

Summaries of Articles

Implicit tax co-ordination under repeated policy interactions, by Marco Catenaro and Jean-Pierre Vidal

In the context of a stylised game theoretical framework of capital tax competition, we show that when repeated policy interactions are associated to a systematic punishment of the deviating policymaker, a co-ordinated outcome can be the solution to the non co-operative tax game. This result suggests that explicit forms of policy co-ordination, such as a centralised tax authority, could in fact be largely unnecessary.

Keywords : policy co-ordination, international fiscal issues.

Journal of Economic Literature classification numbers : E61, H87.

Advertising and endogenous exit in a differentiated duopoly, by Andrea Mantovani and Giordano Mion

In this paper we consider a two-stage duopoly game where firms first decide whether to invest in advertising and then compete in prices. Advertising has two effects : a market enlargement for both firms and a predatory gain for the investing firm only.

Both symmetric and asymmetric equilibria may arise. The two most interesting cases are a *coordination game* where both firms investing and non-investing are equilibria, and a *chicken game* where only one firm invests while the other is possibly driven (endogenously) out of the market. Our results suggest that product differentiation has an ambiguous impact on investment in advertising and that strong product substitutability may induce a coordination problem.

Keywords : advertising, product differentiation, endogenous exit, asymmetric equilibria, coordination games.

Journal of Economic Literature classification numbers : D64, E24, J22.

Schizophrénie intergénérationnelle, by Bruno Decreuse and Bertrand Wi-gniolle

Love pushed beyond its paroxysm leads to suffocation. That is the moral of this article, which depicts an altruistic parent setting her labour supply to offer the best living conditions to her child. When parents and children are perfectly substitutable in production, this behaviour pushes all wages down. If hourly wages are rigid, employment is rationed and the youth are the primary victims of such rationing. We show this mechanism may originate endogenous fluctuations between under and full employment when the older workers' productivity negatively responds to past unemployment. We also analyse the political support for the minimum wage. When the youth productivity is random, the minimum wage, the older workers' labour supply and youth unemployment together rise with the intensity of parental altruism.

Keywords : OLG model, altruism, endogenous labour supply, unemployment.

Journal of Economic Literature classification numbers : K42, D23, L22.

Underemployment equilibria, coordination failures and trading externalities, by Ludovic A. Julien

General equilibrium models of coordination failures capture the rationale of decentralised private activities. Nevertheless, the modelling of decentralized transactions and their influence at the macro-level are often eluded. In this paper, we explore a search theoretic monetary model without auctioneer and with trade-frictions, in which macro-underemployment is caused by a lack of coordination in decentralized trades. The equilibrium concept is a steady state with self-fulfilling expectations concerning the trade sector. There are multiple Pareto-ranked inefficient equilibria. Externalities arise from the transaction technology and money plays a critical role in coordinating transactions. We show that the acceptability of money yields a Pareto improvement because its use in trade makes production decisions easier. Moreover, when the degree of specialisation in consumption is low, more money enhances welfare and increases production. We finally discuss the model through the literature.

Keywords : multiple equilibria, transactions, decentralization, market participation externalities.

Journal of Economic Literature classification numbers : D40, E10, E24.