analyse Economique. **AU** Raess, Pascal; von Ungern-Sternberg, Thomas.

PD July 1999. **TI** Die Wettbewerbskommission und die UBS: Was bleibt von den Auflagen? **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9909; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/cahiers/cah-list.htm. **PG** 17. **PR** no charge. **JE** K21, L41, L44. **KW** UBS Merger. Competition Commission. Antitrust.
AB This paper is written in a language other than English.

PD September 1999. **TI** A Note on Fat Cats and Puppy Dogs. **AA** University of Lausanne. **SR** Universite de Lausanne, Cahiers de Recherches Economiques: 9913; Ecole des HEC-DEEP, Department d'Econometrie et d'Economie Politique, University of Lausanne-BFSH 1--Dorigny, CH-1015 Lausanne, Switzerland. Website: www.hec.unil.ch/depart/DEEP/ cahiers/cah-list.htm. **PG** 9. **PR** no charge. **JE** D82, L13. **KW** Strategic Substitutes. Strategic Complements. Investment. Tirole. Firm Strategy.
AB This paper studies under what circumstances an incumbent has an incentive to over-invest in a "commitment variable" such as advertising or R&D expenditures. It is sometimes argued that the answer crucially depends on the question, whether the "second stage variables" are strategic complements or substitutes. We show that in the derivation of this result the authors implicitly make the (very) restrictive assumption that the first stage "commitment variable" has no direct effect on the competitor's reaction function. Once this assumption is relaxed the clear cut distinction along the lines "strategic complements", "strategic substitutes" no longer holds.

von zur Muehlen, Peter

TI Robust Monetary Policy with Misspecified Models: Does Model Uncertainty Always Call for Attenuated Policy? **AU** Tetlow, Robert J.; von zur Muehlen, Peter.

PD January 2001. **TI** Activist vs. Non-Activist Monetary Policy: Optimal Rules Under Extreme Uncertainty. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/02; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 28. **PR** no charge.

JE C50, C60, E52, E61. **KW** Monetary Policy. Model Uncertainty. Minimax Strategies. Signal Detection. Bayesian Policy.
AB This paper analyzes the optimality of reactive feedback rules advocated by neo-Keynesians, and constant growth rules proposed by monetarists. The basis for this controversy is not merely a disagreement concerning sources and impacts of uncertainty in the economy, but also an apparent fundamental difference in the attitude toward uncertainty about models. To address these differences, this paper compares the relative reactiveness of a monetary policy instrument to conditioning information for two starkly differing versions of uncertainty about the model and the data driving it: Bayesian uncertainty that assumes known probability distributions for a model's parameters and the data and Knightian uncertainty that does not. In the latter case, the policy maker copes with extreme uncertainty by playing a mental game against "nature," using minimax strategies. Contrary to common intuition, extreme uncertainty about a model's parameters does not necessarily imply less responsiveness to conditioning information and it certainly does not justify constancy of money growth except in an extreme version of Brainard's (1967) result. A partial constant money growth rule can be derived in only one special case.

PD February 2001. **TI** The Effect of Past and Future Economic Fundamentals on Spending and Pricing Behavior in the FRB/US Macroeconomic Model. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/12; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 20. **PR** no charge. **JE** C32, C51, E10, E20, E30. **KW** Macroeconomic Modeling. Expectations. Adjustment Costs. Error Correction. Mean Lags and Leads.
AB This paper derives and presents mean leads and lags as well as patterns of relative importance weights implied by the PAC (polynomial- adjustment-cost) error-correction equations which form the core of the FRB/US model at the Federal Reserve Board. Relative importance weights measure the contributions of past and future expected changes in fundamentals on current decisions. These and the associated mean lags and leads can be considered summary measures of key dynamic properties of FRB/US. The spending equations are those for total consumption, durable consumption, business equipment, residential housing, and private inventories. The pricing equations are those for the price level and wage growth. In addition FRB/US has one PAC equation for dividends and one for labor hours.

Voth, Hans-Joachim

TI Productivity Growth During the English Industrial Revolution: A Dual Approach. **AU** Antras, Pol; Voth, Hans-Joachim.

