

## ABSTRACTS OF WORKING PAPERS IN ECONOMICS

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### Abbink, Klaus

**PD** January 2001. **TI** Learning Direction Theory and the Winner's Curse. **AU** Abbink, Klaus; Cox, Ricarda; Selten, Reinhard. **AA** Abbink: Institut d' Analisi Economica CSIC and Universitat Pompeu Fabra. Cox and Reinhard: University of Bonn. **SR** Bonn Econ Discussion Paper: 10/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 14. **PR** no charge. **JE** C91, D81, D83. **KW** Experiments. Learning. Decision Making. Winner's Curse.

**AB** We report an experiment on a decision task by Samuelson and Bazerman (1985). Subjects submit a bid for an item with an unknown value. A winner's curse phenomenon arises when subjects bid too high and make losses. Learning direction theory can account for this. However, other influences on behavior can also be identified. We introduce impulse balance theory to make quantitative predictions on the basis of learning direction theory. We also look at monotonic ladder processes. It is shown that for this kind of Markov chains the impulse balance point is connected to the mode of the stationary distribution.

**PD** September 2001. **TI** An Experimental Test of Design Alternatives for the British 3G/UMTS Auction. **AU** Abbink, Klaus; Irlenbusch, Bernd; Pezanis-Christou, Paul; Rockenbach, Bettina; Sadrieh, Abdolkarim; Selten, Reinhard. **AA** Abbink: University of Nottingham. Irlenbusch and Rockenbach: University of Erfurt. Pezanis-Christou: Institut d'Analisi Economica CSIC and Universitat Pompeu Fabra. Sadrieh: Tilburg University. Selten: University of Bonn. **SR** Bonn Econ Discussion Paper: 25/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 17. **PR** no charge. **JE** C92, D44, L96. **KW** Spectrum Auctions. Mobile Telecommunications. Experiments.

**AB** In spring 2000, the British government auctioned off licenses for Third Generation mobile telecommunications services. In the preparation of the auction, two designs each involving a hybrid of an English and a sealed-bid auction were suggested by the government: a discriminatory and a uniform price variant. We report an experiment on these two designs, and also compare the results to those with a pure English auction. Both hybrids are similar in efficiency; revenue differences disappear as bidders get experienced. Compared to the discriminatory format, the pure English auction gives new entrants better chances.

**PD** October 2002. **TI** Neutral versus Loaded Instructions in a Bribery Experiment. **AU** Abbink, Klaus; Hennig-

Schmidt, Heike. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 23/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 20. **PR** no charge. **JE** C91, D62, D72, D73, K42. **KW** Context. Framing. Experimental Instructions. Reciprocity. Ethical Behavior. Social Norms.

**AB** This paper contributes to the ongoing methodological debate on context-free versus in-context presentation of experimental tasks. We report an experiment using the paradigm of a bribery experiment. In one condition, the task is presented in a typical bribery context, the other one uses abstract wording. Though the underlying context is heavily loaded with negative ethical preconceptions, we do not find significant differences. We conjecture that the experimental design transmits the essential features of a bribery situation already with neutral framing, such that the presentation does not add substantially to subjects' interpretation of the task.

### Acemoglu, Daron

**PD** September 2001. **TI** Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution. **AU** Acemoglu, Daron; Robinson, James A.; Johnson, Simon. **AA** Acemoglu and Johnson: MIT and NBER. Robinson: UC Berkeley. **SR** National Bureau of Economic Research Working Paper: 8460; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** O10, P16, P51. **KW** Income Distribution. Urbanization. Population Density. Institutions.

**AB** Among countries colonized by European powers during the past 500 years those that were relatively rich in 1500 are now relatively poor. We document this reversal using data on urbanization patterns and population density, which, we argue, proxy for economic prosperity. This reversal is inconsistent with a view that links economic development to geographic factors. According to the geography view, societies that were relatively rich in 1500 should also be relatively rich today. In contrast, the reversal is consistent with the role of institutions in economic development. The expansion of European overseas empires starting in the 15th century led to a major change in the institutions of the societies they colonized. In fact, the European intervention appears to have created an "institutional reversal" among these societies, in the sense that Europeans were more likely to introduce institutions encouraging investment in regions that were previously poor. This institutional reversal accounts for the reversal in relative incomes. We provide further support for this view by documenting that the reversal in relative incomes took place

during the 19th century, and resulted from societies with good institutions taking advantage of industrialization opportunities.

### Akerberg, Daniel A.

**PD** July 2001. **TI** Measuring the Relative Performance of Providers of a Health Service. **AU** Akerberg, Daniel A.; Machado, Matilde P.; Riordan, Michael H. **AA** Akerberg: University of California Los Angeles and NBER. Machado: Universidad Carlos III de Madrid and Institut d'Anàlisi Econòmic (CSIC). Riordan: Columbia University. **SR** National Bureau of Economic Research Working Paper: 8385; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 49. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I11, L11, L22, L32. **KW** Alcohol Abuse Treatment. Health Care. Wiener Process. Public Agency Performance.

**AB** A methodology is developed and applied to compare the performance of publicly funded agencies providing treatment for alcohol abuse in Maine. The methodology estimates a Wiener process that determines the duration of completed treatments, while allowing for agency differences in the effectiveness of treatment, standards for completion of treatment, patient attrition, and the characteristic of patient populations. Notably, the Wiener process model separately identifies agency fixed effects that describe differences in the effectiveness of treatment ("treatment effects"), and effects that describe differences in the unobservable characteristics of patients ("population effects"). The estimated model enables hypothetical comparisons of how different agencies would treat the same population. The policy experiment of transferring the treatment practices of more cost-effective agencies suggests that Maine could have significantly reduced treatment costs without compromising health outcomes by identifying and transferring best practices.

### Ahearne, Alan

**PD** June 2002. **TI** Preventing Deflation: Lessons from Japan's Experience in the 1990s. **AU** Ahearne, Alan; Gagnon, Joseph E.; Haltmaier, Jane; Kamin, Steven B.; Erceg, Christopher; Faust, Jon; Guerrieri, Luca; Hemphill, Carter; Kole, Linda; Roush, Jennifer; Rogers, John; Sheets, Nathan; Wright, Jonathan. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 729; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 62. **PR** no charge. **JE** E31, E52, E63, N15. **KW** Monetary Policy. Taylor Rule. Fiscal Policy. Japan. Deflation.

**AB** This paper examines Japan's experience in the first half of the 1990s to shed some light on several issues that arise as inflation declines toward zero. Is it possible to recognize when an economy is moving into a phase of sustained deflation? How quickly should monetary policy respond to sharp declines in inflation? Are there factors that inhibit the monetary transmission mechanism as interest rates approach zero? What is the role for fiscal policy in warding off a deflationary episode? We conclude that Japan's sustained deflationary slump was very much unanticipated by Japanese policymakers and observers alike, and that this was a key factor in the authorities' failure to provide sufficient stimulus to maintain growth and positive inflation. Once inflation turned negative and short-term

interest rates approached the zero-lower-bound, it became much more difficult for monetary policy to reactivate the economy. Based on all these considerations, we draw the general lesson from Japan's experience that when inflation and interest rates have fallen close to zero, and the risk of deflation is high, stimulus, both monetary and fiscal, should go beyond the levels conventionally implied by baseline forecasts of future inflation and economic activity.

### Ahmed, Shaghil

**PD** July 2002. **TI** Recent U.S. Macroeconomic Stability: Good Policies, Good Practices, or Good Luck? **AU** Ahmed, Shaghil; Levin, Andrew T.; Wilson, Beth Anne. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 730; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 53. **PR** no charge. **JE** E31, E32, E52. **KW** Gross Domestic Product. Volatility. Inflation Stabilization. Business Cycles. Frequency Domain.

**AB** The volatility of U.S. real gross domestic product growth since 1984 has been markedly lower than that over the previous quarter-century. In this paper, we utilize frequency-domain and vector autoregressive methods to distinguish among several competing explanations for this phenomenon: improvements in monetary policy, better business practices, and a fortuitous reduction in exogenous disturbances. We find that reduced innovation variances account for much of the decline in aggregate output volatility. Our results support the "good-luck" hypothesis as the leading explanation for the decline in aggregate output volatility, although "good-practices" and "good-policy" are also contributing factors. Applying the same methods to consumer price inflation, we find that the post-1984 decline in inflation volatility can be attributed largely to improvements in monetary policy.

**PD** September 2002. **TI** Are Depreciations as Contractionary as Devaluations? A Comparison of Selected Emerging and Industrial Economies. **AU** Ahmed, Shaghil; Gust, Christopher J.; Kamin, Steven B.; Huntley, Jonathan. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 737; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 44. **PR** no charge. **JE** F33, F41. **KW** Contractionary Devaluations. Exchange Rate Regimes. Emerging Economies.

**AB** According to conventional models, flexible exchange rates play an equilibrating role in open economies, depreciating in response to adverse shocks, boosting net exports, and stimulating aggregate demand. However, critics argue that, at least in developing countries, devaluations are more contractionary and more inflationary than conventional theories would predict. Yet, it is not clear whether devaluations per se have led to adverse outcomes, or rather the disruptive abandonments of pegged exchange-rate regimes associated with devaluations. To explore this hypothesis, we estimate vector autoregressive models to compare the responses to devaluation of developing economies and two types of industrial economies: those that have consistently floated, and those that have sustained fixed exchange-rate regimes as well.

We find that both of these types of industrial economies exhibit conventional (i.e., expansionary) responses to devaluation shocks, compared with the contractionary responses exhibited by developing countries. This finding suggests that exchange rate movements may be more destabilizing in developing countries than in industrial countries, regardless of exchange rate regime.

### Alberola, Enrique

**PD** August 2002. **TI** The Quest for Nominal and Real Convergence Through Integration in Europe and Latin America. **AU** Alberola, Enrique; Buisan, Ana; Fernandez de Lis, Santiago. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0213; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 26. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** E44, E63, F33, F36. **KW** Economic Integration. Convergence. European Periphery. Latin America.

**AB** Over the last decade economic integration has advanced in both areas, and this has been seen as an opportunity for real convergence in Latin America and in the European periphery. But our approach emphasizes that integration has to be supplemented by macroeconomic stability and structural reform. Focusing on these aspects, this work compares both experiences which, while very diverse in nature, depth and scope, may however offer through their differences and analogies interesting insights, especially for Latin America, as the degree of integration in Europe is much more advanced. The conclusions point to the need for a further effort in Latin America to achieve the fruits of reasonable policies, in order to compensate for the robust institutional underpinnings from which the European periphery has benefited. Thus, at the current juncture, as Latin America looks back with mixed feelings on the past decade, perseverance and determination in pursuing reforms are called for.

### Albuquerque, Jose Luis

**TI** The Impact of Means Tested Assistance in Southern Europe. **AU** O'Donoghue, Cathal; Albuquerque, Jose Luis; Baldini, Massimo; Bargain, Olivier; Bosi, Paolo; Levy, Horacio; Mantovani, Daniela; Matsaganis, Manos; Mercader-Prats, Magda; Farinha Rodrigues, Carlos; Toso, Stefano; Terraz, Isabelle; Tsakloglou, Panos.

### Alesina, Alberto F.

**PD** January 2001. **TI** The Political Economy of International Unions. **AU** Alesina, Alberto F.; Angeloni, Ignazio; Etro, Federico. **AA** Alesina: Harvard University, NBER and CEPR. Angeloni: European Central Bank. Etro: Ministry of Economy, Italy. **SR** CEPR Discussion Paper: 3117; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D78, H11, H41. **KW** European Union. Federalism. Political Economy. Subsidiary.

**AB** We model an international union as a group of countries deciding together the provision of certain public goods and policies because of spillovers. The countries are heterogeneous either in preferences and/or in economic fundamentals. The

trade-off between the benefits of coordination and the loss of independent policymaking endogenously determines the size, the composition and the scope of unions. Our model implies that the equilibrium size of the union is inversely related to the degree of heterogeneity between countries and to the spectrum of common policies. Hence, there is a trade-off between enlargement and deepening of coordination: a union involved in too many collateral activities will be favored by few countries, while a union which focuses on a core of activities will be favored by many countries. The political equilibrium implies a bias toward excessive centralization and small size of the union, however. This bias can be corrected if there is a constitutional commitment of the union to centralize only certain policies.

**PD** January 2002. **TI** Preferences for Redistribution in the Land of Opportunities. **AU** Alesina, Alberto F.; La Ferrara, Eliana. **AA** Alesina: Harvard University and CEPR. Ferrara: IGIER and Universita Bocconi. **SR** CEPR Discussion Paper: 3155; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** H11, J62. **KW** Social Mobility. Redistribution.

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

### Alonso, Francisco

**PD** September 2001. **TI** Estimating Inflation Expectations Using French Government Inflation-Indexed Bonds. **AU** Alonso, Francisco; Blanco, Roberto; del Rio, Ana. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0111; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 25. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** E31, E43, E44, G12. **KW** Inflation Rate. Term Structure of Interest Rates. France.

**AB** Inflation indexed bonds are fixed-income securities whose nominal cash flows are adjusted to an inflation index. In countries where these securities exist, inflation expectations are sometimes estimated as the spread between the nominal yield on a conventional bond and the real yield on an indexed bond with a similar maturity and issued in the same currency and by the same issuer. However, this indicator, known as the break-even rate, may estimate inflation expectations with some biases. We discuss, and quantify the size of such biases. Then, focusing on the 10-year French indexed bond, we compute an alternative

indicator, called the inflation compensation measure, which corrects some of these biases, and find very few differences between both indicators in our sample period. Finally, the comparison with other indicators of long-term inflation expectations shows that measures based on indexed-bond prices are more time-varying than non-financial indicators, but less variable than other financial indicators.

### Alvarez Gonzalez, Luis Julian

**PD** November 2002. **TI** ISIS: un indicador sintético integral de los servicios de Mercado (ISIS: A synthetic Indicator for Market Services). **AU** Alvarez Gonzalez, Luis Julian; Jareno Morago, Javier. **AA** Banco de España. **SR** Banco de España, Documentos de Trabajo: 0220; Banco de España, Sección de Publicaciones, Negociado de Distribución y Gestión, Alcalá, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 16. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de España. **JE** C82, L80. **KW** Market Services. Spain. Conjunctural Analysis. Synthetic Indicators.

**AB** Despite the enormous importance of market services in the economy as a whole, the conjunctural statistical information for this sector is inferior to the secondary sector. In fact, there are no overall statistics for market services, so that conjunctural analysis must be based on a broad set of heterogeneous indicators that leave out significant areas of services activity. The aim of this paper is to present the method used to compile a synthetic indicator for market services, for monitoring short-term developments in this branch of activity. The indicator compiled is comprehensive and enables a detailed analysis coherent with developments in the sector as a whole. The results obtained show that this indicator is a very useful tool for the conjunctural monitoring of market services. Also, it provides disaggregated information on the activities of the sector that is not available in the quarterly national accounts. This paper is available in Spanish.

### Ameriks, John

**PD** January 2002. **TI** Retirement Consumption: Insights from a Survey. **AU** Ameriks, John; Caplin, Andrew; Leahy, John. **AA** Aermiks: TIAA-CREF Institute. Caplin: New York University and NBER. Leahy: Boston University and NBER. **SR** National Bureau of Economic Research Working Paper: 8735; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D14, E21, J26. **KW** Retirement. Consumption. Expectations.

**AB** Prior research has established that consumption falls significantly at retirement. What is not known is the extent to which this fall is anticipated during the working years. Do working households expect such a large fall in consumption upon retirement, or are they taken by surprise? Using data from a new survey, we show that many working households do expect a considerable fall in consumption when they retire. In fact, those who are already retired report significantly smaller falls in consumption than are expected by those who are still working. We show that participation in the stock market plays a dominant role in explaining the gap between expectations and outcomes, indicating that much of the gap is a result of unexpected stock market appreciation. The survey produces new insights into the high level of uncertainty in the period

leading up to retirement, and the surprises that may lie in store when households actually retire.

### Anderson, James E.

**PD** July 2001. **TI** Political Market Structure. **AU** Anderson, James E.; Prusa, Thomas J. **AA** Anderson: Boston College and NBER. Prusa: Rutgers University and NBER. **SR** National Bureau of Economic Research Working Paper: 8371; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 22. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D72, L13. **KW** Political Markets. Entry Barriers.

**AB** Many political markets are essentially uncontested, in the sense that one candidate raises little (or no) money and consequently has little chance of election. This presents a puzzle in the presence of apparently low barriers to entry. Using a variant of Baron (1989) we provide a theory encompassing both contested and uncontested markets. The essential addition is the presence of fixed costs of campaigning. We show that these may be quite small and yet constitute decisive barriers to entry.

### Anderson, Kym

**PD** January 2002. **TI** Globalization of the World's Wine Markets. **AU** Anderson, Kym; Norman, David; Wittwer, Glyn. **AA** Anderson: University of Adelaide and CEPR. Norman: Government of South Australia. Wittwer: Monash University. **SR** CEPR Discussion Paper: 3169; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C53, F15, F17. **KW** Wine Trade. Globalization. Quality Upgrading. Projection Modeling.

**AB** Globalization is not new to the world's wine markets, but its influence over the past decade or so has increased dramatically. This paper reviews the effects of that on both the Old World and New World. In focusing retrospectively on the period since the late 1980s, it points to the dramatic increase in the industry's export orientation and quality upgrading in the New World and the consequent competitive pressure on the Old World in key import markets. Looking forward, the paper draws on a new model of the world's wine markets that distinguishes non-premium, commercial premium and super-plus premium wines in each of 47 countries or country groups spanning the world. It projects recent developments to 2005, based on income, population and taste trends on the demand side and vine acreage and productivity trends on the supply side of each market. The effect of a slowdown in the global economy in the medium term is also considered. The results expose numerous implications of recent and prospective developments on key wine-exporting regions.

**PD** January 2002. **TI** How Can South Asia and Sub-Saharan Africa Gain from the Next WTO Round? **AU** Anderson, Kym; Yao, Shunli. **AA** Anderson: University of Adelaide and CEPR. Yao: City University of Hong Kong, University of California, Davis, and University of Adelaide. **SR** CEPR Discussion Paper: 3170; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F13, F15, F17, O19.

**KW** Trade Policy. World Trade Organization. Multilateral Negotiations. Developing Country. Gains from Trade.

**AB** If South Asia and Sub-Saharan Africa are to become constructively engaged in the next attempt by World Trade Organization (WTO) members to liberalize trade multilaterally, they need to be convinced that there will be sufficient gains from trade reform to warrant the inevitable costs of negotiation and adjustment. This paper provides new estimates of the likely economic effects on their economies of further liberalizing world trade post-Uruguay Round. The results show that the developing countries of South Asia and Sub-Saharan Africa have much to gain from taking part in the next round. Those gains will be far greater the more those countries are willing to embrace reform at home so as to enable their firms to take greatest advantage of the opportunities provided by the opening up of markets abroad.

**PD** January 2002. **TI** China, GMOs and World Trade in Agricultural and Textile Products. **AU** Anderson, Kym; Yao, Shunli. **AA** Anderson: University of Adelaide and CEPR. Yao: City University of Hong Kong, University of California, Davis, and University of Adelaide. **SR** CEPR Discussion Paper: 3171; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D58, F13, O33, Q17, Q18. **KW** Genetically Modified Organisms. Trade Policy. Import Ban. China. World Trade Organization.

**AB** China has always strived for self-sufficiency in farm products, particularly staple foods. Its rapid industrialization following its opening up to global markets during the past two decades has been making that more difficult, and its accession to the World Trade Organization (WTO) may add to that difficulty. New agricultural biotechnologies could ease that situation. The adoption and spread of some of those biotechnologies in agriculture have, however, raised concerns, particularly over the environmental and food safety effects of genetically modified organisms (GMOs). This paper focuses on possible implications of the GMO controversy for China, since it is prospectively not only a major producer and consumer of GM farm products but also a potential exporter of some of them. It explores the potential economic effects of China not adopting versus adopting GMOs when some of its trading partners adopt that technology. The effects are shown to depend to a considerable extent on the trade policy stance taken in high-income countries opposed to GMOs and/or to liberalization of China's trade in textiles and apparel.

#### Andres, Javier

**PD** January 2002. **TI** Money in an Estimated Business Cycle Model of the Euro Area. **AU** Andres, Javier; Lopez-Salido, J. David; Valles, Javier. **AA** Andres: Universidad de Valencia and Banco de Espana. Lopez-Salido and Valles: Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0121; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 20. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** E32, E41, E52. **KW** Monetary Aggregates. Business Cycles. Monetary Policy. Euro Area.

**AB** We present maximum likelihood estimates of a small scale dynamic general equilibrium model for the Eurozone. We

pay special attention to the role of money, both through its direct effect upon private agents' decisions and as a component of the monetary policy rule. Our results can be summarized as follows. First, we find no direct effect of money upon inflation and output but money growth plays a significant role in the interest rate rule. Second, money demand shocks mainly help to forecast real balances, while real shocks explain the bulk of price, output and interest rate fluctuations. Third, the estimated model predicts sensible conditional correlations among those variables both to demand and supply disturbances. Finally, the systematic response of interest rates to money growth does not seem to have affected the output-inflation variability trade-off.