Vygen, Jens

PD July 1999. **TI** On Dual Minimum Cost Flow Algorithms. **AA** University of Bonn. **SR** University of Bonn, Sonderforschungsbereich Discussion Paper: 99889; Sonderforschungsbereich 303, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Deutschland/Germany. Website: www.wiwi.uni- bonn.de/bgse/liste.html. **PG** 28. **PR** no charge. **JE** C45, C61, L91, R40. **KW** Dual Algorithms. Minimum Cost Flow. Capacitated Networks. Networks.
AB We describe a new dual algorithm for the minimum cost flow problem. It can be regarded as a variation of the best known strongly polynomial minimum cost flow algorithm, due to Orlin. Indeed we obtain the same running time of O(m log m(m+n log n)), where n and m denote the number of vertices and the number of edges. However, in contrast to Orlin's algorithm we work directly with the capacitated network (rather than transforming it to a transshipment problem). Thus our algorithm may be more efficient in practice. Our algorithm can be interpreted as a cut canceling algorithm, improving the best known strongly polynomial bound for this important class of algorithms by a factor of m. On the other hand, our algorithm can be considered as a variant of the dual network simplex algorithm. Although dual network simplex algorithms are reportedly quite efficient in practice, the best worst-case running time known so far exceeds the running time of our algorithm by a factor of m. A major tool we use is a new linear-time algorithm for finding a maximum s-t-flow in a so-called tree-like network, i.e. the graph without s and t is an oriented forest.

Wakerly, Elizabeth C.

TI The Transparency and Accountability of UK Debt Management: A Proposal. **AU** Coe, Patrick; Vahey, Shaun P.; Wakerly, Elizabeth C.

Wallace, Nancy

TI A Real Options Approach to Housing Investment. **AU** Downing, Chris; Wallace, Nancy.

Wambach, Achim

PD July 1999. **TI** Renegotiation Before Contract Execution. **AA** University of Munich. **SR** Centre for Economic Policy Research Discussion Paper: 2189; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 48. **PR** 5 pounds, 8 euros, or $8. **JE** C71, C78, D82. **KW** Principal-Agent Models. Renegotiation. Coase Conjecture.
AB By offering or choosing a contract the informed agent might reveal information to the principal that could be used for immediate renegotiation. This is discussed in an axiomatic approach. We show that if, given the revealed information, there exists a contract which is preferred by everyone, the former contract could not have been renegotiation proof. For private values and common values of the "Spence" type, a generalized Coase conjecture holds: The principal cannot raise her profit by offering inefficient contracts to the agent. Only for common values of the "Rothschild-Stiglitz" type, inefficient, but pooling, contracts are possible.

Wang, Yijiang

TI Anonymous Banking and Financial Repression: How Does China's Reform Limit Government Predation without Reducing Its Revenue? **AU** Li, David; Qian, Yingyi; Wang, Yijiang; Bai, Chong-en.

Warnock, Francis E.

TI The Declining Volatility of U.S. Employment: Was Arthur Burns Right? **AU** Warnock, M. V. Cacdac; Warnock, Francis E.

PD December 2000. **TI** The Geography of Capital Flows: What We Can Learn From Benchmark Surveys of Foreign Equity Holdings. **AU** Warnock, Francis E.; Mason, Molly. **AA** Warnock: Board of Governors of the Federal Reserve System. Mason: Wartburg Colleg. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 688; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 27. **PR** no charge. **JE** C82, F32, G15. **KW** Portfolio Flows. International Investment. Net Foreign Assets. Equity Transactions. Capital Flows.

AB To provide insight into the accuracy of U.S. data on international equity transactions, the authors compare estimates of U.S. holdings of equities in over 40 countries with actual holdings given by comprehensive U.S. benchmark surveys. If the rate of return used to revalue U.S. holdings in a given country is accurate, accurate holdings estimates imply accurate transactions data. For some countries, such as Canada and much of Latin America, the holdings estimates are quite accurate. For the majority of countries, however, there is a great disparity between estimates and actual amounts, likely because U.S. data on international equity transactions record the country of the transactor, not the country of the issuer. The estimates are far too high for financial centers -- because many U.S. transactions that go through these countries involve securities issued in other countries -- and far too low in most other countries. To illustrate the potential pitfalls of using estimated country-specific holdings data, the authors briefly present two cases in which the use of actual data leads to different conclusions. One case examines the determinants of U.S. equity holdings across countries; the other concerns the turnover rate of foreign equity portfolios.

TI Information Costs and Home Bias: An Analysis of U.S. Holdings of Foreign Equities. **AU** Ahearne, Alan G.; Griever, William L.; Warnock, Francis E.

PD April 2001. **TI** Home Bias and High Turnover Reconsidered. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 702; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 14. **PR** no charge. **JE** G11, G14, G15. **KW** Transaction Costs. Portfolio Diversification. Foreign Equity Holdings. International Finance. Home Bias.

AB It is a stylized fact of international finance that foreign equities are underweighted (the home bias) but overtraded (the high turnover). Since stylized facts drive research, theoretical models are now developed to explain the puzzling coexistence of home bias and high turnover, first presented in Tesar and Werner (1995), and researchers now dismiss transaction costs as a plausible explanation of home bias. I show, however, that part of the puzzle -- very high turnover rates on foreign equity portfolios -- is based on inaccurate estimates of cross- border holdings. Revised estimates of holdings of foreign equities from comprehensive benchmark surveys produce foreign turnover rates that are much lower than previously reported and are comparable to domestic turnover rates. The implications of this finding are clear. First, researchers should no longer develop theoretical models to explain the coexistence of home bias and high turnover . Second, the relationship between transaction costs and home bias should be reexplored. On the second point, the basic intuition from Tesar and Werner (1995) -- that transaction costs do not help explain the observed home bias -- is confirmed using actual data on transaction costs in 41 markets.

Warnock, M. V. Cacdac

PD August 2000. **TI** The Declining Volatility of U.S. Employment: Was Arthur Burns Right? **AU** Warnock, M. V. Cacdac; Warnock, Francis E. **AA** Warnock, M. V.: Mortgage Bankers Association of America. Warnock F. E.: Board of the Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 677; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 28. **PR** no charge. **JE** C13, E24, E32, J23, J64. **KW** Employment. Volatility. Variability. Business Cycles. Manufacturing.

AB This paper attempts to add to the understanding of changes in the magnitude of business cycle fluctuations by examining disaggregated employment data. Specifically, we use a stochastic variance approach on monthly employment data for the 1946-1996 period to highlight two stylized facts of aggregate U.S. employment -- greater volatility in recessions than expansions and reduced volatility since the early 1980s. These patterns are not, however, apparent in each sector of the economy. Asymmetric volatility is only evident in manufacturing and trade; other sectors, such as construction or the narrowly defined services sector, are just as likely to exhibit high volatility in expansions. A general reduction in volatility is evident only in goods- producing sectors; some industries in the broad service-producing sector have become more volatile over time. Our results highlight the close relationship between aggregate and manufacturing volatility, and suggest that to understand why the U.S. business cycle has become more muted, researchers should strive to understand the forces at work that are reducing volatility in the manufacturing sector.

Webb, Bruce

TI Nominal Contracts and Monetary Targets. **AU** Minford, Patrick; Nowell, Eric; Webb, Bruce.

Webb, David C.

TI Advantageous Selection in Insurance Markets. **AU** de Meza, David; Webb, David C.

Weeks, Melvyn

TI Decision Structures and Discrete Choices: An Application to Labour Market Participation and Fertility. **AU** Di Tommaso, Maria L.; Weeks, Melvyn.

TI Provincial Income Convergence in China, 1953-1997: A Panel Data Approach. **AU** Yudon, Yao; Weeks, Melvyn.

TI The Measurement and Determination of Institutional Change: Evidence from Transition Economies. **AU** Raiser, Martin; Di Tommaso, Maria L.; Weeks, Melvyn.

Weinhold, Diana

TI On the Effect of the Internet on International Trade. **AU** Freund, Caroline L.; Weinhold, Diana.

Weinstein, David

TI Trade and Growth: Import-Led or Export-Led? Evidence from Japan and Korea. **AU** Lawrence, Robert; Weinstein, David.

Weisbenner, Scott J.

PD April 2000. **TI** Corporate Share Repurchases in the 1990s: What Role Do Stock Options Play? **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/29; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 52. **PR** no charge. **JE** G32, G35, J33. **KW** Share Repurchases. Stock Options. Payout Policy. Earnings Per Share. Equity Valuation.

AB This paper investigates how the growth of stock option programs has affected corporate payout policy. Given that earnings per share (EPS) is widely used in equity valuation, some corporations may opt to repurchase shares to avoid the dilution of EPS that results from past stock option grants. Executives may also prefer distributing cash by repurchasing shares or retaining more earnings, as opposed to increasing dividends, to enhance the value of their own stock options. This paper tests the importance of these two hypotheses using cross- sectional and panel data on stock option programs. I find that stock options granted to top executives affect payout policy differently than do stock options granted to other employees. Option grants in general are associated with increased share repurchases and increased total payouts. However, the larger is the executives' holding of stock options, the more apt the firm is to retain more earnings and curtail cash distributions. Analysis of panel data for a sample of large firms suggests that firms conduct an ongoing repurchase of shares over the life of an option that undoes much of the dilution to EPS that results from past stock option grants.

Weiss, Yoram

TI Status Concerns and the Organization of Work. **AU** Fershtman, Chaim; Weiss, Yoram; Hvide, Hans K.