#### Angeloni, Ignazio

**TI** The Political Economy of International Unions. **AU** Alesina, Alberto F.; Angeloni, Ignazio; Etro, Federico.

#### Angrist, Joshua D.

**PD** August 2001. **TI** Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments. **AU** Angrist, Joshua D.; Krueger, Alan B. **AA** Angrist: MIT and NBER. Krueger: Princeton University. **SR** Princeton University, Industrial Relations Section Working Paper: 455; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. Website: [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). **PG** 20. **PR** no charge for single copies. **JE** A00, C50. **KW** Instrumental Variables. Natural Experiment.

**AB** The method of instrumental variables was first used in the 1920s to estimate supply and demand elasticities, and later used to correct for measurement error in single-equation models. Recently, instrumental variables have been widely used to reduce bias from omitted variables in estimates of causal relationships such as the effect of schooling on earnings. Intuitively, instrumental variables methods use only a portion of the variability in key variables to estimate the relationships of interest; if the instruments are valid, that portion is unrelated to the omitted variables. We discuss the mechanics of instrumental variables, and the qualities that make for a good instrument, devoting particular attention to instruments that are derived from "natural experiments." A key feature of the natural experiments approach is the transparency and refutability of identifying assumptions. We also discuss the use of instrumental variables in randomized experiments.

**PD** September 2001. **TI** Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments. **AU** Angrist, Joshua D.; Krueger, Alan B. **AA** Angrist: MIT and NBER. Krueger: Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 8456; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 20. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** B23, C50, G10, J31. **KW** Instrumental Variables. Natural Experiments.

**AB** The method of instrumental variables was first used in the 1920s to estimate supply and demand elasticities, and later used to correct for measurement error in single-equation models. Recently, instrumental variables have been widely used to reduce bias from omitted variables in estimates of causal relationships such as the effect of schooling on earnings. Intuitively, instrumental variables methods use only a portion of the variability in key variables to estimate the relationships

of interest; if the instruments are valid, that portion is unrelated to the omitted variables. We discuss the mechanics of instrumental variables, and the qualities that make for a good instrument, devoting particular attention to instruments that are derived from "natural experiments." A key feature of the natural experiments approach is the transparency and refutability of identifying assumptions. We also discuss the use of instrumental variables in randomized experiments.

#### Antoci, Angelo

**PD** May 2001. **TI** Economic Growth and Social Poverty: The Evolution of Social Participation. **AU** Antoci, Angelo; Sacco, Pier Luigi; Vanin, Paolo. **AA** Antoci: University of Sassari. Sacco: University of Bologna. Vanin: University of Bonn. **SR** Bonn Econ Discussion Paper: 13/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 23. **PR** no charge. **JE** C73, D62, I31, O41, Z13. **KW** Time Allocation. Social Capital. Relational Goods. Growth. Well-Being.

**AB** We develop an evolutionary model of growth in which agents choose how to allocate their time between private and social activities. We argue that a shift from social to private activities may foster market-based growth, but also generate social poverty. Within a formal framework that merges a game theoretic analysis of the evolution of social participation with a model of dynamic accumulation of its effects on social environment (i.e., of social capital accumulation), we show that growth and well-being may evolve in opposite directions (a plausible outcome for advanced and affluent societies).

#### Antunovich, Peter

**PD** January 2003. **TI** Fifteen Minutes of Fame? The Market Impact of Internet Stock Picks. **AU** Antunovich, Peter; Sarkar, Asani. **AA** Antunovich: Morgan Stanley Dean Witter & Co. Sarkar: Federal Reserve Bank of New York. **SR** Federal Reserve Bank of New York Staff Report: 158; Research and Market Analysis Group, Federal Reserve Bank of New York, 33 Liberty Street, 3rd Floor, New York, NY 10045-0001. Website: [www.newyorkfed.org/rmaghome](http://www.newyorkfed.org/rmaghome). **PG** 32. **PR** no charge; available only online. **JE** G11, G14. **KW** Internet Stocks. Liquidity. Externality.

**AB** We examine 120 National Association of Securities Dealers Automated Quotation System (NASDAQ) and Over-the-Counter "buy" recommendations made by Internet sites from April 1999 to June 2001. The stock picks show substantial short- and long-run price and liquidity gains, although no new information is revealed about them. For example, liquidity one year after the pick day remains higher for these stocks than for a sample matched according to size, book-to-market value, and liquidity in the preceding year. In addition, after controlling for fundamental and microstructure factors, we find that stocks with lower initial liquidity have greater improvements in liquidity on the pick day. Further, stocks with lower initial liquidity and higher pick-day liquidity have higher pick-day excess returns. These results suggest that stocks have multiple liquidity equilibria, and that the stock picks, by coordinating uninformed trading activity, push initially illiquid stocks to a higher liquidity equilibrium. Finally, we find that stocks with higher initial media exposure enjoy greater liquidity gains and lower excess returns on the pick day.

#### Apestequia, Jose

**PD** September 2001. **TI** Does Information Matter? Some Experimental Evidence from a Common-Pool Resource Game. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 24/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 12. **PR** no charge. **JE** C72, C91, D83, Q29. **KW** Common-Pool Resources. Nash Equilibrium. Information. Learning.

**AB** This paper analyzes the effect of the availability of information about the payoff structure on the behavior of players in a Common-Pool Resource game. Six groups of six individuals played a complete information game, while another six groups played the same game but with no information about the payoff function. It will be shown that the patterns of investment decisions in both treatments are remarkably similar. In fact, it cannot be rejected that there is no difference in the investment decisions at the aggregate level between the two treatments. Furthermore, after arguing that the unique Nash equilibrium of the game does not organize the individual data, two individual learning models are studied: one following a marginal analysis (the Best-reply function), and one following an average analysis (the Average-reply function). However, the predictive value of such learning models is found to be poor.

**PD** October 2001. **TI** The Two-Person Harvard Game: An Experimental Analysis. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 23/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 14. **PR** no charge. **JE** C72, C73, C92, D83. **KW** Bounded Rationality. Psychology. Melioration. Information. Learning.

**AB** Two subjects have to repeatedly choose between two alternatives, A and B, where payoffs of an A- or B-choice depend on the choices made by both players in a number of previous choices. Locally, alternative A always gives more payoff than alternative B. However, in terms of overall payoffs exclusive choice of B is a better strategy. The equilibrium predicted by the theory of melioration is to exclusively play A, while the Nash equilibrium is to almost exclusively play B. The predictive values of such equilibria are analyzed under three different informational conditions. Special attention is paid to the learning processes exhibited by players.

**PD** October 2001. **TI** A Characterization of Melioration in Game Theoretic Frameworks. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 26/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 15. **PR** no charge. **JE** C62, C72. **KW** Bounded Rationality. Melioration. Game Theory. Equilibrium Existence. Stability.

**AB** The theory of melioration, originally formulated for individual decision-making contexts, is formally extended to a game theoretic framework. This paper proves the existence of a distribution that is a melioration strategy on the part of all players. Further, the question of stability of such a distribution is studied.

**TI** Experimentally Observed Imitation and Cooperation in Price Competition on the Circle. **AU** Selten, Reinhard; Apestequia, Jose.

**Arteta, Carlos O.**

**PD** September 2002. **TI** Exchange Rate Regimes and Financial Dollarization: Does Flexibility Reduce Bank Currency Mismatches? **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 738; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. **Website:** [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 41. **PR** no charge. **JE** F33, G21. **KW** Dollarization. Exchange Rate Regimes. Currency Mismatches. Banks.

**AB** The dollarization of bank deposits and credit is widespread in developing countries, resulting in varying degrees of currency mismatches in domestic financial intermediation, which in turn might accentuate bank balance sheet fragility. It is widely argued that flexible exchange rate regimes encourage banks to match dollar-denominated liabilities with a corresponding amount of dollar-denominated assets, ameliorating currency mismatches. Does the behavior of dollar deposits and credit in financially dollarized economies support that presumption? A new database on deposit and credit dollarization in developing and transition countries is assembled and used to address this question. Empirical results suggest that, if anything, floating regimes seem to exacerbate, rather than ameliorate, currency mismatches in domestic financial intermediation, as those regimes seem to encourage deposit dollarization more strongly than they encourage matching via credit dollarization.

**Artis, Michael J.**

**PD** January 2002. **TI** Factor Forecasts for the UK. **AU** Artis, Michael J.; Banerjee, Anindya; Marcellino, Massimiliano. **AA** Artis: European University Institute and CEPR. Banerjee: European University Institute and Oxford University. Marcellino: Universita Bocconi. **SR** CEPR Discussion Paper: 3119; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C22, C51, C52, C53. **KW** Factor Models. Forecasts. Time Series Models. UK.

**AB** Time series models are often adopted for forecasting because of their simplicity and good performance. The number of parameters in these models increases quickly with the number of variables modeled, so that usually only univariate or small-scale multivariate models are considered. Yet, data are now readily available for a very large number of macroeconomic variables that are potentially useful when forecasting. Hence, in this paper we construct a large macroeconomic data set for the UK, with about 80 variables, model it using a dynamic factor model, and compare the resulting forecasts with those from a set of standard time series models. We find that just six factors are sufficient to explain 50% of the variability of all the variables in the data set. Moreover, these factors, which can be considered as the main driving forces of the economy, are related to key variables such as interest rates, monetary aggregates, prices, housing and labor market variables, and stock prices. Finally, the factor-based forecasts are shown to improve upon standard benchmarks for prices, real aggregates, and financial variables, at virtually no additional modeling or computational cost.

**Ashenfelter, Orley**

**PD** July 2001. **TI** Did the Elimination of Mandatory Retirement Affect Faculty Retirement Flows? **AU** Ashenfelter, Orley; Card, David. **AA** Ashenfelter: Princeton University and NBER. Card: UC Berkeley and NBER. **SR** National Bureau of Economic Research Working Paper: 8378; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** [www.nber.org](http://www.nber.org). **PG** 32. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I21, J26. **KW** Retirement. Mandatory Retirement. University Faculty. Faculty.

**AB** A special exemption from the 1986 Age Discrimination Act allowed colleges and universities to enforce mandatory retirement of faculty at age 70 until 1994. We compare faculty turnover rates at a large sample of institutions before and after the federal law change, and at a set of institutions that were covered by earlier state laws prohibiting compulsory retirement. Retirement rates at institutions that enforced mandatory retirement exhibited sharp "spikes" at ages 70 and 71. About 90 percent of professors who were still teaching at age 70 retired within two years. After the elimination of compulsory retirement the retirement rates of 70 and 71-year-olds fell to levels comparable to 69-year-olds, and over one-half of 70-year-olds were still teaching two years later. These findings indicate that U.S. colleges and universities will experience a rise in the number of older faculty over the coming years. The increase is likely to be larger at private research universities, where a higher fraction of faculty has traditionally remained at work until age 70.

**PD** April 2002. **TI** Using Mandated Speed Limits to Measure the Value of a Statistical Life. **AU** Ashenfelter, Orley; Greenstone, Michael. **AA** Ashenfelter: Princeton University. Greenstone: University of Chicago. **SR** Princeton University, Industrial Relations Section Working Paper: 463; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. **Website:** [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). **PG** 28. **PR** no charge for single copies. **JE** H43, I18, J17, R40. **KW** Value of a Statistical Life. Speed Limits. Safety Risks. Value of Time.

**AB** In 1987 the federal government permitted states to raise the speed limit on their rural interstate roads, from 55 mph to 65 mph for the first time in over a decade. Since the states that adopted the higher speed limit must have valued the travel hours they saved more than the fatalities incurred, this experiment provides a way to estimate an upper bound on the public's willingness to trade off wealth for a change in the probability of death. We find that the 65 mph limit increased speeds by approximately 3.5%, and increased fatality rates by roughly 35%. In states that raised the speed limit, the estimates suggest that about 125,000 hours were saved per lost life. Valuing the time saved at the average hourly wage implies that adopting states were willing to accept risks that resulted in a savings of \$1.54 million per fatality. Since this estimate is an upper bound of the value of a statistical life (VSL), we set out a simple structural model that is identified by variability across the states in the probability of the adoption of increased speed limits to recover the VSL.

**Atkeson, Andrew**

**PD** December 2001. **TI** The Transition to a New Economy After the Second Industrial Revolution.

**AU** Atkeson, Andrew; Kehoe, Patrick J. **AA** Atkeson: UCLA and NBER. Kehoe: Federal Reserve Bank of Minneapolis and NBER. **SR** National Bureau of Economic Research Working Paper: 8676; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 34. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** E13, L60, O40, O47, O51. **KW** Second Industrial Revolution. Technical Change. Transition. Growth. Technology Diffusion.

**AB** During the Second Industrial Revolution, 1860-1900, many new technologies, including electricity, were invented. These inventions launched a transition to a new economy, a period of about 70 years of ongoing, rapid technical change. After this revolution began, however, several decades passed before measured productivity growth increased. This delay is paradoxical from the point of view of the standard growth model. Historians hypothesize that this delay was due to the slow diffusion of new technologies among manufacturing plants together with the ongoing learning in plants after the new technologies had been adopted. The slow diffusion is thought to be due to manufacturers' reluctance to abandon their accumulated expertise with old technologies, which were embodied in the design of existing plants. Motivated by these hypotheses, we build a quantitative model of technology diffusion, which we use to study this transition to a new economy. We show that it implies both slow diffusion and a delay in growth similar to that in the data.

**PD** December 2001. **TI** The Advantage of Transparent Instruments of Monetary Policy. **AU** Atkeson, Andrew; Kehoe, Patrick J. **AA** Atkeson: UCLA and NBER. Kehoe: Federal Reserve Bank of Minneapolis and NBER. **SR** National Bureau of Economic Research Working Paper: 8681; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** E50, E52, E61, F33, F41. **KW** Monetary Policy Instruments. Money Growth Rate. Exchange Rate. Inflation Targeting.

**AB** Is the exchange rate or the money growth rate the better instrument of monetary policy? A common argument is that the exchange rate has a natural advantage because it is more transparent: it is easier for the public to monitor than the money growth rate. We formalize this argument in a simple model in which the government chooses which instrument it will use to target inflation. We find that when the government cannot commit to its policies, the greater transparency of the exchange rate makes it easier to provide the government with incentives to pursue good policies. Hence, transparency gives the exchange rate a natural advantage over the money growth rate as the monetary policy instrument.

**PD** January 2002. **TI** Measuring Organization Capital. **AU** Atkeson, Andrew; Kehoe, Patrick J. **AA** Atkeson: UCLA, Federal Reserve Bank of Minneapolis, and NBER. Kehoe: Federal Reserve Bank of Minneapolis, University of Minnesota, and NBER. **SR** National Bureau of Economic Research Working Paper: 8722; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 25. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** B41, E13, E22, E25. **KW** Organization Capital. Manufacturing. Capital Stock.

**AB** In the manufacturing sector of the U.S. economy, nearly 9% of output is not accounted for as payments to either

physical capital or labor. The value of this output is a little larger than the value of the stock of physical capital. We build a model to measure how much of this output can be attributed to payments to organization capital—organization-specific knowledge that is built up with experience. We find that roughly 4% of output can be accounted for as payments to organization capital and that this capital has roughly two-thirds the value of the stock of physical capital.

#### Atkinson, Tony

**PD** July 2002. **TI** Evaluation of National Action Plans on Social Inclusion: The Role of EUROMOD. **AA** University of Oxford. **SR** University of Cambridge, EUROMOD Working Paper: EM2002/01; Microsimulation Unit, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: [www.econ.cam.ac.uk/dae/mu/emod3.htm](http://www.econ.cam.ac.uk/dae/mu/emod3.htm). **PG** 25. **PR** \$10 (5 pounds) STG/EURO 8; make checks payable to University of Cambridge. **JE** C81, I32. **KW** European Union. National Action Plans. Social Inclusion. Tax-Benefit Model.

**AB** The aim of this paper is to consider the issues raised by the evaluation of National Action Plans on Social Inclusion and to assess how far EUROMOD, the European-wide tax-benefit model, can be used to evaluate the policy positions of Member States. As such it is intended to be an input into the preparation of the next round of National Action Plans and into developing a Europe-wide capacity for policy analysis.

#### Au, Chun-Chung

**PD** January 2002. **TI** How Migration Restrictions Limit Agglomeration and Productivity in China. **AU** Au, Chun-Chung; Henderson, Vernon. **AA** Au: Brown University. Henderson: Brown University and NBER. **SR** National Bureau of Economic Research Working Paper: 8707; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** J61, O13, O18, R23, R38. **KW** China. Migration. Labor in Agriculture. Agglomeration.

**AB** China strongly restricts rural-rural, urban-urban, and rural-urban migration. The result of these restrictions, which this paper documents, is a surplus of labor in agriculture. However, the paper argues that these restrictions also lead to insufficient agglomeration of economic activity within both rural industrial and urban areas, with resulting first order losses in gross domestic product (GDP). For urban areas the paper estimates a city productivity relationship, based on city GDP numbers for 1990-97. The effects of access, educational attainment, foreign direct investment, and public infrastructure on productivity are estimated. Worker productivity is shown to be an inverted U-shape function of city employment level, with the peak point shifting out as industrial composition moves from manufacturing to services. The majority of Chinese cities are shown to be potentially undersized -- below the lower bound on the 95% confidence interval about the size where their output per worker peaks. The paper calculates the large gains from increased agglomeration in both the rural industrial and urban sectors. It also examines the effect of capital reallocations, where the rural sector is grossly undercapitalized.

#### Bacchetta, Philippe

**PD** January 2002. **TI** A Theory of Currency Denomination of International Trade. **AU** Bacchetta,



Philippe; van Wincoop, Eric. AA Bacchetta: Studienzentrum Gerzensee, Universite de Lausanne, and CEPR. van Wincoop: University of Virginia. SR CEPR Discussion Paper: 3120; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE F31, F41. KW Currency Invoicing. New Open Economy Macroeconomics.

AB Nominal rigidities due to menu costs have become a standard element in closed economy macroeconomic modeling. The "New Open Economy Macroeconomics" literature has investigated the implications of nominal rigidities in an open economy context and found that the currency in which prices are set has significant implications for exchange rate pass-through to import prices, the level of trade and net capital flows, and optimal monetary and exchange rate policy. While the literature has exogenously assumed in which currencies goods are priced, in this paper we solve for the equilibrium optimal pricing strategies of firms. We find that the higher the market share of an exporting country in an industry, and the more differentiated its goods, the more likely its exporters will price in the exporter's currency. Country size and the cyclical nature of real wages play a role as well, but are empirically less important. We also show that when a set of countries forms a monetary union, the new currency is likely to be used more extensively in trade than the sum of the currencies it replaces.

PD December 2002. TI A Theory of the Currency Denomination of International Trade. AU Bacchetta, Philippe; van Wincoop, Eric. AA Bacchetta: University of Lausanne and CEPR. van Wincoop: University of Virginia and NBER. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 747; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 47. PR no charge. JE F31, F41. KW Exchange Rate. Currency Invoicing. New Open Economy. General Equilibrium.

AB See the abstract for Bacchetta, Philippe; van Wincoop, Eric. January 2002, "A Theory of Currency Denomination of International Trade". CEPR Discussion Paper: 3120; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org.

### Baicker, Katherine

PD July 2001. TI The Budgetary Repercussions of Capital Convictions. AA Dartmouth College and NBER. SR National Bureau of Economic Research Working Paper: 8382; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 16. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE H71, H72, H73, K41, K42. KW County Budgets. Local Budgets. Capital Crime Trials. Public Spending. Interjurisdictional Spillovers. Fiscal Shocks. AB Control of public spending and revenues is increasingly being left to states and localities. In order to understand the consequences of such a movement on the distribution of social spending, it is necessary to understand how fiscal distress will affect state and local budgets. This paper exploits the large and unexpected negative shock to county budgets imposed by the presence of capital crime trials, first to understand the real incidence of the cost of capital convictions, and second to

uncover the effects of local fiscal distress on the level and distribution of public spending and revenues. I show that these trials are quite costly relative to county budgets, and that the costs are borne in part by reducing expenditures on highways and police and in large part by increasing taxes. The results highlight the vulnerability of county budgets to fiscal shocks: each trial causes an increase in county spending of 1.8 percent and an increase in county revenues of 1.6 percent. Using these trials as a source of exogenous variation to examine inter-jurisdictional spillovers, I find significant spillovers of both spending and revenues between counties.

PD July 2001. TI The Spillover Effects of State Spending. AA Dartmouth College and NBER. SR National Bureau of Economic Research Working Paper: 8383; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 19. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE H72, H73. KW State Spending. Interstate Mobility.

AB This paper estimates the degree to which state spending is influenced by the spending of neighboring states. Focusing on mandated increases in welfare spending, I find that each dollar of state spending causes spending in neighboring states to increase by 37 to 88 cents. I use more plausibly exogenous variation than previous studies to abstract from the endogeneity of neighbors' spending, and show that previous estimates may have been biased. I also explore the strength of several different measures of neighborliness. The most predictive measure is the degree of population mobility between states, suggesting that concerns about migration may drive the interdependence of state spending policy.

PD July 2001. TI Extensive or Intensive Generosity? The Price and Income Effects of Federal Grants. AA Dartmouth College and NBER. SR National Bureau of Economic Research Working Paper: 8384; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 23. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE H53, H71, H72, H77. KW Federal Grants. State Spending. Welfare Spending.

AB When Temporary Assistance for Needy Families (TANF) replaced Aid to Families with Dependent Children (AFDC) in 1996 the marginal subsidy for state welfare spending was eliminated. This paper exploits data from a period in the history of AFDC when the structure of federal subsidies and legislative changes allow us to estimate not only the price and income elasticities of federal grants, but also to disentangle state reactions to subsidies along two dimensions: the intensive margin of spending per recipient, and the extensive margin of spending on additional recipients. I find that states respond more strongly to these incentives than previous analyses that neither adequately controlled for the endogeneity of prices nor estimated the two margins separately would imply. I show that state spending on benefits per recipient responds significantly to the marginal price of benefits, with an elasticity of  $-.38$ , and that state spending on the number of recipients responds significantly to the marginal price of additional recipients, with an elasticity of  $-.34$ . Cross-price elasticities are positive, implying a substitutability of extensive for intensive generosity and indicating that an analysis that groups the two margins together masks significant behavioral responses along each dimension. These results correspond well to estimates of the early effects of TANF, predicting a significantly larger drop in caseloads than in benefits.

**Baker, George P.**

**PD** January 2002. **TI** Make Versus Buy in Trucking: Asset Ownership, Job Design and Information. **AU** Baker, George P.; Hubbard, Thomas N. **AA** Baker: Harvard University and NBER. Hubbard: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8727; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** www.nber.org. **PG** 31. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D23, L22, L92. **KW** Asset Ownership. Trucking. Incomplete Contracts. Job Design.

**AB** Explaining patterns of asset ownership in the economy is a central goal of both organizational economics and industrial organization. We develop a model of asset ownership in trucking, which we test by examining how the adoption of different classes of on-board computers (OBCs) between 1987 and 1997 influenced whether shippers use their own trucks for hauls or contract with for-hire carriers. We find that OBCs' incentive-improving features pushed hauls toward private carriage, but their resource-allocation-improving features pushed them toward for-hire carriage. We conclude that ownership patterns in trucking reflect the importance of both incomplete contracts (Grossman and Hart (1986)) and of job design and measurement issues (Holmstrom and Milgrom (1994)).

**Baldacci, Emanuele**

**PD** April 2002. **TI** Expenditure Composition, Fiscal Adjustment, and Growth in Low-Income Countries. **AU** Baldacci, Emanuele; Clements, Benedict; Gupta, Sanjeev; Mulas-Granados, Carlos. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/77; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. **Website:** www.imf.org. **PG** 29. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E23, E62, H50. **KW** Fiscal Policy. Economic Growth. Expenditure Composition. Fiscal Consolidations.

**AB** This paper assesses the effects of expenditure composition as well as fiscal adjustment on economic growth in a sample of 39 low-income countries during the 1990s. The paper finds that strong budgetary positions and fiscal consolidation are generally associated with higher economic growth in both the short and long terms. The composition of public outlays also matters: Countries where spending is concentrated on wages tend to have lower growth, while those that allocate higher shares to capital and non-wage goods and services enjoy faster output expansion. Expenditure composition, along with the size of the fiscal consolidation and initial fiscal conditions, affects the sustainability of adjustment. Initial fiscal conditions also have a bearing on the nexus between fiscal deficits and growth.

**PD** May 2002. **TI** More on the Effectiveness of Public Spending on Health Care and Education: A Covariance Structure Model. **AU** Baldacci, Emanuele; de Mello, Luiz; Guin-Siu, Maria Teresa. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/90; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. **Website:** www.imf.org. **PG** 27. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** H50,

I12, I18, I21, I31. **KW** Covariance Structure Models. Social Spending. Social Indicators. Health Care. Education.

**AB** Using data for a sample of developing and transition countries, this paper estimates the relationship between government spending on health care and education, and social indicators. Unlike previous studies, where social indicators are used as proxies for the unobservable health and education status of the population, this paper estimates a latent variable model. The findings suggest that public social spending is an important determinant of social indicators, particularly in the education sector. Overall, the latent variable approach was found to yield more adequate estimates of social production functions, with larger elasticities of social indicators with respect to income and spending on education than the traditional approach, providing stronger evidence that increases in public spending have a positive impact on social indicators. The study also finds that the millennium goal of universal primary education enrollment by 2015 could be achieved through an increase by one-third, on average, in education spending.

**Baldini, Massimo**

**TI** The Impact of Means Tested Assistance in Southern Europe. **AU** O'Donoghue, Cathal; Albuquerque, Jose Luis; Baldini, Massimo; Bargain, Olivier; Bosi, Paolo; Levy, Horacio; Mantovani, Daniela; Matsaganis, Manos; Mercader-Prats, Magda; Farinha Rodrigues, Carlos; Toso, Stefano; Terraz, Isabelle; Tsakoglou, Panos.

**TI** The Impact of Means Tested Assistance in Southern Europe. **AU** O'Donoghue, Cathal; Albuquerque, Jose Luis; Baldini, Massimo; Bargain, Olivier; Bosi, Paolo; Levy, Horacio; Mantovani, Daniela; Matsaganis, Manos; Mercader-Prats, Magda; Farinha Rodrigues, Carlos; Toso, Stefano; Terraz, Isabelle; Tsakoglou, Panos.

**Balkenborg, Dieter**

**PD** September 2001. **TI** On the Evolutionary Selection of Nash Equilibrium Components. **AU** Balkenborg, Dieter; Schlag, Karl H. **AA** Balkenborg: University of Exeter. Schlag: European University Institute. **SR** University of Exeter, Department of Economics Discussion Paper: 01/06; Editor, Discussion Papers in Economics, Department of Economics, School of Business and Economics, University of Exeter, Streatham Court, Rennes Drive, Exeter EX4 4PU, UK. **Website:** www.ex.ac.uk/sobe. **PG** 17. **PR** no charge. **JE** C73, C79. **KW** Evolutionary Dynamics. Replicator Dynamic. Regular Selection Dynamics. Strict Equilibrium Set. Nash Equilibrium.

**AB** It is well known for the common multi-population evolutionary dynamics applied to normal form games that a pure strategy combination is asymptotically stable if and only if it is a strict equilibrium point. We extend this result to sets as follows. For certain regular selection dynamics every connected and closed asymptotically stable set of rest points containing a pure strategy combination is a strict equilibrium set and hence a Nash equilibrium component. A converse statement holds for two person games, for convex strict equilibrium sets and for the standard replicator dynamic.

**Bandiera, Oriana**

**PD** January 2002. **TI** Private States and the Enforcement of Property Rights -- Theory and Evidence on the Origins of the Sicilian Mafia. **AA** London School of Economics and CEPR.

**SR** CEPR Discussion Paper: 3123; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C70, D23, O17. **KW** Common Agency. Property Rights Enforcement. Protection. Sicily- History.

**AB** Historical records show that the Sicilian mafia initially developed to protect land from predatory attacks, at a time when publicly provided security was scarce and banditry widespread. Using a common-agency model, the paper shows that: (i) it is optimal for each landowner to voluntarily buy protection even if this results in a worse equilibrium for the landowning class as a whole and (ii) other things equal, mafia profits are higher where land is more fragmented. The argument is based on the fact that protection involves an externality because by buying protection each landowner deflects thieves on others' properties. Because of the externality, for each landlord protection is more valuable if they are one of the few to receive it, thus each landlord will be willing to pay more if some landlords are left out. Land fragmentation increases the number of landlords, who would pay to keep some out, which in turn increases mafia's profits. Using qualitative data from a parliamentary survey (1881), the paper also shows that in 19th century rural Sicily mafia was in fact more likely to be active in towns where land was more divided.

**PD** January 2002. **TI** Land Distribution, Incentives and the Choice of Production Techniques in Nicaragua. **AA** London School of Economics and CEPR. **SR** CEPR Discussion Paper: 3141; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D23, D82, O12, O17. **KW** Agricultural Productivity. Asymmetric Information. Crop Choices. Land Distribution. Nicaragua. Property Rights.

**AB** The distribution of property rights has a strong impact on output when, due to the non-contractibility of some inputs, market contracts do not yield efficient outcomes. In this paper we analyze how the distribution of land rights affects the choice of both contractible techniques -- such as crop mix or irrigation -- and non-contractible effort when these are complements in production. We present evidence from rural Nicaragua suggesting that farmers are more likely to grow effort-intensive/highly profitable crops on the plots they own rather than on the plots they rent. We consider two theoretical arguments that illustrate why property rights might matter. The first relies on the fact that the agent who chooses effort is subject to a limited liability constraint, the second that the owner cannot commit to output-contingent contracts. In both models the choice of technique might be inefficient, regardless of the distribution of property rights. The efficiency loss is, however, lower when the farmer owns the land. Further empirical investigation shows that, in this context, the inability to commit seems to be the main source of inefficiency.

#### **Banerjee, Anindya**

**TI** Factor Forecasts for the UK. **AU** Artis, Michael J.; Banerjee, Anindya; Marcellino, Massimiliano.

#### **Barnes, Michelle L.**

**PD** May 2002. **TI** The Behavior of China's Stock Prices in Response to the Proposal and Approval of Bonus Issues.

**AU** Barnes, Michelle L.; Ma, Shiguang. **AA** Barnes: Federal Reserve Bank of Boston. Ma: University of Adelaide. **SR** Federal Reserve Bank of Boston Working Paper: 02/01; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: [www.bos.frb.org/economic/wp/index.htm](http://www.bos.frb.org/economic/wp/index.htm). **PG** 29. **PR** no charge; available only online. **JE** G14, G18, O16. **KW** Chinese Stock Markets. Efficient Market Hypothesis. Semi-Strong Efficiency. Event Study. Announcements. Approval.

**AB** Event study analysis is applied to investigate stock price reaction to the announcement of bonus issues for the emerging stock markets of China. Results show that the issues with a high bonus ratio (number of bonus shares in the issue/number of existing shares) usually attract positive returns for both Chinese (A-share traders) and foreign (B-share traders) residents. Issues with a low bonus ratio are rewarded with negative returns for A-share traders and do not stimulate significant activity by B-share traders. The hypothesis of semi-strong form market efficiency is rejected only for small-bonus issues traded on the A-share market; the B-share market displays stronger evidence of semi-strong form market efficiency than the A-share market. Finally, there appears to be additional informational content in the approvals of bonus issues above and beyond that of the proposals, even though most bonus schedules proceed as proposed.

**PD** May 2002. **TI** A Quantile Regression Analysis of the Cross Section of Stock Market Returns. **AU** Barnes, Michelle L.; Hughes, Anthony W. **AA** Barnes: Federal Reserve Bank of Boston. Hughes: University of Adelaide. **SR** Federal Reserve Bank of Boston Working Paper: 02/02; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: [www.bos.frb.org/economic/wp/index.htm](http://www.bos.frb.org/economic/wp/index.htm). **PG** 32. **PR** no charge; available only online. **JE** C14, C15, C21, G12. **KW** Capital Asset Pricing Model. Semi-Parametric Regression. Errors-in-Variables. Monte Carlo Simulation.

**AB** Traditional methods of modeling returns and testing the Capital Asset Pricing Model (CAPM) do so at the mean of the conditional distribution. Instead, we model returns and test whether the conditional CAPM holds at other points of the distribution by utilizing the technique of quantile regression (Koenker and Bassett 1978). This method allows us to model the performance of firms or portfolios that underperform or overperform in the sense that the conditional mean under- or overpredicts the firm's return. In the context of a conditional CAPM, the market price of beta risk is significant in both tails of the conditional distribution of returns - negative for firms that underperform and positive for firms that overperform -- but is insignificant around the median, and the opposite pattern obtains for large firms. This paper was revised in November 2002.

#### **Barro, Robert J.**

**TI** Economic Effects of Currency Unions. **AU** Tenreiro, Silvana; Barro, Robert J.

#### **Barsky, Robert B.**

**PD** July 2001. **TI** Do We Really Know that Oil Caused the Great Stagflation? A Monetary Alternative. **AU** Barsky, Robert B.; Kilian, Lutz. **AA** Barsky: University of Michigan and NBER. Kilian: University of Michigan, European Central Bank, and CEPR. **SR** National Bureau of Economic

Research Working Paper: 8389; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 38. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E31, E32, E52. KW Stagflation. Oil Prices. Monetary Fluctuations. Commodity Prices.

**AB** This paper argues that major oil price increases were not nearly as essential a part of the causal mechanism that generated the stagflation of the 1970s as is often thought. There is neither a theoretical presumption that oil supply shocks are stagflationary nor robust empirical evidence for this view. In contrast, we show that monetary expansions and contractions can generate stagflation of realistic magnitude even in the absence of supply shocks. Furthermore, monetary fluctuations help to explain the historical movements of the prices of oil and other commodities, including the surge in the prices of industrial commodities that preceded the 1973/74 oil price increase. Thus, they can account for the striking coincidence of major oil price increases and worsening stagflation.

### Basu, Anupam

PD March 2002. TI Foreign Direct Investment in Africa -- Some Case Studies. AU Basu, Anupam; Srinivasan, Krishna. AA IMF. SR International Monetary Fund Working Paper: WP/02/61; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). PG 41. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE F21, F23, O55. KW Africa. Foreign Direct Investment. Stability. Economic Reforms.

**AB** This paper reviews the experiences of a few countries in Sub-Saharan Africa that have succeeded in attracting fairly large amounts of foreign investment. The review indicates that sustained efforts to promote political and macroeconomic stability and implement essential structural reforms have been the key elements contributing to the success that certain countries in Africa have achieved in attracting a substantial volume of FDI. Strong leadership, which has helped promote democracy and overcome social and political strife, and a firm commitment to economic reform have been important determinants. The adoption of sound fiscal and monetary policies, supported by an appropriate exchange rate policy, and a proactive approach to removing structural impediments to private sector activity have had a positive bearing on investor sentiment. The analysis underscores the importance of relying on stability and a broad-based reform effort to encourage foreign investment in Africa.

### Battaglini, Marco

PD January 2002. TI Self Control in Peer Groups. AU Battaglini, Marco; Benabou, Roland; Tirole, Jean. AA Battaglini and Benabou: Princeton University. Tirole: Universite des Sciences Sociales de Toulouse. SR CEPR Discussion Paper: 3149; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE C72, D71, D82, D91, J24. KW Addiction. Clubs. Memory. Peer Effects. Psychology. Self Control.

**AB** People with a self-control problem often seek relief through social interactions rather than binding commitments. Thus, in self-help groups like Alcoholics Anonymous,

Narcotics Anonymous etc, members are said to achieve better personal outcomes by mainly sharing their experiences. In other settings, however, peer influences can severely aggravate individual tendencies towards immediate gratification, as is often the case with interactions among schoolmates or neighborhood youths. Bringing together the issues of self-control and peer effects, we study how observing the behavior of others affects individuals' ability to resist their own impulses towards short-run gratification. We show how these purely informational spillovers can give rise to multiple equilibria, where agents' choices of self-restraint or self-indulgence are mutually reinforcing. We also conduct a welfare analysis to determine when group membership is preferable to, or worse than, isolation. Individuals will generally find groups useful for self-control only if they have at least a minimal level of confidence in their own and their peers' ability to resist temptation. At the same time, having a partner who is "too perfect" is no better than being alone, and therefore often less desirable than being matched to someone more like oneself. Our paper provides a psychologically grounded theory of endogenous peer effects.

### Beaugrand, Philippe

PD May 2002. TI The Choice Between External and Domestic Debt in Financing Budget Deficits: The Case of Central and West African Countries. AU Beaugrand, Philippe; Loko, Boileau; Mlachila, Montfort. AA IMF. SR International Monetary Fund Working Paper: WP/02/79; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). PG 18. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE E60, H60, H62, H63. KW Budget Deficits. External Debt. Domestic Debt. Central Africa. West Africa.

**AB** The paper reviews the principles and practical considerations involved in the choice between foreign and domestic financing of fiscal deficits, and derives a series of recommendations broadly applicable to Central and West African countries. The paper develops a simple analytical framework and shows that highly concessional external debt is usually a superior choice to domestic debt in terms of financial costs and risks, even in the face of a probable devaluation. The paper stresses the importance of the availability and terms of financing, and of overall long-term debt sustainability. It concludes that these countries need to take a gradual approach to domestic debt financing, beginning with the issuance of short-term bills, and ensure a solid track record of meeting their debt-service obligations.

### Bebchuk, Lucian Arye

PD July 2001. TI Ex Ante Costs of Violating Absolute Priority in Bankruptcy. AA Harvard Law School and NBER. SR National Bureau of Economic Research Working Paper: 8388; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 16. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE G33, K22, K29. KW Bankruptcy. Absolute Priority.

**AB** A basic question for the design of bankruptcy law concerns whether value should be divided in accordance with absolute priority. Research done in the past decade has suggested that deviations from absolute priority have beneficial

ex ante effects. In contrast, this paper shows that ex post deviations from absolute priority also have negative effects on ex ante decisions taken by shareholders. Such deviations aggravate the moral hazard problem with respect to project choice -- increasing the equityholders' incentive to favor risky projects -- as well as with respect to borrowing and dividend decisions.

**PD** January 2002. **TI** Optimal Defaults for Corporate Law Evolution. **AU** Bebchuk, Lucian Arye; Hamdani, Assaf. **AA** Bebchuk: Harvard Law School and CEPR. Hamdani: Harvard Law School. **SR** CEPR Discussion Paper: 3140; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G30, G34, K22. **KW** Anti-Takeover Statutes. Default Rules. Directors. Managers. Corporate Law.

**AB** Public corporations live in a dynamic and ever-changing business environment. This paper examines how courts and legislators should choose default arrangements in the corporate area to address new circumstances. We show that the interests of the shareholders of existing companies would not be served by adopting those default arrangements that public officials view as most likely to be value enhancing. Because any charter amendment requires the board's initiative, opting out of an inefficient default arrangement is much more likely to occur when management disfavors the arrangement than management supports it. We develop a "reversible defaults" approach that takes into account this asymmetry. When public officials must choose between default arrangements and face significant uncertainty as to which one would best serve shareholders, they should err in favor of the arrangement that is less favorable to managers. Such an approach would make it most likely that companies would be ultimately governed by the arrangement that would maximize shareholder value. Evaluating some of the main choices that state corporate law has made in the past two decades in light of our proposed approach, we endorse some but question others.

**PD** January 2002. **TI** Optimal Defaults for Corporate Law Evolution. **AU** Bebchuk, Lucian Arye; Hamdani, Assaf. **AA** Bebchuk: Harvard Law School, NBER, and CEPR. Hamdani: Harvard Law School. **SR** National Bureau of Economic Research Working Paper: 8703; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 42. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** G34, K22. **KW** Public Corporations. Default. Corporate Law. Takeovers.

**AB** See the abstract for Bebchuk, Lucian Arye; Hamdani, Assaf. January 2002, "Optimal Defaults for Corporate Law Evolution". CEPR Discussion Paper: 3140; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org).

### Bell, Leonie

**PD** September 2001. **TI** New Evidence of the Impact of Dividend Taxation and on the Identity of the Marginal Investor. **AU** Bell, Leonie; Jenkinson, Tim. **AA** Oxford University. **SR** CEPR Discussion Paper: 2946; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website:

[www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** G12, G23, H20. **KW** Dividend Taxation. Equity Valuation. Pension Funds.

**AB** This paper examines the impact of a major change in dividend taxation introduced in the UK in July 1997. The reform was structured in such a way that the immediate impact fell almost entirely on the largest investor class in the UK, namely pension funds. We analyze the behavior of share prices around the ex-dividend day both before and after the reform to test clientele effects and the impact of taxation on the valuation of companies. We find strong clientele effects in the UK, which are consistent with the distortions introduced by the tax system (before the reform dividend income was tax-advantaged in the UK). We also find significant changes in the valuation of dividend income after the reform, in particular for high-yielding companies. These results provide strong support for the hypothesis that taxation affects the valuation of companies, and that pension funds were the effective marginal investors for high-yielding companies.

### Benabou, Roland

**PD** January 2002. **TI** Willpower and Personal Rules. **AU** Benabou, Roland; Tirole, Jean. **AA** Benabou: Princeton University and CEPR. Tirole: Universite des Sciences Sociales de Toulouse. **SR** CEPR Discussion Paper: 3143; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** A12, D91, E21, J22, J24. **KW** Memory. Motivation. Psychology. Self-Control. Time Inconsistency. Will Power.

**AB** This paper studies the internal commitment mechanisms or "personal rules" (diets, exercise regimens, resolutions, moral or religious precepts, etc.) through which people seek to achieve self-control. Our theory is based on the idea of self-reputation over one's willpower, which potentially transforms lapses in a personal rule into precedents that undermine future self-restraint. The foundation for such effects, in turn, is the imperfect recall of past motives and feelings, which leads people to draw inferences from their own past actions. We thus model the behavior of individuals who are unsure of their willpower in certain states of the world, and show how self-control can be sustained by the fear of creating damaging precedents. We also show, however, that people will sometimes adopt excessively rigid rules that result in compulsive behaviors such as miserliness, workaholism, or anorexia. These represent costly forms of self-signaling where the individual is so afraid of appearing weak to himself that every decision becomes a test of his willpower, even when self-restraint is not even desirable ex-ante. Such common behaviors which appear to display a "salience of the future" are thus not only consistent, but actually generated by present-oriented preferences. Finally, we analyze the cognitive underpinnings of self-regulation.

**TI** Self Control in Peer Groups. **AU** Battaglini, Marco; Benabou, Roland; Tirole, Jean.

### Benhabib, Jess

**PD** September 2001. **TI** Avoiding Liquidity Traps. **AU** Benhabib, Jess; Schmitt-Grohe, Stephanie; Uribe, Martin. **AA** Benhabib: New York University. Schmitt-Grohe: Rutgers University. **SR** CEPR Discussion Paper: 2948; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website:

www.cepr.org. **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** E31, E52, E63. **KW** Liquidity Traps. Taylor Rules. Nominal Interest Rates. Inflation.