Wettstein, David

TI Innovative Activity and Sunk Cost. **AU** Kaplan, Todd R.; Luski, Israel; Wettstein, David.

Whelan, Karl

PD February 2000. **TI** Computers, Obsolescence, and Productivity. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/06; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 42. **PR** no charge. **JE** J24, O33, O40. **KW** Computers. Productivity. Obsolescence. Technological Change. Growth.

AB This paper examines the role that computers have played in boosting U.S. economic growth in recent years. The paper focuses on two effects -- the effect of increased productivity in the computer-producing sector and the effect of investments in computing equipment on the productivity of those who use them -- and concludes that together they account for almost all of the recent acceleration in U.S. labor productivity. In calculating the computer-usage effect, standard NIPA measures of the capital stock are inappropriate for growth accounting because they do not account for technological obsolescence, which occurs when a machine that is still productive is retired because it is no longer near the technological frontier. Using a theoretical framework that explicitly accounts for technological obsolescence, alternative estimates of the computer capital stock are developed that imply larger effects on growth of computer capital accumulation than are suggested by the NIPA stocks.

TI Explaining the Investment Boom of the 1990s. **AU** Tevlin, Stacey; Whelan, Karl.

PD June 2000. **TI** A Guide to the Use of Chain Aggregated NIPA Data. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/35; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 21. **PR** no charge. **JE** C43, C82, E10, O33. **KW** NIPA Data. Chain Aggregation. Information Technologies. Macroeconomic Data.

AB In 1996, the U.S. Department of Commerce began using a new method to construct all aggregate "real" series in the National Income and Product Accounts (NIPA). This method employs the so-called "ideal chain index" pioneered by Irving Fisher. The new methodology has some extremely important implications that are unfamiliar to many practicing empirical economists; as a result, mistaken calculations with NIPA data have become very common. This paper explains the motivation for the switch to chain aggregation and then illustrates the usage of chain- aggregated data with three topical examples, each relating to a different aspect of how information technologies are changing the economy.

PD December 2000. **TI** Balanced Growth Revisited: A Two-Sector Model of Economic Growth. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/04; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 33. **PR** no charge. **JE** E20, O41, O47. **KW** Balanced Growth. Multisector Models. Chain Aggregation. Durable Goods. Investment.

AB The one-sector Solow-Ramsey model is the most popular model of long- run economic growth. This paper argues that a two-sector approach, which distinguishes the durable goods sector from the rest of the economy, provides a far better picture of the long-run behavior of the U.S. economy. Real durable goods output has consistently grown faster than the rest of the economy. Because most investment spending is on durable goods, the one-sector model's hypothesis of balanced growth, so that the real aggregates for consumption, investment, output, and the capital stock all grow at the same rate in the long run, is rejected by U.S. data. In addition, to model these aggregates as currently constructed in the U.S. National Accounts, a two-sector approach is required. Implications for empirical macroeconomics are explored.

PD December 1999. **TI** Real Wage Dynamics and the Phillips Curve. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/02; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 25. **PR** no charge. **JE** E24, E31. **KW** Phillips Curve. Inflation. NAIRU. Unemployment. Real Wages.

AB Since Friedman (1968), the traditional derivation of the accelerationist Phillips curve has related expected real wage inflation to the unemployment rate and then invoked markup pricing and adaptive expectations to generate the accelerationist price inflation equation. Blanchflower and Oswald (1994) have argued that microeconomic evidence of a low autoregression coefficient in real wage regressions invalidates this approach, a conclusion that has been disputed widely on the grounds that the true autoregression coefficient is close to one. This paper shows that the accelerationist relationship between the change in price inflation and the unemployment rate is consistent with any type of microeconomic real wage dynamics. However, these dynamics will determine how supply shocks affect inflation. Evidence on supply shocks and inflation points against the traditional real wage formulation. Implications for the recent behavior of the NAIRU are explored.

Widgren, Mika

PD August 1999. **TI** Flexible Integration as an Efficient Decision-Making Rule. **AA** ETLA and Turku School of Economics and Business Administration. **SR** Centre for Economic Policy Research Discussion Paper: 2207; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 24. **PR** 5 pounds, 8 euros, or $8. **JE** C72, D71, D72. **KW** Incomplete Contracts. Integration. Legislative Bargaining. Non-Cooperative Games.

AB In this paper we combine a non-cooperative decision-making game in a federal structure with two levels of interest and an incomplete contract which sets the rules of the game. The question we pose is how to combine ex ante efficiency of the design with ex post efficiency of the outcomes in the decision-making game. The paper shows that in common policies there are no designs that lead to both types of efficiency but flexible integration is a way to achieve both.