**AB** Once the zero-bound on nominal interest rates is taken into account, Taylor-type interest-rate feedback rules give rise to unintended self-fulfilling decelerating inflation paths and aggregate fluctuations driven by arbitrary revisions in expectations. These undesirable equilibria exhibit the essential features of liquidity traps, as monetary policy is ineffective in bringing about the government's goals regarding the stability of output and prices. This paper proposes several fiscal and monetary policies that preserve the appealing features of Taylor rules, such as local uniqueness of equilibrium near the inflation target, and at the same time rule out the deflationary expectations that can lead an economy into a liquidity trap.

### Benigno, Pierpaolo

**PD** September 2002. **TI** Inflation Persistence and Optimal Monetary Policy in the Euro Area. **AU** Benigno, Pierpaolo; Lopez-Salido, J. David. **AA** Benigno: New York University and CEPR. Lopez-Salido: Banco de Espana and CEPR. **SR** Banco de Espana, Documentos de Trabajo: 0215; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: www.bde.es/. **PG** 20. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** E31, E52. **KW** Inflation. Monetary Policy. Euro Area. Heterogeneity. New Phillips Curves.

**AB** In this paper we first present supporting evidence of the existence of heterogeneity in inflation dynamics across euro area countries. Based on the estimation of New Phillips Curves for five major countries of the euro area, we find that there is significant inertial (backward looking) behavior in inflation in four of them, while inflation in Germany has a dominant forward looking component. In the second part of the paper we present an optimizing agent model for the euro area emphasizing the heterogeneity in inflation persistence across regions. Allowing for such a backward looking component will affect the evaluation of the degree of nominal rigidities relevant for the monetary policy design. We explore the welfare implications of this circumstance by comparing the adjustment of the economies and the area as a whole in response to terms-of-trade shocks under four monetary policy rules: fully optimal, optimal inflation targeting, HICP targeting and output gap stabilization.

**PD** December 2002. **TI** Inflation Persistence and Optimal Monetary Policy in the Euro Area. **AU** Benigno, Pierpaolo; Lopez-Salido, J. David. **AA** Benigno: New York University and CEPR. Lopez-Salido: Banco de Espana and CEPR. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 749; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 35. **PR** no charge. **JE** E52, E58. **KW** Optimal Monetary Policy. Currency Areas. Inflation Dynamics.

**AB** See the abstract for Benigno, Pierpaolo; Lopez-Salido, J. David. September 2002, "Inflation Persistence and Optimal Monetary Policy in the Euro Area". Banco de Espana, Documentos de Trabajo: 0215; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: www.bde.es/.

### Benito, Andrew

**PD** 2002. **TI** Financial Pressure and Balance Sheet Adjustment by UK Firms. **AU** Benito, Andrew; Young, Garry. **AA** Benito: Bank of England and Banco de Espana. Young: Bank of England. **SR** Banco de Espana, Documentos de Trabajo: 0209; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: www.bde.es/. **PG** 40. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** E22, G30, M41. **KW** Financial Pressure. Balance Sheet Adjustment. UK.

**AB** This paper examines the financial policies and balance sheet adjustment of companies. Using a large panel of quoted UK firms, we estimate models for dividends, new equity issuance and investment, relating them to debt adjustment. The results suggest that while dividends are sticky in the short run, they are an important means of balance sheet adjustment in the long run. Other evidence supports the idea that companies actively target their balance sheet by variation in dividends, new equity issues and investment. There is evidence for financial pressure effects of debt-servicing costs on investment and dividends but not new equity issuance.

### Bennett, John

**PD** September 2001. **TI** Mass Privatisation and Partial State Ownership of Firms in Transition Economies. **AU** Bennett, John; Estrin, Saul; Maw, James. **AA** Bennett: Brunel University. Estrin: London Business School. **SR** CEPR Discussion Paper: 2895; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** L33, P21. **KW** Privatization. State Ownership. Transition Economies.

**AB** In their privatization programs, transition governments have frequently given away shares (so-called "mass privatization"), while maintaining significant minority ownership. We explain the rationality of these policies for an expected net-revenue maximizing government. Our argument rests on a political feasibility constraint, preventing sale at a negative price. This constraint both raises prices that would otherwise be negative to zero, and has an indirect effect: mass privatization and partial retained state ownership may be chosen even if sale of a firm's entire assets would fetch a positive price. They are more likely to be chosen if the government has low bargaining power.

### Berengaut, Julian

**PD** May 2002. **TI** An Intern Assessment of Ukrainian Output Developments, 2000-01. **AU** Berengaut, Julian; De Vrijer, Erik; Elborgh-Woytek, Katrin; Lewis, Mark; Lissovolik, Bogdan. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/97; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. **PG** 44. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E20, E65, O40, P20. **KW** Ukraine. Transition. Growth. Output Developments.

**AB** After a long period of steep decline, which followed the breakup of the Soviet Union, Ukraine's economy rebounded in 2000, and the recovery accelerated in 2001. The paper

examines the timing and the nature of the recovery from a number of different perspectives such as the presence of idle but productive capital, the stance of domestic policies, real wage developments, learning, and foreign factors. The final chapter presents tentative conclusions, which point to an eclectic explanation involving a range of factors rather than any single major cause of the recovery, as well as an agenda for further research.

### Berger, Brett D.

**PD** June 2002. **TI** Finding Numerical Results to Large Scale Economic Models Using Path-Following Algorithms: A Vintage Capital Example. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 728; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 30. **PR** no charge. **JE** C61, C63, E22, O33, O41. **KW** Numerical Optimization. Productivity. Technology. Vintage Capital Models.

**AB** This paper describes the numerical optimization methods used in Berger (2001) to find the complete time paths of key economic variables in neoclassical vintage capital models. An interior and a non-interior point method are discussed. Both of the methods are part of the general class of "path-following" algorithms. These algorithms can be efficiently applied to convex programming problems; and due to the standard shape of production and utility functions, many economic problems can be written as convex programming problems. Vintage capital models add scale and complexity to standard growth models because one must now handle the dynamics of multiple capital stocks. This increase in complexity will often prevent the discovery (or existence) of closed form solutions, making numerical solutions of the type found in Berger (2001) necessary.

### Berger, Frederic

**PD** July 2001. **TI** The Impact of Tax-Benefit Systems on Low-Income Households in the Benelux Countries: A Simulation Approach Using Synthetic Datasets. **AU** Berger, Frederic; Borsenberger, Monique; Immervoll, Herwig; Lumen, Julie; Scholtus, Bertrand; De Vos, Klaas. **AA** Berger and Borsenberger: CEPS/INSTEAD, Luxembourg. Immervoll: University of Cambridge. Lumen and Scholtus: University Libre de Bruxelles. De Vos: CentER, Tilburg University. **SR** University of Cambridge, EUROMOD Working Paper: EM2001/03; Microsimulation Unit, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: [www.econ.cam.ac.uk/dae/mu/emod3.htm](http://www.econ.cam.ac.uk/dae/mu/emod3.htm). **PG** 42. **PR** \$10 (5 pounds) **STG/EURO** 8; make checks payable to University of Cambridge. **JE** C81, D31, D63. **KW** Benelux. Microsimulation. Poverty. European Union. Tax-Benefit Model. **AB** Using an integrated European tax-benefit model (EUROMOD), we create a synthetic dataset to assess the impact of different tax-benefit systems on household income. The calculations performed on this range of households not only show the tax-benefit position of many individual households but also demonstrate which household characteristics determine taxes and benefits in each country. The hypothetical calculations presented here can be a valuable contribution to understanding tax-benefit systems since they

allow us to separate the effects of tax-benefit rules from those of the population structure. We compute and compare disposable incomes for a large range of pre-tax- and-benefit household incomes in the Benelux countries, which are then decomposed to show the effects of each simulated tax and transfer payment. From this we illustrate the performance of the three tax-benefit systems in terms of ensuring a minimum household income.

### Bernanke, Ben S.

**PD** July 2001. **TI** Monetary Policy in a Data-Rich Environment. **AU** Bernanke, Ben S.; Boivin, Jean. **AA** Bernanke: Princeton University and NBER. Boivin: Columbia University. **SR** National Bureau of Economic Research Working Paper: 8379; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 28. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C82, E52, E58. **KW** Monetary Policy. Forecast Accuracy. Factor Model. Large Data Sets.

**AB** Most empirical analyses of monetary policy have been confined to frameworks in which the Federal Reserve is implicitly assumed to exploit only a limited amount of information, despite the fact that the Fed actively monitors literally thousands of economic time series. This article explores the feasibility of incorporating richer information sets into the analysis, both positive and normative, of Fed policymaking. We employ a factor-model approach, developed by Stock and Watson (1999a,b), that permits the systematic information in large data sets to be summarized by relatively few estimated factors. With this framework, we reconfirm Stock and Watson's result that the use of large data sets can improve forecast accuracy, and we show that this result does not seem to depend on the use of finally revised (as opposed to "real-time") data. We estimate policy reaction functions for the Fed that take into account its data-rich environment and provide a test of the hypothesis that Fed actions are explained solely by its forecasts of inflation and real activity. Finally, we explore the possibility of developing an "expert system" that could aggregate diverse information and provide benchmark policy settings.

### Bertola, Giuseppe

**PD** January 2002. **TI** Dealer Pricing of Consumer Credit. **AU** Bertola, Giuseppe; Hochguertel, Stefan; Koeniger, Winfried. **AA** Bertola: European University Institute and CEPR. Hochguertel: European University Institute. Koeniger: IZA. **SR** CEPR Discussion Paper: 3160; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D11, D42, D91. **KW** Price Discrimination. Financial Market Development. Liquidity Constraints.

**AB** Interest rates on consumer lending are lower when funds are tied to purchase of a durable good than when they are made available on an unconditional basis. Further, dealers often choose to bear the financial cost of their customers' credit purchases. This paper interprets this phenomenon in terms of monopolistic price discrimination. We characterize consumers' intertemporal consumption decisions when their borrowing and lending rates are different not only from each other, but also from the internal rate of return of financing terms for a specific durable good purchase. A stylized model offers a closed-form

characterization of purchase decisions as a function of the amount and timing of consumers' resources, of the spread between the borrowing and lending rates, and of the pricing of cash and credit purchases. We then study theoretical and empirical relationships between the structure of financial markets, the distribution of potential customers' current and future income, and incentives for durable-good dealers to price-discriminate by subsidizing their liquidity-constrained customers' installment-payment terms. Our empirical analysis takes advantage of a rich set of installment-credit and personal-loan data, which offer considerable support for the assumptions and implications of our theoretical perspective.

### Besley, Timothy

**PD** January 2002. **TI** Does Tax Competition Raise Voter Welfare? **AU** Besley, Timothy; Smart, Michael. **AA** Besley: London School of Economics and CEPR. Smart: University of Toronto. **SR** CEPR Discussion Paper: 3131; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D70, D72, H10. **KW** Welfare. Taxes. Inter-governmental Competition. Rent-Seeking.

**AB** Economists who believe that government is essentially benevolent tend to regard inter-governmental competition as a source of negative externalities that lower welfare. In contrast, the public choice perspective, particularly that motivated by the Leviathan model, sees such competition as potentially beneficial. This paper considers a world consisting of politicians of both kinds -- self-interested and welfare maximizing. Imperfect information prevents identification of the latter. We model the political equilibrium of the model and then examine the consequences of introducing competition for mobile resources or yardstick competition. In both cases there is a trade-off between effects on politician discipline and selection. Contrary to the existing view, we show that competition is most likely to be welfare improving for voters when it is more likely that politicians are benevolent and bad for welfare when it is most likely that politicians are of the rent seeking type.

**PD** January 2002. **TI** Handcuffs for the Grabbing Hand? Media Capture and Government Accountability. **AU** Besley, Timothy; Prat, Andrea. **AA** Besley: London School of Economics and CEPR. Prat: London School of Economics. **SR** CEPR Discussion Paper: 3132; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D70, D72, H10, L82. **KW** Media. Political Competition. Collusion. Political Capture.

**AB** It is widely recognized that active media can play a role in enhancing political competition by informing voters. Collusion between government and media can, however, undermine this role. We extend the political accountability model to include the presence of media outlets and the possibility that the incumbent exerts influence over them. In equilibrium, the media structure is linked to political outcomes in two ways: directly through its monitoring capacity and indirectly through political capture. We examine evidence both across countries and within India.

### Bindseil, Ulrich

**PD** April 2002. **TI** Equilibrium Bidding in the Eurosystem's Open Market Operations. **AA** European Central Bank. **SR** European Central Bank Working Paper: 137; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 54. **PR** no charge. **JE** D84, E43, E52. **KW** Open Market Operations. Tender Procedures. Central Bank. Liquidity Management.

**AB** Open market operations play a key role in allocating central bank funds to the banking system and thereby to steer short-term interest rates in line with the stance of monetary policy. This note presents some elements of a theory of bidding in central bank tenders in a framework such as the one of the Eurosystem. The European Central Bank has so far used fixed rate tenders and a variant of the variable rate tender, which may be similar to a fixed rate tender depending on market circumstances. In doing so, it faced consecutively an "under-" and an "overbidding" issue. The tools developed in this note to understand the bidding behavior of banks in these operations allow revisiting these phenomena and the more general question of the optimal tender procedure and allotment policy.

**TI** Bidding and Performance in Repo Auctions: Evidence From ECB Open Market Operations. **AU** Nyborg, Kjell G.; Bindseil, Ulrich; Strebulaev, Ilya A.

### Blanco, Roberto

**TI** Estimating Inflation Expectations Using French Government Inflation-Indexed Bonds. **AU** Alonso, Francisco; Blanco, Roberto; del Rio, Ana.

**PD** January 2002. **TI** The Euro-Area Government Securities Markets: Recent Developments and Implications for Market Functioning. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0120; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 21. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** G12, G15. **KW** Market Microstructure. Liquidity Premium. Scarcity Premium. Bond Markets. Central Banks.

**AB** This paper analyses recent key developments in euro-area government bond markets and their main implications for central banks and for market functioning. The introduction of the euro is found to have significantly affected the relative pricing of securities. The spreads over German bonds of previously high-yield debt have narrowed significantly whereas the spreads of all other euro-area sovereign debt have widened following the introduction of the euro. Market microstructure factors, such as relative market liquidity and the cheapest-to-deliver status of bonds, are also found to play a part in determining relative prices in addition to differences in credit risk. Finally, the evidence suggests that the reduction in the relative supply of government bonds has hitherto had a limited effect in the euro area, in contrast to the evidence in the US market.

### Bleakley, Hoyt

**PD** December 2002. **TI** Corporate Dollar Debt and Depreciations: Much Ado About Nothing? **AU** Bleakley, Hoyt; Cowan, Kevin. **AA** Bleakley: Federal Reserve Bank of Boston. Cowan: Inter-American Development Bank.



**SR** Federal Reserve Bank of Boston Working Paper: 02/05; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: [www.bos.frb.org/economic/wp/index.htm](http://www.bos.frb.org/economic/wp/index.htm). **PG** 41. **PR** no charge; available only online. **JE** E22, F41, G31. **KW** Investment. Financial Crises. Net Worth. Currency Mismatch. Latin America.

**AB** Much has been written recently about the problems for emerging markets that might result from a mismatch between foreign-currency denominated liabilities and assets (or income flows) denominated in local currency. In particular, several models, developed in the aftermath of financial crises of the late 1990s, suggest that the expansion in the "peso" value of "dollar" liabilities resulting from a devaluation could, via a net-worth effect, offset the expansionary competitiveness effect. Assessing which effect dominates, however, is ultimately an empirical matter. In this vein, we construct a new database with accounting information (including the currency composition of liabilities) for over 450 non-financial firms in five Latin American countries. We estimate, at the firm level, the reduced-form effect on investment of holding foreign-currency-denominated debt during an exchange-rate realignment. We consistently find that this effect is positive, contrary to the predicted sign of the net-worth effect.

### **Bloom, David E.**

**PD** December 2001. **TI** Economic Growth and the Demographic Transition. **AU** Bloom, David E.; Canning, David; Sevilla, Jaypee. **AA** Bloom: Harvard School of Public Health and NBER. Canning: Queen's University of Belfast. Sevilla: Harvard School of Public Health. **SR** National Bureau of Economic Research Working Paper: 8685; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 63. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** J11, J13, J14, O47. **KW** Economic Growth. Demographic Transition. Population Growth. Age Structure.

**AB** For decades, economists and social thinkers have debated the influence of population change on economic growth. Three alternative positions define this debate: that population growth restricts, promotes, or is independent of economic growth. All of these explanations, however, focus on population size and growth. The debate has under-emphasized a critical issue, the age structure of the population. Because people's economic behavior varies at different stages of life, changes in a country's age structure can have significant effects on its economic performance. Nations with a high proportion of children are likely to devote a high proportion of resources to their care, which tends to depress the pace of economic growth. By contrast, if most of a nation's population falls within the working ages, the added productivity of this group can produce a "demographic dividend" of economic growth, assuming that policies to take advantage of this are in place. And if a large proportion of a nation's population consists of the elderly, the effects can be similar to those of a very young population. This report reviews evidence on the relevance of changes in age structure for economic growth.

**PD** January 2002. **TI** Technological Diffusion, Conditional Convergence, and Economic Growth. **AU** Bloom, David E.; Canning, David; Sevilla, Jaypee. **AA** Bloom: Harvard University and NBER. Canning: Queen's University of Belfast. Sevilla: Harvard University.

**SR** National Bureau of Economic Research Working Paper: 8713; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 18. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** O33, O41. **KW** Technology Diffusion. Income Differences. Total Factor Productivity. Convergence.

**AB** Technological diffusion implies a form of "conditional convergence" as lagging countries catch up with technological leaders. We find strong evidence of technological diffusion but not full convergence; differences in total factor productivity (TFP) persist even in the long run due to differences in geography and institutions. TFP differentials explain a large part of cross-country income differences in our model; our estimates of the rate of return to capital, labor and schooling are completely consistent with micro-economic studies, implying the absence of externalities in aggregate production.

**PD** January 2002. **TI** The Wealth of Nations: Fundamental Forces Versus Poverty Traps. **AU** Bloom, David E.; Canning, David; Sevilla, Jaypee. **AA** Bloom: Harvard University and NBER. Canning: Queen's University of Belfast. Sevilla: Harvard University. **SR** National Bureau of Economic Research Working Paper: 8714; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 13. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C62, O11. **KW** Income Differences. Fundamental Forces. Poverty Traps.

**AB** We test the view the large differences in income levels we see across the world are due to differences in underlying characteristics, i.e. fundamental forces, against the alternative that there are poverty traps. Taking geographical variables as fundamental characteristics, we find that we can reject fundamental forces in favor of a poverty trap model with high and low level equilibria. The high level equilibrium state is found to be the same for all countries while income in the low level equilibrium, and the probability of being in the high level equilibrium, are greater in cool, coastal countries with high, year-round, rainfall.

### **Blow, Laura**

**PD** May 2002. **TI** A Nonparametric Method for Valuing New Goods. **AU** Blow, Laura; Crawford, Ian. **AA** Blow: Institute for Fiscal Studies. Crawford: Institute for Fiscal Studies and University College London. **SR** European Central Bank Working Paper: 143; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 56. **PR** no charge. **JE** C43, D11. **KW** Cost-of-Living. Indices. New Goods. Revealed Preference. Budget Expansion Paths.

**AB** This paper presents a revealed preference method for calculating a lower bound on the virtual or reservation price of a new good and suggests a way to improve these bounds by using budget expansion paths. This allows the calculation of cost-of-living and price indices when the number of goods available changes between periods. We apply this technique to the United Kingdom National Lottery and illustrate the effects of its inclusion in measures of inflation.

### **Bode, Ben**

**PD** March 2002. **TI** The Cost of Private Transportation in the Netherlands, 1992-1999. **AU** Bode, Ben; Van Dalen, Jan. **AA** Erasmus University Rotterdam. **SR** European Central

Bank Working Paper: 134; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 28. PR no charge. JE C43, D12, E31. KW Consumer Price Index. User-Cost Index. Automobile Data. Netherlands.

AB User-cost indexes provide important information about the welfare implications of durable goods purchases. In this paper, indexes for the cost of private transportation are developed, based on the costs associated with using new passenger cars sold in 1992-1999, in the Netherlands. The paper examines the existence of differences between car model based user-cost indexes and CPI based indexes. Use is made of information about prices and technical characteristics of about 7,000 car models. In addition, data on user costs are used. The results show that total annual user costs have increased about 4.8% over the observation period vs. 10.6% according to the CPI based index. Fixed costs have increased about 9% both for the car model and the CPI based index. Operating costs have decreased more than 3% according to the car model based index, whereas an increase of more than 13% is observed for the CPI based index.

#### Boes, Dieter

PD August 2001. TI Holdups, Quality Choice, and the Achilles' Heel in Government Contracting Sequential Investments. AU Boes, Dieter; Lulfesmann, Christoph. AA University of Bonn. SR Bonn Econ Discussion Paper: 28/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). PG 22. PR no charge. JE D23, H57, K12, L23. KW Procurement. Incomplete Contracts. Governance Structure. Welfare.

AB This paper investigates a procurement relationship between a welfare-oriented government and a private supplier. The parties face several trading opportunities which differ in quality and production costs, and the differences between goods are indescribable ex ante. In the presence of this "quality-choice problem," no initial contract may induce efficient cost-reducing investments of the supplier. In contrast, a first-best result is always attainable in private procurement where the buyer maximizes profit rather than welfare. We identify the government's welfare goal as its Achilles' heel: equilibrium trade prices differ in public and private procurement, and private governance can lead to more efficient investment decisions even though renegotiation ensures the ex-post efficient trade decision in either regime.

PD October 2001. TI Regulation: Theory and Concepts. AA University of Bonn. SR Bonn Econ Discussion Paper: 32/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). PG 22. PR no charge. JE L33, L51. KW Regulation. Principal-Agent Models. Privatization.

AB This paper first presents various simple regulatory mechanisms, in particular Vogelsang and Finsinger's iterative mechanism and Shleifer's yardstick regulation. Unfortunately, in practical applications of these simple mechanisms the regulated utility will be able to dodge the regulator's intentions by strategic behavior. This has led us to a treatment of informationally-demanding regulatory mechanisms which are incentive-compatible and, therefore, strategy-proof. Unfortunately, the regulator must be extremely well-informed if he wants to apply this sort of regulation: except for the actual

realizations of a cost or demand characteristic and the effort of the manager, he must be perfectly informed about the situation of the regulated public utility. This is the main reason why in practice the simple RPI - X (Retail Price Index - X) regulation prevails. Finally, in this paper we have accentuated the importance of quality regulation, which is a rather neglected field in the theory of regulation and also very often in the practice of regulation.

#### Boivin, Jean

TI Monetary Policy in a Data-Rich Environment. AU Bermanke, Ben S.; Boivin, Jean.

#### Bolton, Patrick

PD July 2001. TI Corporate Finance and the Monetary Transmission Mechanism. AU Bolton, Patrick; Freixas, Xavier. AA Bolton: Princeton University and CEPR. Freixas: Universitat Pompeu Fabra. SR CEPR Discussion Paper: 2892; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG not available. PR 5 pounds, \$8 or 8 euros. JE E51, G32. KW Corporate Finance. Capital Adequacy Constraints. Monetary Policy. Equity Capital.

AB This paper analyzes the transmission mechanisms of monetary policy in a general equilibrium model of securities markets and banking with asymmetric information. Banks' optimal asset/liability policy is such that in equilibrium capital adequacy constraints are always binding. Asymmetric information about banks' net worth adds a cost to outside equity capital, which limits the extent to which banks can relax their capital constraint. In this context monetary policy does not affect bank lending through changes in bank liquidity. Rather, it has the effect of changing the aggregate composition of financing by firms. The model also produces multiple equilibria, one of which displays all the features of a "credit crunch." Thus, monetary policy can also have large effects when it induces a shift between equilibria.

#### Booth, Alison L.

PD February 2002. TI If You're so Smart, Why Aren't You Rich? Wage Inequality with Heterogenous Workers? AU Booth, Alison L.; Zoega, Gylfi. AA Booth: Australian National University, University of Essex, and CEPR. Zoega: Birkbeck College, London. SR CEPR Discussion Paper: 3190; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE J24, J31, J42. KW Heterogenous Workers. Hierarchical Assignment Models. Monopsony. Wage Compression.

AB This paper provides microfoundations for wage compression by modeling wage-setting in a world of heterogeneous workers and firms. Workers are differentiated by observable innate ability. A high-ability worker confers on a firm an externality, since their ability raises the average level of talent within that firm and increases the range of tasks that can be performed. This gives some firms monopsony power in the market for labor trained to do more advanced tasks. Firms will assign their better workers to the more advanced tasks performed within their ranks, and wages are compressed within firms, so that low-ability workers are paid more, relative to their talent, than high-ability workers. The model also offers an

explanation for why wage inequality has recently increased in some countries: exogenous changes that increase labor market competition can disproportionately benefit higher ability workers and widen the wages distribution.

### **Bordo, Michael D.**

**TI** Crises Now and Then: What Lessons from the Last Era of Financial Globalization? **AU** Eichengreen, Barry; Bordo, Michael D.

**PD** January 2002. **TI** Charles Goodhart's Contributions to the History of Monetary Institutions. **AU** Bordo, Michael D.; Schwartz, Anna J. **AA** Bordo: Rutgers University and NBER. Schwartz: NBER. **SR** National Bureau of Economic Research Working Paper: 8717; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 21. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E58, G18, G21. **KW** Monetary Institutions. Central Banks. Banking Crises.

**AB** Our paper examines Charles Goodhart's work on the history of monetary institutions: central bank operations under the gold standard, their behavior in relation to the financial system in which they functioned, including their responses to banking crises, and their performance as lenders of last resort. Although we differ with Charles on some of the conclusions that he has reached, we pay tribute to his importance in shaping the discussion by economists over a thirty-year span on questions related to the functioning of banks, their customers, and the historic central banks that evolved from serving government to serving banks.

### **Borsenberger, Monique**

**TI** The Impact of Tax-Benefit Systems on Low-Income Households in the Benelux Countries: A Simulation Approach Using Synthetic Datasets. **AU** Berger, Frederic; Borsenberger, Monique; Immervoll, Herwig; Lumen, Julie; Scholtus, Bertrand; De Vos, Klaas.

### **Bos, Dieter**

**PD** October 2002. **TI** Contests Among Bureaucrats. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 27/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 33. **PR** no charge. **JE** D72, D73, D74. **KW** Bureaucracy. Lobbying. Contests.

**AB** This paper deals with double lobbying: several bureaucrats participate in joint lobbying to get a high total departmental budget, but they also engage in antagonistic lobbying to reap as high a share of the total budget as possible. The antagonistic lobbying constitutes a contest among the bureaucrats. This paper characterizes the Nash equilibria in lobbying and shows in which way exogenously fixed bureaucratic incomes induce the same or different lobbying behavior as incentive incomes.

### **Bosman, Ronald**

**PD** May 2002. **TI** Exploring Group Behavior in a Power-to-Take Video Experiment. **AU** Bosman, Ronald; Hennig-Schmidt, Heike; vanWinden, Frans. **AA** Bosman and Hennig-Schmidt: University of Bonn. vanWinden: University of Amsterdam. **SR** Bonn Econ Discussion Paper: 07/2002; Bonn Graduate School of Economics, University of Bonn,

Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 27. **PR** no charge. **JE** A12, C72, C91, C92, D71. **KW** Group Behavior. Decision Rule. Fairness. Experiments. Video Experiments.

**AB** This paper experimentally explores group decision-making in a two-player power-to-take game. Discussions preceding group decisions are video taped and analyzed. Each subject first earns an income in an individual effort task preceding the game. The game consists of two stages. First, one group can claim any part of the income of the other group (take rate). Then, the latter group can respond by destroying own income. The results show that (1) although group behavior is in line with individual behavior, group behavior depends crucially on the decision rules that subjects use to arrive at their group decision; (2) groups ignore the decision rule of their "opponents" and typically view other groups as if they were single agents; (3) perceptions of fairness are prone to the so-called self-serving bias; (4) expectations are often not consistent with actual outcomes.

### **Bouckaert, Jan**

**PD** September 2001. **TI** Borrower Poaching and Information Display in Credit Markets. **AU** Bouckaert, Jan; Degryse, Hans. **AA** Bouckaert: Universiteit Gent. **SR** CEPR Discussion Paper: 2936; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D43, D82, G21, L13. **KW** Asymmetric Information. Banking Competition. Barriers to Entry. Financial Integration.

**AB** The Riegle-Neal Act in the US and the Economic and Monetary Union in Europe are recent initiatives to stimulate financial integration. These initiatives allow new entrants to "poach" the incumbents' clients by offering them attractive loan offers. We show that these deregulations may be insufficient since asymmetric information seriously hampers the integration of credit markets. This asymmetry stems from the informational advantage incumbent banks have about their current clients vis-a-vis potential entrants. Moreover, banks may strategically display some information, hindering entry when asymmetric information is moderate. We also show that voluntary information sharing emerges only when asymmetric information is low.

### **Boughton, James M.**

**PD** April 2002. **TI** Is Policy Ownership an Operational Concept? **AU** Boughton, James M.; Mourmouras, Alex. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/72; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 21. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E61, F33, F34. **KW** Ownership. IMF. Conditionality. Common Agency Models.

**AB** IMF lending is generally conditional on specified policies and outcomes. These conditions usually are negotiated compromises between policies initially favored by the Fund and by the country's authorities. In some cases the authorities might be satisfied enough with the outcome to take responsibility for it ("own" it) even though it was not their original preference. In other cases, they might accept the

outcome only to obtain financing, in which case weak commitment might lead to poor implementation. This paper reviews the theoretical basis for the importance of ownership, summarizes what is known about its empirical effects, and suggests a strategy for strengthening it.

**PD** June 2002. **TI** On the Origins of the Fleming-Mundell Model. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/107; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 8. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** B31, E12, F41. **KW** Fleming. Mundell. Open-Economy Macroeconomic Models.

**AB** Forty years ago, Marcus Fleming and Robert Mundell developed independent models of macroeconomic policy in open economies.

### Bovenberg, A. Lans

**PD** September 2001. **TI** Environmental Taxation and Regulation. **AU** Bovenberg, A. Lans; Goulder, Lawrence H. **AA** Bovenberg: Tilburg University. Goulder: Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 8458; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 58. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H21, H22, H23, L51, Q20. **KW** Environment. Taxes. Regulation. Government Policy.

**AB** This chapter examines government policy alternatives for protecting the environment. We compare environmentally motivated taxes and various non-tax environmental policy instruments in terms of their efficiency and distributional impacts. Much of the analysis is performed in a second-best setting where the government relies on distortionary taxes to finance some of its budget. The chapter indicates that in this setting, general equilibrium considerations have first-order importance in the evaluation of environmental policies. Indeed, some of the most important impacts of environmental policies take place outside of the market that is targeted for regulation. Section 2 examines the optimal level of environmental taxes. Section 3 analyzes the impacts of environmental tax reforms, concentrating on revenue-neutral policies. Section 4 compares environmental taxes with other policy instruments in economies with pre-existing distortionary taxes. We first compare these instruments assuming that regulators face no uncertainties as to firms' abatement costs or the benefits of environmental improvement, and then consider how uncertainty and associated monitoring and enforcement costs affect the choice among alternative policy instruments. Section 5 concentrates on the trade-offs between efficiency and distribution in a second-best setting. Section 6 offers conclusions.

### Bover, Olympia

**PD** January 2002. **TI** Hedonic House Prices Without Characteristics: The Case of New Multiunit Housing. **AU** Bover, Olympia; Velilla Lucini, Pilar. **AA** Bover: Banco de Espana and CEPR. Velilla Lucini: Banco de Espana. **SR** CEPR Discussion Paper: 3161; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8

euros + postage and handling. **JE** C43, E31, O47. **KW** House Prices. Quality Adjustment. Hedonic Price Indices. Unobservable Characteristics.

**AB** In this paper we propose an alternative to traditional hedonics for estimating new multiunit housing inflation, adjusting for quality changes. By relying on the within-site variation we control in a very general way for unobserved housing characteristics using site-specific effects. Precise location, transport, traffic, closeness to services, or construction quality are some of the unobserved but typically relevant housing characteristics that may bias estimated house price inflation, even when using hedonic methods. We also estimate standard hedonic equations and compare the results to those obtained with the alternative hedonic equations with site dummies. Our dataset is fairly rich in observable housing characteristics but, nevertheless, the quality-adjusted house price evolution is quite different in some cases. The data cover the construction of new housing in some of the large Spanish cities and in the smaller towns on the outskirts of the capital during part of the 1990s.

### Bowman, David

**PD** December 2002. **TI** Sticky Prices, No Menu Costs. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 743; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 29. **PR** no charge. **JE** D21, E31. **KW** Price Adjustment. Optimality. Monetary Shocks. Liquidity Effects.

**AB** A model that contains no costs to changing prices but in which prices do not respond to nominal shocks is presented. In models that do not feature superneutrality of money flexible price equilibria will allow certain types of monetary shocks to affect the real economy. Sticky price behavior may in fact be better at protecting the real economy from the effects of monetary shocks in such environments. This point is demonstrated in a standard monetary model with liquidity effects. An equilibrium in which sticky prices are supported without menu costs is then constructed. In equilibrium firms choose to keep prices fixed in response to nominal shocks because doing so provides a service to their customers, increasing profits by expanding the customer base.

### Broda, Christian

**PD** February 2003. **TI** Endogenous Deposit Dollarization. **AU** Broda, Christian; Levy Yeyati, Eduardo. **AA** Broda: Federal Reserve Bank of New York. Levy Yeyati: Universidad Di Tella Business School. **SR** Federal Reserve Bank of New York Staff Report: 160; Research and Market Analysis Group, Federal Reserve Bank of New York, 33 Liberty Street, 3rd Floor, New York, NY 10045-0001. Website: [www.newyorkfed.org/rmaghome](http://www.newyorkfed.org/rmaghome). **PG** 23. **PR** no charge; available only online. **JE** F31, G11, G21. **KW** Currency Substitution. Exchange Rate Risk. Deposit Dollarization. Banks.

**AB** This paper explores sources of deposit dollarization unrelated to standard moral hazard arguments. We develop a model in which banks choose the optimal currency composition of their liabilities. We argue that the equal treatment of peso and dollar claims in the event of bank default can induce banks to attract dollar deposits above the socially desirable level. The

distortion arises because dollar deposits are the only source of default risk in the model, but dollar depositors share the burden of the default with peso depositors. The incentive to dollarize is reinforced by common banking system safety nets such as deposit and bank insurance. Our findings suggest that regulators in bi-currency economies would potentially benefit by departing from the currency-blind benchmark and differentiating among currencies in a way that prevents undesirable currency mismatches.

#### Brousseau, Vincent

**PD** May 2002. **TI** The Functional Form of Yield Curves. **AA** European Central Bank. **SR** European Central Bank Working Paper: 148; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 54. **PR** no charge. **JE** G12, G13. **KW** Yield Curves. Affine Models. Bootstrapping. Swaps. Bonds. Futures. Functional Form. **AB** Yield curves built from liquid instruments tend to exhibit specific features, both in term of smoothness and in terms of patterns. The paper presents empirical evidence that those liquid yield curves frequently conform to a specific functional form. This specific functional form is predicted by a particular arbitrage pricing model. The paper also examines the possible interpretations of this phenomenon.

#### Bryan, Michael F.

**PD** January 2002. **TI** Asset Prices in the Measurement of Inflation. **AU** Bryan, Michael F.; Cecchetti, Stephen G.; O'Sullivan, Roisin. **AA** Bryan: Federal Reserve Bank of Cleveland. Cecchetti: Ohio State University and NBER. O'Sullivan: Ohio State University. **SR** National Bureau of Economic Research Working Paper: 8700; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** C43, E31. **KW** Inflation. Asset Prices. Excluded Goods Bias. Dynamic Factor Index. **AB** The debate over including asset prices in the construction of an inflation statistic has attracted renewed attention in recent years. Virtually all of this (and earlier) work on incorporating asset prices into an aggregate price statistic has been motivated by a presumed, but unidentified transmission mechanism through which asset prices are leading indicators of inflation at the retail level. In this paper, we take an alternative, longer-term perspective on the issue and argue that the exclusion of asset prices introduces an "excluded goods bias" in the computation of the inflation statistic that is of interest to the monetary authority. We implement this idea using a relatively modern statistical technique, a dynamic factor index. We find that the failure to include asset prices in the aggregate price statistic has introduced a downward bias in the U.S. Consumer Price Index on the order of magnitude of roughly 1/4 percentage point annually. Of the three broad assets categories considered here -- equities, bonds, and houses -- we find that the failure to include housing prices resulted in the largest potential measurement error. This conclusion is also supported by a cursory look at some cross-country evidence.

#### Buisan, Ana

**TI** The Quest for Nominal and Real Convergence Through Integration in Europe and Latin America. **AU** Alberola, Enrique; Buisan, Ana; Fernandez de Lis, Santiago.

#### Buiter, Willem H.

**PD** January 2002. **TI** Anchor, Float or Abandon Ship: Exchange Rate Regimes for Accession Countries. **AU** Buiter, Willem H.; Grafe, Clemens. **AA** Buiter: European Bank for Reconstruction and Development (EBRD) and CEPR. Grafe: University of London. **SR** CEPR Discussion Paper: 3184; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E42, F15, F31, F33, F41. **KW** European Monetary Union. Enlargement. Balassa-Samuelson Effect. Exchange Rate Regimes.

**AB** The paper considers alternative exchange rate regimes for the 10 East European accession candidates, both prior to European Union (EU) accession and during the period following EU accession but prior to European Monetary Union (EMU) membership. We conclude that from an economic point of view, EMU membership should be as early as possible. The prevailing interpretation of the exchange rate criterion for EMU membership is that it requires two years of successful membership in the Exchange Rate Mechanism (ERM). If ERM membership presupposes EU membership, this would postpone the earliest possible date for EMU membership till two years after EU membership. We argue that a stay of two years or more in this "ERM purgatory" would be pointless and costly. A derogation or waiver of the exchange rate requirement would therefore be desirable. Any credible fixed exchange rate regime prior to EMU membership would risk running afoul of the inflation criterion for EMU membership because of the Balassa-Samuelson effect. A temporary recession might be required to crawl under the inflation hurdle. To avoid this, a derogation from the inflation criterion for EMU membership, or a re-interpretation in terms of the inflation rate for traded goods prices only, is recommended.

#### Burger, John D.

**PD** January 2003. **TI** Diversification, Original Sin, and International Bond Portfolios. **AU** Burger, John D.; Warnock, Francis E. **AA** Burger: Loyola College of Maryland. Warnock: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 755; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 34. **PR** no charge. **JE** F36, G11, G15, O16. **KW** Portfolio Choice. Bond Market Development. Flight to Quality. Home Bias. Emerging Markets. Debt.

**AB** This paper has two main goals: to analyze country allocations in international bond portfolios and to describe the development of bond markets around the world. In the primary analysis, we find that country weights in U.S. investors' foreign bond portfolios are determined by the openness of capital accounts and potential diversification benefits. Positions in local-currency-denominated bonds are particularly sensitive to past and prospective volatility of returns. Analysis of reallocations in bond portfolios from 1997 to 2001 reveals a flight to quality from countries with low and declining credit ratings; reallocations in U.S. investors' equity portfolios also reveal a discriminating flight from higher credit risks. In the secondary analysis, we present measures of the size and currency composition of bond markets and analyze the

development of local currency bond markets. We find that while country size and the level of economic development influence the level of bond market development, past policies play an important role. An implication for developing countries is that creditor friendly policies, such as vigilance on the inflation front, can enable local bond market development and in turn attract global investors, in part by promoting the development of derivative instruments that allow the decoupling of bond and currency investments.

### Burstein, Ariel Thomas

**PD** September 2001. **TI** Distribution Costs and Real Exchange Rate Dynamics During Exchange-Rate-Based Stabilization. **AU** Burstein, Ariel Thomas; Neves, Joao C.; Rebelo, Sergio. **AA** Burstein and Rebelo: Northwestern University. **SR** CEPR Discussion Paper: 2944; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** F31, F41. **KW** Distribution Costs. Fixed Exchange Rates. Inflation. Real Exchange Rate. Stabilization. **AB** This paper studies the role played by distribution costs in shaping the behavior of the real exchange rate during exchange-rate-based stabilizations. We document that distribution costs are very large for the average consumer good: they represent more than 40 percent of the retail price in the US and 60 percent of the retail price in Argentina. Distribution services require local labor and so they drive a natural wedge between retail prices in different countries. We show that introducing a distribution sector in an otherwise standard model of exchange-rate-based stabilizations dramatically improves its ability to rationalize observed real exchange rate dynamics.

**PD** January 2002. **TI** Why Are Rates of Inflation So Low After Large Devaluations? **AU** Burstein, Ariel Thomas; Eichenbaum, Martin; Rebelo, Sergio. **AA** Burstein: Northwestern University. Eichenbaum: Northwestern University and NBER. Rebelo: Northwestern University, CEPR, University of Rochester, and NBER. **SR** CEPR Discussion Paper: 3178; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E31, F31. **KW** Inflation. Devaluation. Exchange Rates.

**AB** This paper studies the behavior of inflation after nine large post-1990 contractionary devaluations. A salient feature of the data is that inflation is low relative to the rate of devaluation. We argue that distribution costs and substitution away from imports to lower quality local goods can account quantitatively for the post-devaluation behavior of prices.

### Bussiere, Matthieu

**PD** May 2002. **TI** Towards a New Early Warning System of Financial Crises. **AU** Bussiere, Matthieu; Fratzscher, Marcel. **AA** Bussiere: European University Institute. Fratzscher: European Central Bank. **SR** European Central Bank Working Paper: 145; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 68. **PR** no charge. **JE** F31, F36, F47. **KW** Currency Crises. Early Warning System. Crisis Prediction. Multinomial Logit.

**AB** This paper develops a new Early Warning System (EWS) model for predicting financial crises, based on a multinomial

logit model. It is shown that EWS approaches based on binomial discrete-dependent-variable models can be subject to what we call a post-crisis bias. This bias arises when no distinction is made between tranquil periods and crisis/post-crisis periods. We show that applying a multinomial logit model is a valid way of solving this problem and constitutes a substantial improvement in the ability to forecast financial crises. The empirical results reveal that the model would have correctly predicted a large majority of crises in emerging markets since the 1990s. Moreover, we derive general results about the optimal design of EWS models, which allow policy-makers to make an optimal choice based on their degree of risk-aversion against unanticipated financial crises.