Wieland, Volker W.

TI NAIRU Uncertainty and Nonlinear Policy Rules. **AU** Meyer, Laurence H.; Swanson, Eric T.; Wieland, Volker W.

TI Efficient Monetary Policy Design Near Price Stability. **AU** Orphanides, Athanasios; Wieland, Volker W.

Williams, John C.

PD January 2001. **TI** Transition Dynamics in Vintage Capital Models: Explaining the Postwar Catch-Up of Germany and Japan. **AU** Williams, John C.; Gilchrist, Simon. **AA** Williams: Board of Governors of the Federal Reserve System. Gilchrist: Boston University, Federal Reserve Bank of Boston and NBER. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2001/07; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 28. **PR** no charge. **JE** D24, E22, E23, N10, O41. **KW** Putty-Clay. Embodied Technology. Productivity Growth. Convergence. Capital Accumulation.

AB We consider a neoclassical interpretation of Germany and Japan's rapid postwar growth that relies on a catch-up mechanism through capital accumulation where technology is embodied in new capital goods. Using a putty-clay model of production and investment, we are able to capture many of the key empirical properties of Germany and Japan's postwar transitions, including persistently high but declining rates of labor and total-factor-productivity growth, a U-shaped response of the capital-output ratio, rising rates of investment and employment, and moderate rates of return to capital.

TI Too much of a Good Thing? The Economics of Investment in R&D. **AU** Jones, Charles I.; Williams, John C.

Wilson, Daniel J.

TI The Production-Side Approach to Estimating Embodied Technological Change. **AU** Sakellaris, Plutarchos; Wilson, Daniel J.

Winters, L. Alan

PD June 1999. **TI** Regionalism in the Nineties: What Effect on Trade? **AU** Winters, L. Alan; Soloaga, Isidro. **AA** Winters: University of Sussex. Soloaga: World Bank. **SR** Centre for Economic Policy Research Discussion Paper: 2183; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 36. **PR** 5 pounds, 8 euros, or $8. **JE** F13, F15. **KW** Regional Integration. Trade Diversion. Gravity Model. European Integration.

AB The paper applies a gravity model to 1980-1996 annual non-fuel imports data for 58 countries to quantify the effects of recently created or revamped PTAs on trade. We modify the usual gravity equation to identify separate effects of PTAs on intra-bloc trade, members' total imports and their total exports. We also innovate by formally testing the significance of changes in the estimated coefficients before and after blocs' formation. Our estimations show no indication that the "new wave" of regionalism boosted intra-bloc trade significantly. Regarding trade diversion, we found convincing evidence of it only for EU and EFTA (and for the same blocs also, we observed exports diversion, which would be consistent with their imposing a welfare cost on the ROW). Trade liberalization efforts in Latin America had a positive impact on bloc members' imports (ANDEAN, CACM, LAIA and MERCOSUR), although MERCOSUR's exports decreased in the last part of the sample.

Wolf, Holga C.

TI Why Does the "Law of One Price" Fail? A Case Study. **AU** Haskel, Jonathan; Wolf, Holga C.

Wolfers, Justin

TI The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence. **AU** Blanchard, Olivier; Wolfers, Justin.

Wolfram, Catherine

TI Regulating Executive Pay: Using the Tax Code to Influence CEO Compensation. **AU** Rose, Nancy L.; Wolfram, Catherine.

Wolters, Jurgen

TI Comparison of Bootstrap Confidence Intervals for Impulse Responses of German Monetary Systems. **AU** Benkwitz, Alexander; Lutkepohl, Helmut; Wolters, Jurgen.

Wong, Ging

TI New Approaches to Public Income Support in Canada. **AU** Nakamura, Alice O.; Wong, Ging; Diewert, W. Erwin.

Wood, Paul R.

TI Fiscal Federalism and European Integration: Implications for Fiscal and Monetary Policies. **AU** Gramlich, Edward M.; Wood, Paul R.

Woodford, Michael

PD July 1999. **TI** Optimal Monetary Policy Inertia. **AA** Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 7261; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 84. **PR** $5.00. **JE** E52, E58. **KW** Monetary Policy. Central Banks. Interest Rates. Loss Functions. Commitment.