### Bussoli, Patrizia

**PD** January 2002. **TI** Information Sharing, Research Co-ordination and Membership of Research Joint Ventures. **AU** Bussoli, Patrizia; Navaretti, Giorgio Barba; Ulph, David; von Graevenitz, Georg. **AA** Bussoli: Deutsche Bank. Navaretti: Università degli Studi di Milano and Centro Studi Luca d'Agliano. Ulph and von Graevenitz: University College London. **SR** CEPR Discussion Paper: 3134; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F23, L22, O31, O32. **KW** Information Sharing. Research Joint Ventures. Research Co-operation.

**AB** This paper examines which firms are more likely to join together and form a research joint venture (RJV). It differs from previous contributions as it introduces a set of realistic hypothesis on the characteristics of research co-operation and information sharing. Research paths can be substitute or complementary. This affects the nature of and consequently the gains from co-operation. The model shows that gains from co-operation are likely to be larger in the second case, as the probability of making a discovery is higher. This paper also assumes that firms do not share information voluntarily if they do not co-operate only when the firms' products are substitutes. If the firms' products are complementary, there may be gains in sharing information also under non co-operation. This eliminates the gains from co-operation arising from information sharing. If this is the case, RJVs are more likely to be formed between firms producing substitute products. The empirical analysis carried out confirms these predictions. The model also explores the role of asymmetries in costs between the two firms. The empirical analysis shows that gains from RJV formation are largest for intermediate levels of asymmetry.

### Cabrero, Alberto

**PD** May 2002. **TI** Modelling the Daily Banknotes in Circulation in the Context of the Liquidity Management of the European Central Bank. **AU** Cabrero, Alberto; Camba-Mendez, Gonzalo; Hirsch, Astrid; Nieto, Fernando. **AA** Cabrero and Nieto: Banco de España. Camba-Mendez and Hirsch: European Central Bank. **SR** European Central Bank Working Paper: 142; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 54. **PR** no charge. **JE** C22, C51, C53, C59. **KW** Daily Forecast. Liquidity Management. Time Series Models. Seasonality. Cubic Splines. **AB** The main focus of this paper is to model the daily series of banknotes in circulation in the context of the liquidity

management of the Eurosystem. The series of banknotes in circulation displays very marked seasonal patterns. To the best of our knowledge the empirical performance of two competing approaches to model seasonality in daily time series, namely the autoregressive integrated moving average (ARIMA)-based approach and the Structural Time Series approach, has never been put to the test. The application presented in this paper provides valid intuition on the merits of each approach. The forecasting performance of the models is also assessed in the context of their impact on the liquidity management of the Eurosystem.

**PD** July 2002. **TI** Modelling the Daily Banknotes in Circulation in the Context of the Liquidity Management of the European Central Bank. **AU** Cabrero, Alberto; Camba-Mendez, Gonzalo; Hirsch, Astrid; Nieto, Fernando. **AA** Cabrero and Nieto: Banco de Espana. Camba-Mendez and Hirsch: European Central Bank. **SR** Banco de Espana, Documentos de Trabajo: 0211; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcalá, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 25. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** C22, C51, C53, C59. **KW** Liquidity Management. ARIMA Modelling. State Space Modelling. Seasonality. Cubic Splines.

**AB** See the abstract for Cabrero, Alberto; Camba-Mendez, Gonzalo; Hirsch, Astrid; Nieto, Fernando. May 2002, "Modelling the Daily Banknotes in Circulation in the Context of the Liquidity Management of the European Central Bank". European Central Bank Working Paper: 142; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/).

### Caillaud, Bernard

**PD** July 2001. **TI** Chicken and Egg: Competing Matchmakers. **AU** Caillaud, Bernard; Jullien, Bruno. **AA** Caillaud: CERAS, Paris and CEPR. Jullien: Universite des Sciences Sociales de Toulouse, France. **SR** CEPR Discussion Paper: 2885; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D43, D83, L13, L15. **KW** Competition. Intermediation. Internet. Matching. Network Externalities.

**AB** We examine a Bertrand competition game between two intermediaries offering matching services between two sides of a market. Indirect network externalities arise as the probability of finding one's match with a given intermediary increase with the number of agents of the other side who use the services of this intermediary. We formalize some specificities of intermediation on the Internet by allowing registration and transaction prices, and multiple registrations. When only registration fees are used and agents register to at most one cybermediary, there exists an equilibrium where one firm corners the market with positive profits, as well as zero profit equilibria where the firms share the market. Introducing either fees that are contingent on successful matching or the possibility of registration with two intermediaries drastically reduces the profits of a dominant firm. Moreover, with multiple registrations, new types of positive-profit equilibria emerge where both matchmakers are active and one side of the market registers with both cybermediaries.

### Camba-Mendez, Gonzalo

**TI** Modelling the Daily Banknotes in Circulation in the Context of the Liquidity Management of the European Central Bank. **AU** Cabrero, Alberto; Camba-Mendez, Gonzalo; Hirsch, Astrid; Nieto, Fernando.

**PD** June 2002. **TI** Short-Term Monitoring of Fiscal Policy Discipline. **AU** Camba-Mendez, Gonzalo; Lamo, Ana. **AA** European Central Bank. **SR** European Central Bank Working Paper: 152; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 40. **PR** no charge. **JE** C32, E61, E62, H62. **KW** Structural Deficit Ratio. State Space Modeling. Interpolation.

**AB** Under the Maastricht Treaty and the Stability and Growth Pact (SGP) European Union (EU) Member States commit themselves to avoid deficits over 3% of GDP and to pursue in the medium-term budgetary positions close-to-balance or in surplus. The SGP provides also regulation for the surveillance of budgetary positions. An analysis of associated tools is the focus of this paper. In particular, it addresses two open issues in the empirical literature, which are crucial for monitoring fiscal policy discipline in the EU. The first issue pertains to the estimation of the structural component of the balance ratio and the second issue is the computation, when only annual fiscal data is available, of quarterly budget balance ratios. An econometric model addressing both issues is presented and estimated. Additionally, this framework allows us to answer questions such as: what is the safety margin that will prevent a particular country from reaching with certain probability a budget deficit that breaches the 3%?

**TI** Modelling the Daily Banknotes in Circulation in the Context of the Liquidity Management of the European Central Bank. **AU** Cabrero, Alberto; Camba-Mendez, Gonzalo; Hirsch, Astrid; Nieto, Fernando.

### Campa, Jose Manuel

**PD** October 2002. **TI** Differences in Exchange Rate Pass-Through in the Euro Area. **AU** Campa, Jose Manuel; Gonzalez Minguez, Jose M. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0219; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcalá, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 24. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** F31, F33. **KW** Exchange Rate. Pass-Through. Euro Area. Monetary Union.

**AB** This paper focuses on the pass-through of exchange rate changes into the prices of imports made by euro area countries originating outside the area. Using data on import unit values for thirteen different product categories for each country, we estimate industry specific rates of pass-through across and within countries for all euro members. In the short-run, pass-through rates differ across industries and countries and are less than one. In the long run, neither full pass-through nor equality of pass-through rates across industries and countries can be rejected. Differences exist across euro area countries in the degree that a common exchange rate movement gets transmitted into consumer prices and costs of production indices. Most of these differences in transmission rates are due to the distinct degree of openness of each country to non-euro area imports rather than to the heterogeneity in the structure of

imports.

### Campbell, Rachel

PD January 2002. TI Increased Correlation in Bear Markets: A Downside Risk Perspective. AU Campbell, Rachel; Koedijk, Kees; Kofman, Paul. AA Campbell: University of Maastricht. Koedijk: Erasmus University Rotterdam and CEPR. Kofman: University of Melbourne. SR CEPR Discussion Paper: 3172; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE G11, G15. KW International Equity Markets. Correlation. Extreme Returns. Downside Risk.

AB A number of studies have provided evidence of increased correlation in global financial market returns during bear markets. Others, however, have shown that some of this evidence may have been biased. We derive an alternative estimator for implied correlation based on portfolio downside risk measures that does not suffer from this bias. These unbiased quantile correlation estimates are directly applicable to portfolio optimization and to risk management techniques in general. This simple and practical approach captures the increasing correlation in extreme market conditions while providing a pragmatic approach to understanding correlation structure in multivariate return distributions. Based on data for international equity markets we find evidence of significant increased correlation in extreme returns in international equity markets. This proves the importance of providing a tail adjusted mean-variance covariance matrix.

### Canning, David

TI Economic Growth and the Demographic Transition. AU Bloom, David E.; Canning, David; Sevilla, Jaypee.

TI Technological Diffusion, Conditional Convergence, and Economic Growth. AU Bloom, David E.; Canning, David; Sevilla, Jaypee.

TI The Wealth of Nations: Fundamental Forces Versus Poverty Traps. AU Bloom, David E.; Canning, David; Sevilla, Jaypee.

### Canova, Fabio

PD June 2002. TI G-7 Inflation Forecasts. AA Universitat Pompeu Fabra, London Business School, and CEPR. SR European Central Bank Working Paper: 151; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 45. PR no charge. JE E31, E37. KW Forecasting. Inflation. Panel Vector Autoregression. Markov Chain. Monte Carlo Methods.

AB This paper compares the forecasting performance of some leading models of inflation for the cross section of Group of Seven (G-7) countries. We show that bivariate and trivariate models suggested by economic theory or statistical analysis are hardly better than univariate models. Phillips curve specifications fit well into this class. Significant improvements in both the mean squared error of the forecasts and turning point prediction are obtained with time varying coefficient models which exploit international interdependencies. The performance of the latter class of models is independent of the sample, while it is not the case for standard specifications.

### Caplin, Andrew

TI Retirement Consumption: Insights from a Survey. AU Ameriks, John; Caplin, Andrew; Leahy, John.

### Caporello, Gianluca

PD September 2001. TI Program TSW Reference Manual. AU Caporello, Gianluca; Maravall, Agustin; Sanchez, Fernando J. AA Banco de Espana. SR Banco de Espana, Documentos de Trabajo: 0112; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: www.bde.es/. PG 15. PR single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. JE C22, C53, C87, E32. KW Time Series. Reg-ARIMA Models. Signal Extraction. Computer Software.

AB The user instructions for Program TSW are provided. TSW is a Windows version, developed by G. Caporello and A. Maravall, of Programs TRAMO and SEATS (Gomez and Maravall, 1996), that incorporates several modifications and new facilities.

### Carare, Alina

PD June 2002. TI Establishing Initial Conditions in Support of Inflation Targeting. AU Carare, Alina; Schaechter, Andrea; Stone, Mark; Zelmer, Mark. AA IMF. SR International Monetary Fund Working Paper: WP/02/102; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. PG 34. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE E44, E52, E58, E61. KW Monetary Policy. Monetary Policy Framework. Inflation Targeting. Central Bank.

AB This paper provides some practical advice on establishing initial conditions in support of an inflation-targeting monetary framework. These conditions are divided into four areas: a mandate in support of an inflation objective and accountability for achieving this objective; macroeconomic stability; a sufficiently well-developed and stable financial system; and effective policy implementation tools. The measures taken by countries to meet these conditions are also reviewed.

### Card, David

TI Did the Elimination of Mandatory Retirement Affect Faculty Retirement Flows? AU Ashenfelter, Orley; Card, David.

PD August 2001. TI The Limits to Wage Growth: Measuring the Growth Rate of Wages for Recent Welfare Leavers. AU Card, David; Michalopoulos, Charles; Robins, Philip K. AA Card: UC Berkeley and NBER. Michalopoulos: MDRC. Robins: University of Miami. SR National Bureau of Economic Research Working Paper: 8444; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 33. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE I38, J30. KW Wage Growth. Earnings Subsidy. Welfare Programs.

AB We study the rate of wage growth among welfare leavers in the Self Sufficiency Program (SSP), an experimental earnings subsidy offered to long-term welfare recipients in Canada.



Single parents who started working in response to the SSP incentive are younger, less educated, and have more young children than those who would have been working regardless of the program. They also earn relatively low wages in their first few months of work: typically within \$1 of the minimum wage. Despite these differences, their rate of wage growth is similar to other welfare leavers. We estimate that people who were induced to work by SSP experienced real wage growth of about 2.5 -- 3 percent per year -- a rate consistent with conventional measures of the return to experience for similar workers.

#### **Carletti, Elena**

**PD** May 2002. **TI** Competition and Stability: What's Special About Banking? **AU** Carletti, Elena; Hartmann, Philipp. **AA** Carletti: University of Mannheim. Hartmann European Central Bank and CEPR. **SR** European Central Bank Working Paper: 146; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 50. **PR** no charge. **JE** G21, G28, G34, K21. **KW** Bank Competition. Antitrust Policies. Mergers and Acquisitions. Financial Stability. Banking Supervision.

**AB** This paper examines the relationship between competition policies and policies to preserve stability in the banking sector. Market structures and the relative importance of the three classical antitrust areas for banking are discussed, showing the predominance of merger review considerations for loan and deposit markets as well as the relevance of cartel considerations for payment systems. A core part of the paper is an analysis of the relative roles of competition and supervisory authorities in the review of bank mergers for the Group of Seven (G-7) industrialized countries. A wide variety of approaches emerges, with some countries giving a stronger role to prudential supervisors than to competition authorities and other countries doing it the other way round. In search for explanations for this diversity the theoretical and empirical literature on the competition-stability nexus in banking is surveyed. It turns out that the widely accepted trade-off between competition and stability does not generally hold.

#### **Carlson, Mark**

**PD** May 2002. **TI** Determinants and Repercussions of the Composition of Capital Inflows. **AU** Carlson, Mark; Hernandez, Leonardo. **AA** Carlson: Federal Reserve Board. Hernandez: IMF. **SR** International Monetary Fund Working Paper: WP/02/86; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: [www.imf.org/](http://www.imf.org/). **PG** 22. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** F20, F30, F40, G15. **KW** Capital Flows. Crisis. Contagion.

**AB** The Mexican, Asian, and Russian crises of the mid- and late 1990s have renewed interest among policymakers in the determinants and effects of private capital inflows. This paper analyzes whether policies can affect the composition of capital inflows and whether different compositions aggravate crises. The results support the view that, while fundamentals matter, capital controls can affect the mix of capital inflows that countries receive. The results also show that during the Asian crisis, countries with more yen-denominated debt fared worse, while during the Mexican crisis larger short-term debt stocks increased the severity of the crisis.

#### **Carraro, Carlo**

**PD** July 2001. **TI** Science versus Profit in Research: Lessons from the Human Genome Project. **AU** Carraro, Carlo; Pome, Alessandra; Siniscalco, Domenico. **AA** Carraro: Universita di Venezia and CEPR. **SR** CEPR Discussion Paper: 2890; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org/](http://www.cepr.org/). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D78, H23, H40, O32, O38. **KW** Allocation Mechanisms. Intellectual Property Rights. Science. Technology. Welfare.

**AB** This paper elaborates on the recent race to sequence the human genome. Starting from the debate arising from the genome case on public versus private research, the paper shows that in some fundamental research areas, where knowledge externalities play an important role, market and non-market allocation mechanisms do coexist and should coexist in order to ensure socially desirable achievements. A game-theoretic model makes it possible to demonstrate the above results and to characterize some features of an optimal research policy.

#### **Carrillo, Juan D.**

**PD** January 2002. **TI** Platform Divergence, Political Efficiency and the Median Voter Theorem. **AU** Carrillo, Juan D.; Castanheira, Micael. **AA** Carrillo: Columbia Business School and CEPR. Castanheira: ECARES and Universite Libre de Bruxelles. **SR** CEPR Discussion Paper: 3180; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org/](http://www.cepr.org/). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D72, D78, L15. **KW** Moral Hazard. Median Voter Theorem. Party Competition. Election.

**AB** The paper analyzes a standard Downsian model of election with two opportunistic parties. We assume that, after choosing their ideological position but before the election takes place, parties can affect the quality of their platforms by exerting some unobservable effort. When voters either (almost) always or (almost) never observe the resulting quality before the election, the standard Median Voter Theorem holds. For the more general case of imperfect observability of quality, however, we show that parties may optimally deviate from the median voter's bliss point as an implicit commitment to exert high effort (and therefore obtain a high-quality platform). The paper thus argues that extremist parties are endogenously more committed to their ideas than moderate parties. Moreover, the extra quality implied by the divergence of parties will sometimes offset their worse ideology proposed, in which case the voters' welfare under divergence is greater than under convergence of platforms. Last, we endogenize the amount of information revealed to voters by assuming that a profit maximizing press collects the news about the quality of parties and sells it to the electorate. We show that the press may collect an amount of information that is excessively high from a social viewpoint.

#### **Carroll, Christopher D.**

**PD** July 2001. **TI** A Theory of the Consumption Function, With and Without Liquidity Constraints (Expanded Version). **AA** Johns Hopkins University and NBER. **SR** National Bureau of Economic Research Working Paper: 8387; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org/](http://www.nber.org/).

**PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** A23, B22, D91, E21. **KW** Permanent Income Hypothesis. Consumption Models. Precautionary Saving. Liquidity Constraints.

**AB** This paper argues that the modern stochastic consumption model, in which impatient consumers face uninsurable labor income risk, matches Milton Friedman's (1957) original description of the Permanent Income Hypothesis much better than the perfect foresight or certainty equivalent models did. The model can explain the high marginal propensity to consume, the high discount rate on future income, and the important role for precautionary behavior that were all part of Friedman's original framework. The paper also explains the relationship of these questions to the Euler equation literature, and argues that the effects of precautionary saving and liquidity constraints are often virtually indistinguishable.

**PD** December 2001. **TI** The Epidemiology of Macroeconomic Expectations. **AA** Johns Hopkins University and NBER. **SR** National Bureau of Economic Research Working Paper: 8695; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 38. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** D84, E24, E31. **KW** Expectations. Inflation. Unemployment. Rational.

**AB** Since the foundational work of Keynes (1936), macroeconomists have emphasized the importance of agents' expectations in determining macroeconomic outcomes. Yet in recent decades macroeconomists have devoted almost no effort to modeling actual empirical expectations data, instead assuming all agents' expectations are "rational." This paper takes up the challenge of modeling empirical household expectations data, and shows that a simple, standard model from epidemiology does a remarkably good job of explaining the deviations of household inflation and unemployment expectations from the "rational expectations" benchmark. Furthermore, a microfoundations or "agent-based" version of the model may be able to explain, in a way that still permits aggregation, stark rejections of the pure rational expectations framework like Souleles's (2002) finding that members of different demographic groups have sharply different predictions for macroeconomic aggregates like the inflation rate.

### Casares, Miguel

**PD** May 2002. **TI** Price Setting and the Steady-State Effects of Inflation. **AA** Universidad Publica de Navarra, Spain and European Central Bank. **SR** European Central Bank Working Paper: 140; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 39. **PR** no charge. **JE** E13, E31, E52. **KW** Price Setting. Superneutrality. Welfare Cost. Inflation. Monopolistic Competition.

**AB** This paper examines how price setting plays a key role in explaining the steady-state effects of inflation in a monopolistic competition economy. Three pricing variants (optimal prices, indexed prices, and unchanged prices) are introduced through a generalization of the Calvo-type setting that allows the possibility of price indexation, i.e., prices may be adjusted by the rate of inflation. We found that in an economy with less indexed prices the steady-state negative impact of inflation on output is higher. In the extreme case without no price indexation at all (purely Calvo-type economy), unrealistically

heavy falls in capital and output were reported when steady-state inflation increases. Regarding welfare analysis, our results support a long-run monetary policy aimed at price stability with a close-to-zero inflation target. This finding is robust to any price setting scenario.

**PD** May 2002. **TI** Time-to-Build Approach in a Sticky Price, Sticky Wage Optimizing Monetary Model. **AA** Universidad Publica de Navarra, Spain and European Central Bank. **SR** European Central Bank Working Paper: 147; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 44. **PR** no charge. **JE** E12, E22, E47. **KW** Time-to-Build. Nominal Rigidities. Response Lag. Business Cycle Model.

**AB** One of the most significant characteristics of optimizing models is that the behavioral equations involved are typically forward looking, i.e., agents are concerned about the future rather than the past. This creates difficulties when modeling some of the business-cycle patterns widely observed in modern economies. For example, it is not easy to obtain the delay in the response of the rate of inflation to a monetary shock. This paper shows that an optimizing monetary model with endogenous capital, sticky prices, sticky wages, and adjustment costs of investment, can replicate a lag in the maximum response of both output and inflation to an interest rate shock when taking into account a time-to-build requirement for investment projects.

### Castanheira, Micael

**PD** January 2002. **TI** On the (Non) Paradox of (Not) Voting. **AA** Universite Libre de Bruxelles and CEPR. **SR** CEPR Discussion Paper: 3126; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C72, D72, D81. **KW** Paradox of Voting. Poisson Games. Rational Voter Hypothesis.

**AB** Why do people vote? This question received a lot of attention for more than thirty years, and yet remains unanswered. In this paper, we take stock of existing empirical regularities and argue that we can use them to improve the model of instrumental voting. Once this is done, we show that purely rational/instrumental factors actually explain a large fraction of turnout variations. To perform our analysis, we use Myerson's (1997, 2000) advances on Poisson Games and generalize the Riker and Ordeshook (1968) seminal model of instrumental voting. Applying our results to US data, we show how our model can explain several stylized facts, like the secular fall in turnout rates in the US.

**TI** Platform Divergence, Political Efficiency and the Median Voter Theorem. **AU** Carrillo, Juan D.; Castanheira, Micael.

### Cecchetti, Stephen G.

**TI** Asset Prices in the Measurement of Inflation. **AU** Bryan, Michael F.; Cecchetti, Stephen G.; O'Sullivan, Roisin.

### Cestone, Giacinta

**PD** September 2001. **TI** Internal Capital Markets, Cross-Subsidization and Product Market Competition. **AU** Cestone, Giacinta; Fumagalli, Chiara. **AA** Cestone: Institut d'Analisi

Economica, Barcelona and CEPR. **SR** CEPR Discussion Paper: 2935; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** G30, L13, L20. **KW** Business Groups. Cross-Subsidization. Capital Markets. Product Markets.

**AB** This paper analyses the interaction between internal capital market allocations and product market competition. It is argued that diversification and divestiture are both rational responses to anticipated changes in the competitive environment. Diversification is the optimal response to an anticipated toughening of competition, whereas divestiture may encourage competitors to adopt collusive pre-commitments. Moreover, thanks to the ability to shift resources across units, a diversified business group can consolidate its market power across industries. Our results yield empirically testable predictions relating the stock-market reaction to diversification announcements and the diversification premium to product market factors.

**PD** January 2002. **TI** Anti-Competitive Financial Contracting: The Design of Financial Claims. **AU** Cestone, Giacinta; White, Lucy. **AA** Cestone: Institut d'Anàlisi Econòmica (CSIC), Barcelona and CEPR. White: Harvard Business School. **SR** CEPR Discussion Paper: 3182; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G32, G38, L11. **KW** Coase Problem. Equity. Over-Funding. Venture Capital. Entry Deterrence. Financial Claims.

**AB** This paper presents the first model where entry deterrence takes place through financial rather than product-market channels. In standard models of the interaction between product and financial markets, a firm's use of financial instruments deters entry by affecting product market behavior, whereas in our model entry deterrence occurs by affecting the credit market behavior of investors towards entrant firms. We find that in order to deter entry, the claims held on incumbent firms should be sufficiently risky, i.e. equity, in contrast to the standard Brander-Lewis (1986) result that debt deters entry. We show that this effect is more marked, the less competitive is the credit market, implying that more credit market competition spurs more product market competition. The model can be used to shed light on the mode of financing of start-up industries and the policy debate on the separation of banking as to whether banks should be permitted to hold equity in firms.

### Chaboud, Alain P.

**PD** January 2003. **TI** Uncovered Interest Parity: It Works, But Not For Long. **AU** Chaboud, Alain P.; 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: 752; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 22. **PR** no charge. **JE** C22, F31. **KW** Uncovered Interest Parity. High Frequency Data. Exchange Rates. Risk Premia.

**AB** The failure of uncovered interest parity can be ascribed to the existence of a risk premium. The size of this risk premium may shrink to zero over sufficiently small intervals of time. In contrast, because no interest is paid on intradaily

positions and interest is instead paid discretely at the point when a position is rolled over from one day to the next, the size of the interest differential remains fixed over any interval that covers the time of the discrete interest payment. This is true no matter how short that interval is. Using a large dataset of high frequency exchange rate data, we run uncovered interest parity regressions over different time intervals. We replicate the rejection of uncovered interest parity with daily data, but find results that are consistently much more supportive of the uncovered interest parity hypothesis over short windows of intradaily data that span the time of the discrete interest payment.

### Chakrabarty, Manisha

**PD** November 2001. **TI** An Exploratory Analysis of the Effect of Current Income on the Relative Change in Aggregate Consumption: A Heterogeneous Household Approach. **AU** Chakrabarty, Manisha; Schmalenbach, Anke. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 31/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 17. **PR** no charge. **JE** C14, C52, D12, D31, E21. **KW** Consumption. Income Distribution. Heterogeneity. Average Derivative Estimator. Representative Agent Model.

**AB** This paper attempts to find out the explanatory power of observed changes in the distribution of current income in explaining the relative change in aggregate consumption using the distributional approach of aggregation by Hildenbrand and Kneip (1999, 2001). The coefficients in the aggregate relation in each period can be estimated from cross-section data as an average derivative of the individual consumption relation without requiring a specific functional form of this relation and the time-invariance property needed in the time-series model of Davidson et al. (1978). We use the nonparametric Direct Average Derivative Estimation technique to estimate these coefficients of the aggregate relation in the Family Expenditure Survey of the UK (1974-1993). It turns out that for most of the commodity groups the inclusion of dispersion in the income distribution, in addition to the mean, improves the predictive power of the model.

**PD** December 2001. **TI** The Law of Aggregate Demand: Empirical Evidence from India Using Nonparametric Direct Average Derivative Estimation Procedure. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 37/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 12. **PR** no charge. **JE** C12, C14, C43, D12. **KW** Aggregation. Heterogeneity. Income Effect. Law of Demand. Average Derivative Estimator. Nonparametric Regression.

**AB** This paper attempts to provide empirical evidence of the positive definiteness of the mean income effect matrix, a sufficient condition for market demand to satisfy the law of demand derived by Hardle, Hildenbrand, and Jerison (HHJ (1991)). Increasing heterogeneity in spending of populations of households leads to this sufficient condition, which is falsifiable from cross-section data. Based on this framework we use the National Sample Survey (NSS) 50-th round data (1993-1994) for the rural sector of Maharashtra to examine the empirical viability of this condition. Due to a restrictive assumption on the density function and several other limitations of the indirect method we use the nonparametric direct average derivative

estimation procedure (Stoker (1993)), unlike the indirect method used in the HHJ paper. It is shown that the income effect matrix is, indeed, positive definite. The required heterogeneity condition is also well supported in this data where one can not expect too much variation in spending patterns of population given the source of data, i.e., the rural sector of a developing economy.

**PD** October 2002. **TI** The Representative Agent Hypothesis: An Empirical Test. **AU** Chakrabarty, Manisha; Schmalenbach, Anke. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 26/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. **Website:** www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 17. **PR** no charge. **JE** C12, C14, D12, E21. **KW** Representative Agent Hypothesis. Time Invariance. Heterogeneity. Mean Income. Consumption.

**AB** This paper empirically tests the validity of using only mean income as a representative variable for the whole population in the aggregate consumption relation and of assuming time-invariance of the coefficients in this relation, as done in macromodels. We use a statistical distributional approach of aggregation to test these properties on the UK-Family Expenditure Survey (1974-1993). It is observed that the time-invariance assumption is rejected in most cases. A bootstrap test also suggests that in addition to mean income, the dispersion of income matters significantly for the commodity group "services" in several years, and for "clothing and footwear" and "total nondurable" in some years, thus invalidating the representative agent hypothesis.

#### Chalk, Nigel A.

**PD** June 2002. **TI** Structural Balances and All That: Which Indicators to Use in Assessing Fiscal Policy. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/101; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. **Website:** www.imf.org. **PG** 21. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E60, H30, H50, H60. **KW** Structural Balances. Fiscal Stimulus. Weighted Budget Balance.

**AB** Structural indicators of a country's fiscal position are regularly used as estimates of both discretionary changes in fiscal policy and the effect of fiscal policy on aggregate demand. This paper looks at such indicators and evaluates, from a theoretical standpoint and from empirical case studies, their usefulness in measuring the size of discretionary policy action or fiscal demand stimulus. Two propositions are examined in detail: first, that the change in the primary structural balance provides a better indicator of discretionary fiscal policy than does the change in the primary balance; and second, that the change in the structural balance is a good indicator of the demand stimulus arising from changes in the fiscal position. In addition, the paper discusses measurement problems relating to structural balances and the use of the fiscal impulse as an alternative to structural balances.

**PD** June 2002. **TI** The Potential Role for Securitizing Public Sector Revenue Flows: An Application to the Philippines. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/106; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC

20431. **Website:** www.imf.org. **PG** 27. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** F30, G10. **KW** Fiscal Policy. International Finance. Securitization. Philippines.

**AB** Since the mid-1980s, the securitization of future flow receivables has grown in importance as a financing alternative for the public sector. In a world of perfect capital markets, there appears to be little rationale -- in terms of reducing the average cost of public sector financing -- to resort to secured borrowing. However, for many developing countries, financial markets are far from perfect. In particular, there may be an important role for secured financing where increased uncertainty or financial market volatility leads to credit rationing driven by information asymmetries. Secured financing, however, does not provide a free lunch. Such arrangements subordinate existing and future creditors and, as a result, may raise the cost of future borrowing. In addition, high transaction costs, the thin market in secured instruments, the risk of legal challenges, and reduced budget and debt management flexibility may offset the cost advantage of public sector securitization.

#### Chaloupka, Frank J.

**TI** The Impact of Tobacco Control Program Expenditures on Aggregate Cigarette Sales: 1981-1998. **AU** Farrelly, Matthew C.; Chaloupka, Frank J.; Pechacek, Terry F.

**TI** Are There Differential Effects of Price and Policy on College Students' Drinking Intensity? **AU** Williams, Jenny; Chaloupka, Frank J.; Wechsler, Henry.

#### Chan-Lau, Jorge A.

**PD** May 2002. **TI** Extreme Contagion in Equity Markets. **AU** Chan-Lau, Jorge A.; Mathieson, Donald J.; Yao, James Y. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/98; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. **Website:** www.imf.org. **PG** 20. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** C10, F30, G10, G15. **KW** Contagion. Equity Markets. Extreme Value Theory.

**AB** This study uses bivariate extremal dependence measures, based on the number of equity return co-exceedances in two markets, to quantify both negative and positive equity returns contagion in mature and emerging equity markets during the past decade. The results indicate (a) higher contagion for negative returns than for positive returns; (b) a secular increase in contagion in Latin America not matched in other regions; (c) global increases in contagion following the 1998 financial crises; and (d) that the use of simple correlations as a proxy for contagion could be misleading, as the former exhibit low correlation with extremal dependence measures of contagion.

#### Chatelain, Jean-Bernard

**PD** January 2002. **TI** Firm Investment and Monetary Policy Transmission in the Euro Area. **AU** Chatelain, Jean-Bernard; Generale, Andrea; Hernando, Ignacio; von Kalckreuth, Ulf; Vermeulen, Philip. **AA** Chatelain: Banque de France. Generale: Banca d'Italia. Hernando: Banco de Espana. Von Kalckreuth: Deutsche Bundesbank. Vermeulen: European Central Bank. **SR** Banco de Espana, Documentos de Trabajo: 0119; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcalá, 50, 28014 Madrid, Spain. **Website:** www.bde.es/. **PG** 26. **PR** single

copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** E22, E50. **KW** Investment. Monetary Transmission Channels. User Cost of Capital. Euro Area.

**AB** We present a comparable set of results on the monetary transmission channels on firm investment for the four largest countries of the euro area (Germany, France, Italy and Spain). With particularly rich micro data sets for each country containing over 215,000 observations from 1985 to 1999, we explore what can be learned on the interest channel and broad credit channel. For each of those countries we estimate neo-classical investment relationships, explaining investment by its user cost, sales and cash flow. We find investment to be sensitive to user cost changes in all those four countries. This implies an operative interest channel in these euro area countries. We also find investment in all those countries to be quite sensitive to cash flow movements. However we find that only in Italy smaller firms react more to cash flow movements, implying that a broad credit channel might not be as pervasive in all countries.

### Chordia, Tarun

**PD** March 2003. **TI** An Empirical Analysis of Stock and Bond Market Liquidity. **AU** Chordia, Tarun; Sarkar, Asani; Subrahmanyam, Avanidhar. **AA** Chordia: Emory University. Sarkar: Federal Reserve Bank of New York. Subrahmanyam: UCLA. **SR** Federal Reserve Bank of New York Staff Report: 164; Research and Market Analysis Group, Federal Reserve Bank of New York, 33 Liberty Street, 3rd Floor, New York, NY 10045-0001. Website: [www.newyorkfed.org/rmaghome](http://www.newyorkfed.org/rmaghome). **PG** 29. **PR** no charge; available only online. **JE** E52, G14, G23. **KW** Liquidity. Volatility. Dynamics. Bond Markets. Stock Markets.

**AB** This paper explores liquidity movements in stock and Treasury bond markets over a period of more than 1800 trading days. Cross-market dynamics in liquidity are documented by estimating a vector autoregressive model for liquidity (that is, bid-ask spreads and depth), returns, volatility, and order flow in the stock and bond markets. We find that a shock to quoted spreads in one market affects the spreads in both markets, and that return volatility is an important driver of liquidity. Innovations to stock and bond market liquidity and volatility prove to be significantly correlated, suggesting that common factors drive liquidity and volatility in both markets. Monetary expansion increases equity market liquidity during periods of financial crises, and unexpected increases (decreases) in the federal funds rate lead to decreases (increases) in liquidity and increases (decreases) in stock and bond volatility. Finally, we find that flows to the stock and government bond sectors play an important role in forecasting stock and bond liquidity. The results establish a link between "macro" liquidity, or money flows, and "micro" or transactions liquidity.

### Ciccarelli, Matteo

**PD** October 2001. **TI** The Transmission Mechanism of European Monetary Policy: Is there Heterogeneity? Is It Changing Over Time? **AU** Ciccarelli, Matteo; Rebucci, Alessandro. **AA** Ciccarelli: Universidad de Alicante. Rebucci: IMF. **SR** Banco de Espana, Documentos de Trabajo: 0115; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 37. **PR** single

copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** C11, C33, E52. **KW** Monetary Policy. Bayesian Estimation. Gibbs Sampling. Heterogeneity. Transmission Mechanism.

**AB** This paper investigates the transmission mechanism of monetary policy in core European countries by means of dynamic heterogeneous models estimated in a Bayesian fashion. Based on pre-EMU evidence from Germany, France, Italy, and Spain, we show that: (i) there are differences in the timing of the effects of monetary policy on economic activity, but their cumulative impact after two years is rather homogeneous across these countries; (ii) the transmission mechanism seems to have changed over time in the run up to EMU, but its degree of heterogeneity has not decreased; (iii) the "European-wide" effects of monetary policy on economic activity might have become faster in the second half of the 1990s, taking 6-7 months to appear, peaking after 12-16 months, and disappearing within 18-24 months.

### Claessens, Stijn

**PD** July 2001. **TI** Financial Restructuring in Banking and Corporate Sector Crises: What Policies to Pursue? **AU** Claessens, Stijn; Klingebiel, Daniela; Laeven, Luc. **AA** Claessens: University of Amsterdam. Klingebiel and Laeven: World Bank. **SR** National Bureau of Economic Research Working Paper: 8386; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 23. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E53, F36, G21, G28, G38. **KW** Banking Crises. Corporate Restructuring. Bank Restructuring.

**AB** We review the literature on resolving bank and corporate sector crises to identify government policies that affect the depth of crisis and the ease and sustainability of recovery, and to analyze their fiscal cost. A consistent framework -- including sufficient resources for loss-absorption and private agents facing the right framework of sticks and carrots -- is the key, although often missing, to successful bank and corporate restructuring. Sustainability of restructuring calls for deeper structural reforms, which often requires dealing with political economy factors up-front. Using data for 687 corporations from eight crisis countries, we find empirically that a package of specific resolution measures can help accelerate the recovery from a crisis. These policies, however, come with significant fiscal costs.

### Clark, Melissa A.

**PD** April 2002. **TI** Natives, the Foreign-Born and High School Equivalents: New Evidence on the Returns to the GED. **AU** Clark, Melissa A.; Jaeger, David A. **AA** Clark: Princeton University. Jaeger: College of William and Mary and IZA. **SR** Princeton University, Industrial Relations Section Working Paper: 462; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. Website: [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). **PG** 17. **PR** no charge for single copies. **JE** I20, I21, J31, J61. **KW** GED. Immigration. Sheepskin Effects.

**AB** In this paper we explore the labor market returns to the General Education Development exam, or GED. Using new data from the Current Population Survey, we examine how the return to the GED varies between U.S. natives and the foreign-

born. We find that foreign-born men who hold a GED but received all of their formal schooling outside of the U.S. earn significantly more than either foreign-schooled dropouts or individuals with a foreign high school diploma. For foreign-born men with some U.S. schooling, earning a GED brings higher wages than a traditional U.S. high school diploma, although this difference is not statistically significantly different from zero. These patterns stand in contrast to those for U.S. natives, among whom GED recipients earn less than high school graduates but significantly more than dropouts. The effects for natives appear to become larger over the life cycle and do not seem to be due to cohort effects. While it is difficult to attach a purely causal interpretation to our findings, they do indicate that the GED may be more valuable in the labor market than some previous research suggests.

#### Clemens, Michael A.

**PD** September 2001. **TI** A Tariff-Growth Paradox? Protection's Impact the World Around 1875- 1997. **AU** Clemens, Michael A.; Williamson, Jeffrey G. **AA** Clemens: Harvard University and Center for International Development. Williamson: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8459; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 23. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** F10, F13, F15, N70, O10. **KW** Tariffs. Protection. Globalization.

**AB** This paper uses a new database to establish two findings covering the first globalization boom before World War I, the second since World War II, and the autarkic interlude in between. First, there is strong evidence supporting a Tariff-Growth Paradox: protection was associated with fast growth before World War II, while it was associated with slow growth thereafter. Second, there is strong evidence supporting regional asymmetry: while the tariff-growth association was powerful and positive in the Core and rich New World before World War II, it was typically weak and negative in the poor Periphery. The paper offers explanations for the Paradox by controlling for a changing world economic environment. It shows how the oft-quoted Sachs-Warner results for 1970- 1989 are significantly revised when one controls for trading partners' growth, trading partners' tariffs and the effective distance between them over the longer half-century 1950-1997. Falling partners' tariffs was the most important force accounting for the switch in sign on the tariff-growth connection after 1950. An increase in own tariffs after 1950 hurt growth. World environment matters. Leader-country reaction to big world events (like the Great Depression) matter.

#### Clements, Benedict

**TI** Expenditure Composition, Fiscal Adjustment, and Growth in Low-Income Countries. **AU** Baldacci, Emanuele; Clements, Benedict; Gupta, Sanjeev; Mulas-Granados, Carlos.

#### Coate, Stephen

**PD** December 2001. **TI** Political Competition with Campaign Contributions and Informative Advertising. **AA** Cornell University and NBER. **SR** National Bureau of Economic Research Working Paper: 8693; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 32. **PR** \$10.00 per copy (plus \$10.00 per order for shipping

outside the U.S.). **JE** D72. **KW** Political Competition. Campaign Contributions. Informative Advertising.

**AB** This paper presents a model of political competition with campaign contributions and informative political advertising. Policy-motivated parties compete by selecting candidates and interest groups provide contributions to enhance the electoral prospects of like-minded candidates. Contributions are used to finance advertising campaigns that provide voters with information about candidates' ideologies. The model embodies rational behavior on the part of all actors, is analytically tractable, and has a unique equilibrium. The paper uses the model to analyze the welfare economics of contribution limits. Such limits are shown to redistribute welfare from moderate voters to interest group members. They may or may not raise aggregate welfare.

**PD** January 2002. **TI** Voter Turnout: Theory and Evidence from Texas Liquor Referenda. **AU** Coate, Stephen; Conlin, Michael. **AA** Coate: Cornell University and NBER. Conlin: Syracuse University. **SR** National Bureau of Economic Research Working Paper: 8720; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 24. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D72, K23. **KW** Voter Turnout. Referendum. Liquor.

**AB** This paper uses data from Texas liquor referenda to explore a new approach to understanding voter turnout, inspired by the theoretical work of Harsanyi (1980) and Feddersen and Sandroni (2001). It presents a model based on this approach and structurally estimates it using the referendum data. It then compares the performance of the model with two alternative models of turnout. The results are encouraging: the structural estimation yields sensible parameter estimates and the model performs better than the two alternatives considered.

#### Coenen, Gunter

**PD** December 2002. **TI** Inflation Dynamics and International Linkages: A Model of the United States, the Euro Area, and Japan. **AU** Coenen, Gunter; Wieland, Volker. **AA** Coenen: European Central Bank. Wieland: Goethe University of Frankfurt and European Central Bank. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 745; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 38. **PR** no charge. **JE** E31, E52, E58, E61. **KW** Nominal Rigidities. Inflation Persistence. International Linkages. Monetary Policy Rules. Contracts.

**AB** In this paper we estimate a small macroeconomic model of the United States, the euro area and Japan with rational expectations and nominal rigidities due to staggered contracts. Comparing three popular contracting specifications we find that euro area and Japanese inflation dynamics are best explained by Taylor-style contracts, while Buitert-Jewitt/Fuhrer-Moore contracts perform somewhat better in fitting U.S. inflation dynamics. We are unable to fit Calvo-style contracts to inflation dynamics in any of the three economies without allowing either for ad-hoc persistence in unobservables or a significant backward-looking element. The completed model matches inflation and output dynamics in the United States, the euro area and Japan quite well. We then use it to evaluate the role of the exchange rate for monetary policy. Preliminary results, which are similar across the three

economies, indicate little gain from a direct policy response to the exchange rate.

### Combes, Pierre-Philippe

**PD** September 2001. **TI** Transport Cost Decline and Regional Inequalities: Evidence from France. **AU** Combes, Pierre-Philippe; Lafourcade, Miren. **AA** Combes: CERAS, Paris and CEPR. **SR** CEPR Discussion Paper: 2894; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** F12, O18, R11, R12, R32. **KW** Agglomeration. Economic Geography. Infrastructure. Transport Costs. Regional Economics. France.