AB This paper considers the desirability of the observed tendency of central banks to adjust interest rates only gradually in response to changes in economic conditions. It shows, in the context of a simple model of optimizing private-sector behavior, that such inertial policy can be optimal. The reason is that small but persistent changes in short-term interest rates in response to shocks allow a larger effect of monetary policy on long rates and hence upon aggregate demand, for a given degree of overall interest-rate variability. The paper also considers two ways of achieving the desirable degree of inertia in the equilibrium responses to shocks. One is by assignment of a loss function that penalizes squared interest-rate changes (despite the fact that interest-rate changes do not affect the true social objective) to a central bank that is then expected to use discretion in the pursuit of the goal. The second is through commitment to an explicit instrument rule, a generalization of the "Taylor rule" in which the funds rate is an increasing function of the lagged funds rate, as in estimated Fed reaction functions.

Woodland, A. D.

TI The Gains from Trade and Policy Reform Revisited. **AU** Diewert, W. Erwin; Woodland, A. D.

Workman, Lisa

TI Modeling the IMF's Statistical Discrepancy in the Global Current Account. **AU** Marquez, Jaime; Workman, Lisa.

Wright, Jonathan H.

PD July 2000. **TI** Detecting Lack of Identification in GMM. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 674; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 32. **PR** no charge. **JE** C12, C30, C52, G12. **KW** GMM. Method of Moments. Identification. Asset Pricing. Instrumental Variables.

AB In the standard linear instrumental variables regression model, it must be assumed that the instruments are correlated with the endogenous variables in order to ensure the consistency and asymptotic normality of the usual instrumental variables estimator. Indeed, if the instruments are only slightly correlated with the endogenous variables, the conventional Gaussian asymptotic theory may still provide a very poor approximation to the finite sample distribution of the usual instrumental variables estimator. Because of the crucial role of this identification condition, it is common to test for instrument relevance by a first-stage F-test. Identification issues also arise in the generalized method of moments model, of which the linear instrumental variables model is a special case. But I know of no means, in the existing literature, of testing for identification in this model. This paper proposes a test of the null of underidentification in the generalized method of moments model.

PD September 2000. **TI** Exact Confidence Intervals for Impulse Responses in a Gaussian Vector Autoregression. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 682; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 20. **PR** no charge. **JE** C22, C32, C52. **KW** Confidence Intervals. Vector Autoregression. Impulse Responses. Bootstrap.

AB Many techniques have been proposed for forming confidence intervals for the impulse responses in a vector autoregression. However, numerous Monte-Carlo simulations have shown that all of these methods often have coverage well below the nominal level. This paper proposes a new approach to constructing confidence intervals for impulse responses in a vector autoregression, making the additional assumption of Gaussianity. These confidence intervals are conservative in all sample sizes; by construction they have coverage that must be greater than or equal to the nominal level.

PD November 2000. **TI** Log-Periodogram Estimation of Long Memory Volatility Dependencies with Conditionally Heavy Tailed Returns. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 685; Board of Governors of the Federal Reserve System, Maitland Alferieff, Division of International Finance, Mail Stop 22, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp/. **PG** 30. **PR** no charge. **JE** C14, C15, C22, C52, G12. **KW** Semiparametric Methods. Fractional Integration. Stochastic Volatility. Stock Returns. Long Memory.

AB Many recent papers have used semiparametric methods, especially the log-periodogram regression, to detect and estimate long memory in the volatility of asset returns. In these papers, the volatility is proxied by measures such as squared, log-squared and absolute returns. While the evidence for the existence of long memory is strong using any of these measures, the actual long memory parameter estimates can be sensitive to which measure is used. In Monte-Carlo simulations, I find that the choice of volatility measure makes little difference to the log-periodogram regression estimator if the data is Gaussian conditional on the volatility process. But, if the data is conditionally leptokurtic, the log-periodogram regression estimator using squared returns has a large downward bias, which is avoided by using other volatility measures. In U.S. stock return data, I find that squared returns give much lower estimates of the long memory parameter than the alternative volatility measures, which is consistent with the simulation results. I conclude that researchers should avoid using the squared returns in the semiparametric estimation of long memory volatility dependencies.

TI News and Noise in G-7 GDP Announcements. **AU** Faust, Jon; Rogers, John H.; Wright, Jonathan H.

Wright, Stephen

PD November 2000. **TI** Optimal Monetary Policy with Sticky Nominal Debt Contracts. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0023; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 35. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D60, E21, E31, E52, E61. **KW** Monetary Policy. Sticky Prices. Credit Constraints. Policy Loss Function. Welfare.

AB In this paper, in contrast to the standard "Optimizing IS-LM" framework, the monetary policy problem arises from within the model. I consider the impact on the monetary policy transmission mechanism, and on the objectives of policy itself, when some consumers are subject to credit constraints, and debt contracts are sticky in nominal terms. The consumption of this group will respond both to fluctuations in output and in the nominal interest rate. Monetary policy can be seen as a mechanism to achieve a more socially desirable outcome by redistributing consumption variance between constrained and unconstrained consumers. Assuming some positive weight is given to the welfare of both groups, a number of general features of optimal monetary policy can be derived. Most notably, the real interest rate should optimally fall in the face of inflation shocks, and the impact of demand shocks on output should never be fully eliminated.

Xie, Danyang

PD November 2000. **TI** To "B" or not to "B": A Welfare Analysis of Breaking Up Monopolies in an Endogenous Growth Model. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/189; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 17. **PR** not available. **JE** L41, O31, O34, O38, O41. **KW** Research and Development. Growth. Competition Policy. Intellectual Property. Monopoly.

AB This paper studies the welfare consequences of a government regulation that forces a patented equipment to be supplied by a number of independent producers. On the one hand, such a regulation hurts the value of a patent and therefore reduces activities in the R&D sector. On the other hand, the enhanced competition for the equipment improves efficiency in the manufacturing sector. Should monopolies protected by intellectual property rights be broken up? The answer is "no" in a Romer-type growth model, but there is sufficient reason to believe that the answer could be "yes" in a model advocated by Jones (1995).

Yafeh, Yishay

TI Emerging Market Spreads: Then Versus Now. **AU** Mauro, Paolo; Sussman, Nathan; Yafeh, Yishay.

Yoon, Gawon

TI Self-Generating Variables in a Cointegrated VAR Framework. **AU** Granger, Clive W. J.; Yoon, Gawon.

Yudon, Yao

PD October 2000. **TI** Provincial Income Convergence in China, 1953-1997: A Panel Data Approach. **AU** Yudon, Yao; Weeks, Melvyn. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0010; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 34. **PR** US $10/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** C14, C33, O41, O53. **KW** Provincial Convergence. Panel Data. GMM Estimators. Growth. Economic Transition.

AB China's accelerated growth rate during the reform period 1978-97 has reinforced concerns about how to cope with continued expansion while also maintaining balanced regional growth. We examine the tendency to, and the speed of, provincial income convergence during the two periods: pre-reform (1953-1977) and reform (1978-1997). The Solow growth model provides the main theoretical framework. The empirical method accounts for heterogeneity in both initial technology and the rate of technological progress. Estimation problems are addressed by using the System GMM Estimator and a coefficient bound provided by the OLS and within-group estimator. Although we find evidence of conditional convergence for both the periods, relative to the estimated convergence speed for other regions and countries, China's provincial convergence speeds are surprisingly low: 0.414% for the pre-reform period and 2.23% for the reform period. This means that, despite China's remarkable economic growth, the provincial income convergence process has been disappointing.

Zakrajsek, Egon

PD February 2000. **TI** Microeconomic Inventory Adjustment: Evidence From U.S. Firm-Level Data. **AU** Zakrajsek, Egon; McCarthy, Jonathan. **AA** Zakrajsek: Board of Governors of the Federal Reserve System. McCarthy: Federal Reserve Bank of New York. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/24; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 37. **PR** no charge. **JE** D24, E22, E37, L60. **KW** Inventory. Investment. Linear-Quadratic Model. Business Cycles. Manufacturing.

AB We examine inventory adjustment in the U.S. manufacturing sector using quarterly firm-level data over the period 1978-1997. Our evidence indicates that the inventory investment process is nonlinear and asymmetric, results consistent with a nonconvex adjustment cost structure. The inventory adjustment process differs over the business cycle: for a given level of excess inventories, firms disinvest more in recessions than they do in expansions. The inventory adjustment process has changed little between the 1980s and 1990s, suggesting that recent advances in inventory control have had little effect on adjustment costs. Nevertheless, the optimal inventory-sales ratio in the durable goods sector has declined significantly during our sample period.

PD April 2000. **TI** Purchasing Power Parity: Three Stakes Through the Heart of the Unit Root Null. **AU** Zakrajsek, Egon; Higgins, Matthew. **AA** Higgins: Board of Governors of the Federal Reserve System. Zakrajsek: Federal Reserve Bank of New York. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/22; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 19. **PR** no charge.

JE C15, C33, F15, F31. **KW** Purchasing Power Parity. Panel Data. Unit Roots. Exchange Rates. Monte Carlo.
AB We provide a comprehensive analysis of the purchasing power parity hypothesis, relying on a linear panel data framework. First, we consider two panel unit root tests, based on transformations of country-specific statistics, which allow for parameter heterogeneity across countries. Using GLS techniques, we modify the two tests to eliminate the upward size distortion induced by cross-sectional dependence among contemporaneous real exchange rate innovations. Second, we consider two tests based on a fixed-effects specification: these tests allow for cross-sectional dependence but impose parameter homogeneity. Three of the four tests provide emphatic support for real exchange rate stationarity during the post-Bretton Woods era among relatively open economies. Monte Carlo experiments indicate that the three tests have considerable power against the unit root null. One test allowing parameter heterogeneity provides mixed support for stationarity, but has only limited power against the null.

TI Factor Supplies and Specialization in the World Economy. **AU** Harrigan, James; Zakrajsek, Egon.

Zeldes, Stephen P.

TI Do the Rich Save More? **AU** Dynan, Karen E.; Skinner, Jonathan; Zeldes, Stephen P.

Zhang, Frank

TI Investigating the Sources of Default Risk: Lessons from Empirically Evaluating Credit Risk Models. **AU** Bakshi, Gurdip; Madan, Dilip; Zhang, Frank.

Zhou, Hao

PD August 2000. **TI** A Study of the Finite Sample Properties of EMM, GMM, QMLE, and MLE for a Square-Root Interest Rate Diffusion Model. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2000/45; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds. **PG** 44. **PR** no charge. **JE** C15, C22, C52, E43. **KW** Monte Carlo. Method of Moments. Maximum Likelihood. Square-Root Diffusion. Interest Rates.
AB This paper performs a Monte Carlo study on Efficient Method of Moments (EMM), Generalized Method of Moments (GMM), Quasi-Maximum Likelihood Estimation (QMLE), and Maximum Likelihood Estimation (MLE) for a continuous-time square-root model under two challenging scenarios -- high persistence in mean and strong conditional volatility -- that are commonly found in estimating the interest rate process. MLE turns out to be the most efficient of the four methods, but its finite sample inference and convergence rate suffer severely from approximating the likelihood function, especially in the scenario of highly persistent mean. QMLE comes second in terms of estimation efficiency, but it is the most reliable in generating inferences. GMM with lag-augmented moments has overall the lowest estimation efficiency. EMM shows an accelerated convergence rate in the high volatility scenario, while its over rejection bias in the mean persistence scenario is unacceptably large. Finally, under a stylized alternative model of US interest rates, the over identification test of EMM obtains the ultimate power for detecting misspecification, while the GMM J-test is increasingly biased downward in finite samples.

Zilcha, Itzhak

TI Human Capital Formation, Income Inequality and Growth. **AU** Viaene, Jean-Marie; Zilcha, Itzhak.

TI The Effect of Better Information on Growth and Welfare. **AU** Eckwert, Bernhard; Zilcha, Itzhak.

Zingales, Luigi

PD August 1999. **TI** What Determines Firm Size? **AU** Zingales, Luigi; Rajan, Raghuram G.; Kumar, Krishna B. **AA** Zingales and Rajan: University of Chicago. Kumar: University of Southern California. **SR** Centre for Economic Policy Research Discussion Paper: 2211; CEPR, 90-98 Goswell Road, London EC1V7RR, United Kingdom. Website: www.cepr.org. **PG** 56. **PR** 5 pounds, 8 euros, or $8. **JE** D23, G34, K23, L22. **KW** Firm. Size Effect. Boundaries.
AB Motivated by theories of the firm, which we classify as "technological" or "organizational," we analyze the determinants of firm size across industries and across countries in a sample of 15 European countries. We find that, on average, firms facing larger markets are larger. At the industry level, we find firms in the utility sector are large, perhaps because they enjoy a natural, or officially sanctioned, monopoly. Capital intensive industries, high wage industries, and industries that do a lot of R&D have larger firms, as do industries that require little external financing. At the country level, the most salient findings are that countries with efficient judicial systems have larger firms, and, correcting for institutional development, there is little evidence that richer countries have larger firms. As the judicial system improves, the difference in size between firms in capital intensive industries and firms in industries that use little physical capital diminishes, a finding consistent with "Critical Resource" theories of the firm. Finally, the average size of firms in industries dependent on external finance is larger in countries with better financial markets, suggesting that financial constraints limit average firm size.

Zivot, Eric

TI Markov Regime-Switching and Unit Root Tests. **AU** Nelson, Charles R.; Piger, Jeremy; Zivot, Eric.

Zoega, Gylfi

TI Training, Rent-Sharing and Unions. **AU** Booth, Alison L.; Zoega, Gylfi; Francesconi, Marco.