**AB** This paper first develops a tractable economic geography model we use to investigate the decline of transport costs as a cause of regional inequalities. Next, we perform a structural estimation of this model using a new dataset on road transport costs between the 341 French Employment Areas. We find that intermediate inputs and geographical features play a critical role in the concentration pattern of French economic activities. Estimations being consistent with plausible values for the structural parameters of the model, we finally provide simulations of French local sectoral employment and production conditions. We find a very strong core-periphery structure of short-run profits, which means that large concentration incentives exist in France. By contrast, a short-run analysis of the impact of a transport costs decline reveals that whereas dispersive forces become prevalent at the country level, agglomeration incentives strengthen specialization within a large number of the French regions. As regards profits, the emergence of a duo-centric structure confirms such a feature.

### Conlin, Michael

**TI** Voter Turnout: Theory and Evidence from Texas Liquor Referenda. **AU** Coate, Stephen; Conlin, Michael.

### Conyon, Martin J.

**PD** August 2001. **TI** Shared Modes of Compensation and Firm Performance: UK Evidence. **AU** Conyon, Martin J.; Freeman, Richard B. **AA** Conyon: University of Pennsylvania. Freeman: Harvard University, London School of Economics, and NBER. **SR** National Bureau of Economic Research Working Paper: 8448; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 33. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** L25, M52. **KW** Shared Compensation Plans. Incentive Theory. Firm Performance.

**AB** This paper examines the use and consequences of shared compensation plans (profit sharing, profit related pay, SAYE schemes and company stock option plans) in a sample of UK workplaces and firms in the 1990s. The use of these plans has increased over time, in part in response to government programs. The evidence shows that companies and workplaces adopting shared compensation practices have had higher productivity than other firms, but the effects vary among programs, suggesting that the particulars matter a lot in aligning shared compensation and work place activities. Consistent with incentive theory, the evidence also shows that firms and workplaces with shared compensation practices have a higher incidence of shared decision-making/information

sharing practices.

### Corbett, Charles J.

**TI** Contracting and Coordination in Closed-Loop Supply Chains. **AU** Savaskan, R. Canan; Corbett, Charles J.

### Corsetti, Giancarlo

**PD** December 2002. **TI** Macroeconomics of International Price Discrimination. **AU** Corsetti, Giancarlo; Dedola, Luca. **AA** Corsetti: University of Rome III, Yale University, and CEPR. Dedola: Bank of Italy and Ente Einaudi. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 744; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 58. **PR** no charge. **JE** F31, F42. **KW** Exchange Rate. Wholesale. Retail Services. Nominal Rigidities. Optimal Monetary Policy. Price Discrimination.

**AB** This paper builds a baseline two-country model of real and monetary transmission under optimal international price discrimination. Distributing traded goods to consumers requires nontradables; because of distributive trade, the price elasticity of export demand depends on the exchange rate. Profit-maximizing monopolistic firms drive a wedge between wholesale and retail prices across countries. This entails possibly large deviations from the law of one price and incomplete pass-through on import prices. Yet, consistent with expenditure-switching effects, a nominal depreciation generally worsens the terms of trade. Moreover, the exchange rate and the terms of trade can be more volatile than fundamentals. For plausible ranges of the distribution margin, there can be multiple steady states, whereas large differences in nominal and real exchange rates across equilibria translate into small differences in consumption, employment and the price level. Finally, we show that with competitive goods markets international policy cooperation is redundant even under financial autarky.

### Courty, Pascal

**PD** January 2002. **TI** An Empirical Investigation of Gaming Responses to Explicit Performance Incentives. **AU** Courty, Pascal; Marschke, Gerald. **AA** Courty: London Business School and CEPR. Marschke: State University of New York. **SR** CEPR Discussion Paper: 3164; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J33, L14. **KW** Performance Incentives. Contract Theory. Moral Hazard. Multitasking. Government Incentives.

**AB** This paper studies a particular kind of gaming response to explicit incentives in a large government organization. The gaming responses we consider occur when agents strategically report their performance outcomes to maximize their awards. An important contribution of this work is to examine whether this behavior diverts resources (e.g. agents' time) from productive activities or whether it simply reflects an accounting phenomenon. We evaluate the efficiency impact of the behavior we identify and find that it has a negative impact on the true goal of the organization.

**Cowan, Kevin**

**TI** Corporate Dollar Debt and Depreciations: Much Ado About Nothing? **AU** Bleakley, Hoyt; Cowan, Kevin.

**Cox, Ricarda**

**TI** Learning Direction Theory and the Winner's Curse. **AU** Abbink, Klaus; Cox, Ricarda; Selten, Reinhard.

**Crafts, Nicholas**

**PD** January 2002. **TI** The Solow Productivity Paradox in Historical Perspective. **AA** London School of Economics and CEPR. **SR** CEPR Discussion Paper: 3142; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** N11, N12, N13, O47. **KW** General-Purpose Technologies. Growth Accounting. Productivity Paradox.

**AB** A growth accounting methodology is used to compare the contributions to growth in terms of capital-deepening and total factor productivity growth of three general-purpose technologies, namely, steam in Britain during 1780-1860, electricity and information and communications technology in the United States during 1899-1929 and 1974-2000, respectively. The format permits explicit comparison of earlier episodes with the results for information and communication technologies (ICT) obtained by Oliner and Sichel. The results suggest that the contribution of ICT was already relatively large before 1995 and it is suggested that the true productivity paradox is why economists expected sooner from ICT.

**Crawford, Ian**

**TI** A Nonparametric Method for Valuing New Goods. **AU** Blow, Laura; Crawford, Ian.

**Cuadro, Lucia**

**TI** Latin American Financial Development in Perspective. **AU** Garcia Herrero, Alicia; Santillan, Javier; Gallego, Sonsoles; Cuadro, Lucia; Egea, Carlos.

**TI** Latin American Financial Development in Perspective. **AU** Garcia Herrero, Alicia; Santillan, Javier; Gallego, Sonsoles; Cuadro, Lucia; Egea, Carlos.

**Cutler, David**

**PD** September 2001. **TI** Health Policy in the Clinton Era: Once Bitten, Twice Shy. **AU** Cutler, David; Gruber, Jonathan. **AA** Cutler: Harvard University and NBER. Gruber: MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8455; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 67. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H51, I10, I18. **KW** Health Policy. Clinton Era. Health Security Act.

**AB** This paper reviews the formation and outcomes of health policy making during the Clinton Administration. We begin by reviewing the state of the health economy at the dawn of the Clinton era. We then review the promise and pitfalls of the Health Security Act, and its implications for all health policy that followed. We then turn to discussing accomplishments and failures in a variety of other areas of health policy: coverage expansions; insurance market regulation; Medicaid reforms; long term care; tobacco regulation; and other public health. We

conclude that the dramatic failure of the HSA led to a very cautious and incremental approach to health policy making in subsequent years, but viewed from the perspective of that low point the health policy gains in the Clinton years were actually quite substantial.

**Dabla-Norris, Era**

**PD** May 2002. **TI** Composition of Government Expenditures and Demand for Education in Developing Countries. **AU** Dabla-Norris, Era; Matovu, John M. **AA** IMF. **SR** International Monetary Fund Working Paper WP/02/78; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website www.imf.org. **PG** 26. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make check payable to IMF. **JE** E62, H52, I20, O40. **KW** Government Expenditures. Education. Growth.

**AB** This paper addresses the potential effects on human capital accumulation and economic growth of the alternative compositions of public expenditures in the context of a computable dynamic general equilibrium model of overlapping generations and heterogeneous agents in which altruistic parents make schooling decisions for their children. In the presence of fixed and variable costs for different levels of schooling, we show that reducing household costs of primary education has the largest positive impact on growth and poverty reduction in the short run. Moreover, an increase in higher education spending increases long-run growth. These effects can be substantial even when increasing education spending comes at the expense of public infrastructure investment.

**PD** June 2002. **TI** The Challenge of Fiscal Decentralization in Transition Countries. **AU** Dabla-Norris, Era; Wade, Paul. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/103; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 40. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E62, H20, H30, H40. **KW** Fiscal Decentralization. Fiscal Reform. Transition.

**AB** This paper examines key aspects of the ongoing decentralization process in transition economies and identifies areas where the present systems can have potentially adverse impacts on both service delivery and macroeconomic performance. We discuss three critical principles of a sound and efficient decentralized fiscal system -- and then show the contrasts between these and actual trends and policies in transition countries.

**Dahlquist, Magnus**

**PD** January 2002. **TI** An Evaluation of International Asset Pricing Models. **AU** Dahlquist, Magnus; Sallstrom, Torbjorn. **AA** Dahlquist: Duke University and CEPR. Sallstrom: Stockholm School of Economics. **SR** CEPR Discussion Paper: 3145; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F31, G12, G15. **KW** Expected Returns. Conditional Information. Foreign Exchange Risk. International Asset Pricing.

**AB** This paper assesses the ability of international asset pricing models to explain the cross-sectional variation in



expected returns. All the models considered seem to capture national market returns fairly well. Global portfolios sorted on earnings-price ratio and market value, however, pose a special challenge. We find that an unconditional international capital asset pricing model cannot explain the cross-sectional variation in these portfolio returns. Interestingly, a conditional international asset-pricing model that includes foreign exchange risk factors is able to explain a large part of the variation in average returns. Our empirical work suggests that this model has the same explanatory ability as an international three-factor model, where zero-cost portfolios based on earnings-price ratios and market values are used in addition to the world market portfolio. Importantly, the loadings associated with the zero-cost portfolios are driven out by the characteristics themselves, indicating a misspecification.

#### Dave, Dhaval

**TI** Mental Illness and the Demand for Alcohol, Cocaine and Cigarettes. **AU** Saffer, Henry; Dave, Dhaval.

#### De Bondt, Gabe

**PD** April 2002. **TI** Retail Bank Interest Rate Pass-Through: New Evidence at the Euro Area Level. **AA** European Central Bank. **SR** European Central Bank Working Paper: 136; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 44. **PR** no charge. **JE** E43, G21. **KW** Retail Bank. Interest Rates. Euro Area. Error-Correction Model. Asymmetric Information. Pass-Through.

**AB** This paper presents an error-correction model of the interest rate pass-through process based on a marginal cost pricing framework including switching and asymmetric information costs. Estimation results for the euro area suggest that the proportion of the pass-through of changes in market interest rates to bank deposit and lending rates within one month is at its highest around 50%. The interest rate pass-through is higher in the long term and notably for bank lending rates close to 100%. Moreover, a cointegration relation exists between retail bank and comparable market interest rates. Robustness checks, consisting of impulse responses based on vector autoregression models and results for a sub-sample starting in January 1999, show qualitatively similar findings. However, the sub-sample results are supportive of a quicker pass-through process since the introduction of the euro.

**PD** August 2002. **TI** Euro Area Corporate Debt Securities Market: First Empirical Evidence. **AA** European Central Bank. **SR** European Central Bank Working Paper: 164; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 40. **PR** no charge. **JE** E44, G32. **KW** Corporate Debt. Securities Issuance. Corporate Bond Spreads. Euro Area. Monetary Policy.

**AB** A striking development in the euro area financial markets since 1999 was the rapid growth of the corporate debt securities market. This paper offers a first empirical examination of this market since the introduction of the euro using macroeconomic data. It is shown that corporate debt issuance is positively correlated with mergers and acquisitions and with industrial production, taken as a proxy of investment expenditures or working capital. Substitution with other sources of finance is shown to be related to cost differentials. The timing and size of these explanatory factors of corporate debt securities issuance

differ across maturity. The empirical findings also show that corporate bond spreads lag short-term interest rates and lead real economic activity. All this suggests that the euro area corporate bond market, though still young, is informative for monetary policy and may develop into a significant link in the euro area monetary policy transmission process.

#### De Fiore, Fiorella

**PD** April 2002. **TI** The Optimal Mix of Taxes on Money, Consumption and Income. **AU** De Fiore, Fiorella; Teles, Pedro. **AA** De Fiore: European Central Bank. Teles: Federal Reserve Bank of Chicago. **SR** European Central Bank Working Paper: 135; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 34. **PR** no charge. **JE** E31, E41, E58, E62. **KW** Friedman Rule. Inflation Tax. Transactions Technology.

**AB** In this paper we determine the optimal combination of taxes on money, consumption and income in transactions technology models. We show that the optimal policy does not tax money, regardless of whether the government can use the income tax, the consumption tax, or the two taxes jointly. These results are at odds with recent literature. We argue that the reason for this divergence is an inappropriate specification of the transactions technology adopted in the literature.

#### de Jong, Cyriel

**PD** January 2002. **TI** Stock Market Quality in the Presence of a Traded Option. **AU** de Jong, Cyriel; Koedijk, Kees; Schnitzlein, Charles. **AA** de Jong: Erasmus University Rotterdam. Koedijk: Erasmus University Rotterdam and CEPR. Schnitzlein: University of Arizona. **SR** CEPR Discussion Paper: 3173; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D82, G15. **KW** Market Microstructure. Experimental Economics. Asymmetric Information. Financial Derivatives.

**AB** We use a controlled economic experiment to examine the implications of asymmetric information for informational linkages between a stock market and a traded call option on that stock. The setting is based on the Kyle model and Back (1993). We find that an insider trades aggressively in both the stock and the option, and that this leads to important feedback effects between the two markets: price discovery in the stock market also occurs in the option market and vice versa. The time series properties of the stock price depend directly on the intrinsic value of the option: when the intrinsic value of the option is positive, informational efficiency is higher in the market for the stock, and volatility is lower. We argue that this provides new insights into how the introduction of a traded option improves the market quality of the underlying asset.

#### de la Fuente, Angel

**PD** January 2002. **TI** Regional Convergence in Spain, 1965-95. **AA** Universitat Autònoma de Barcelona. **SR** CEPR Discussion Paper: 3137; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** O40, O52. **KW** Regional Convergence. Spain.

**AB** This paper explores the sources of convergence in

income per capita across the Spanish regions using a decomposition of this variable into employment and productivity factors and an estimate of a regional production function.

**PD** January 2002. **TI** Is the Allocation of Public Capital Across the Spanish Regions Too Redistributive? **AA** Universitat Autònoma de Barcelona. **SR** CEPR Discussion Paper: 3138; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** H54. **KW** Infrastructure. Regional Policy. Spain. Redistribution.

**AB** This paper compares the observed distribution of the stock of infrastructures across the Spanish regions with the optimal allocation derived from a planning problem in which the observed degree of ex-post redistribution is taken as given. The results suggest that Spanish public investment policy has been too redistributive.

#### de Mello, Luiz

**TI** More on the Effectiveness of Public Spending on Health Care and Education: A Covariance Structure Model. **AU** Baldacci, Emanuele; de Mello, Luiz; Guin-Siu, Maria Teresa.

#### de Roon, Frans Adrianus

**PD** January 2002. **TI** Evaluating Style Analysis. **AU** de Roon, Frans Adrianus; Nijman, Theo E.; ter Horst, Jenke. **AA** de Roon: Tilburg University, Erasmus University Rotterdam, and CEPR. Nijman and ter Horst: Tilburg University. **SR** CEPR Discussion Paper: 3181; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G11, G12. **KW** Style Analysis. Performance Evaluation. Portfolio Choice.

**AB** In this paper we evaluate (return based) style analysis. The portfolio and positivity constraints imposed by style analysis are useful in constructing mimicking factor portfolios without short positions. We use a simple simulation experiment to show that imposing these constraints in estimating the factor portfolios leads to significant efficiency gains, if the factor loadings are indeed positively weighted portfolios. If this is not the case though, imposing the constraints can substantially bias the exposure estimates. We also show that the actual portfolio holdings will in general not reveal the actual investment style of a fund because of cross exposures between the asset classes, and because fund managers may hold securities that on average do not have a beta of one relative to their own asset class. Style analysis may be used to determine a benchmark portfolio for performance measurement. If the actual exposures are a positively weighted portfolio and the risk free rate is one of the benchmarks, then the intercept coincides with the Jensen measure. In general, the intercept in the style regression can only be interpreted as a special case of the familiar Jensen measure.

#### De Vrijer, Erik

**TI** An Intern Assessment of Ukrainian Output Developments, 2000-01. **AU** Berengaut, Julian; De Vrijer, Erik; Elborgh-Woytek, Katrin; Lewis, Mark; Lissovlik, Bogdan.

#### de Zamaroczy, Mario

**PD** May 2002. **TI** Macroeconomic Adjustment in a Highly Dollarized Economy: The Case of Cambodia. **AU** de Zamaroczy, Mario; Sa, Sapanha. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/92; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 40. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** C30, E50, E63, F31, N15. **KW** Dollarization. Kalman Filter. Currency Board Arrangement. Macroeconomic Adjustment. Cambodia.

**AB** Cambodia became dollarized suddenly in the early 1990s, as a result of massive dollar inflows stemming from a post-conflict situation. Considering that the amount of dollars in circulation is unusually high, we attempt to estimate the true degree of dollarization empirically. Our results show that Cambodia has been virtually fully dollarized since 1995. Against a background of severe institutional limitations, the authorities have implemented in recent years policies akin to those of a de facto currency board arrangement, in particular with respect to fiscal discipline. The paper concludes that this policy mix has been appropriate for Cambodia's circumstances.

#### Deaton, Angus

**PD** July 2001. **TI** Mortality, Inequality and Race in American Cities and States. **AU** Deaton, Angus; Lubotsky, Darren. **AA** Deaton: Princeton University and NBER. Lubotsky: Princeton University. **SR** National Bureau of Economic Research Working Paper: 8370; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 17. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D31, I12, J15. **KW** Mortality Rates. Race. Inequality. Income Inequality.

**AB** A number of studies have found that mortality rates are positively correlated with income inequality across the cities and states of the US. We argue that this correlation is confounded by the effects of racial composition. Across states and Metropolitan Statistical Areas (MSAs), the fraction of the population that is black is positively correlated with average white incomes, and negatively correlated with average black incomes. Between-group income inequality is therefore higher where the fraction black is higher, as is income inequality in general. Conditional on the fraction black, neither city nor state mortality rates are correlated with income inequality. Mortality rates are higher where the fraction black is higher, not only because of the mechanical effect of higher black mortality rates and lower black incomes, but because white mortality rates are higher in places where the fraction black is higher. This result is present within census regions, and for all age groups and both sexes (except for boys aged 1-9). It is robust to conditioning on income, education, and (in the MSA results) on state fixed effects, and cannot plausibly be attributed to variations in the local provision of health care.

#### Dedola, Luca

**TI** Macroeconomics of International Price Discrimination. **AU** Corsetti, Giancarlo; Dedola, Luca.

#### Degryse, Hans

**TI** Borrower Poaching and Information Display in Credit Markets. **AU** Bouckaert, Jan; Degryse, Hans.

**Dekel, Eddie**

**PD** May 2001. **TI** Rationalizable Outcomes of Large Independent Private-Value First-Price Discrete Auctions. **AU** Dekel, Eddie; Wolinsky, Asher. **AA** Dekel: Northwestern University and Tel Aviv University. Wolinsky: Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1321; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: [www.kellogg.nwu.edu/research/math/](http://www.kellogg.nwu.edu/research/math/). **PG** 18. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** D44. **KW** Auctions.

**AB** We consider discrete versions of first-price auctions. We present a condition on beliefs about players' values such that, with any fixed finite set of possible bids and sufficiently many players, only bidding the bid closest from below to one's true value survives iterative deletion of bids that are dominated, where the dominance is evaluated using beliefs that satisfy the condition. The condition holds in an asymmetric conditionally independent environment so long as the likelihood of each type is bounded from below. In particular, with many players, common knowledge of rationality and that all types are possible in an independent and private values auction implies that players will bid just below their true value.

**PD** July 2001. **TI** Learning to Play Bayesian Games. **AU** Dekel, Eddie; Fudenberg, Drew; Levine, David K. **AA** Dekel: Northwestern University and Tel Aviv University. Fudenberg: Harvard University. Levine: UCLA. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1322; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: [www.kellogg.nwu.edu/research/math/](http://www.kellogg.nwu.edu/research/math/). **PG** 26. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C11, D83. **KW** Bayesian Games. Learning Theory.

**AB** This paper discusses the implications of learning theory for the analysis of Bayesian games. One goal is to illuminate the issues that arise when modeling situations where players are learning about the distribution of Nature's move as well as learning about the opponents' strategies. A second goal is to argue that quite restrictive assumptions are necessary to justify the concept of Nash equilibrium without a common prior as a steady state of a learning process.

**del Rio, Ana**

**TI** Time Aggregation and the Hodrick-Prescott Filter. **AU** Maravall, Agustin; del Rio, Ana.

**TI** Estimating Inflation Expectations Using French Government Inflation-Indexed Bonds. **AU** Alonso, Francisco; Blanco, Roberto; del Rio, Ana.

**DeLong, J. Bradford**

**PD** August 2001. **TI** Between Meltdown and Moral Hazard: The International Monetary and Financial Policies of the Clinton Administration. **AU** DeLong, J. Bradford; Eichengreen, Barry. **AA** University of California, Berkeley and NBER. **SR** National Bureau of Economic Research Working Paper: 8443; Working Papers, NBER, 1050

Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 82. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F30, F33. **KW** Moral Hazard. International Policies. Institutions. Clinton Administration.

**AB** We review and analyze the monetary and financial policies of the Clinton administration with a focus on the strong dollar policy, the Mexican rescue, the response to the Asian crisis, and the debate over reform of the international financial architecture. While we consider the role of ideas, interests and institutions in the formulation of policy, our emphasis here is on institutions, and specifically on how personnel and administrative arrangements allowed the Treasury Department to exercise an unusually important influence in the development of these policies. This allowed a set of ideas imported by Treasury from academia and the markets to strongly influence the formulation of the international monetary and financial policies during the Clinton years.

**Den Haan, Wouter J.**

**PD** September 2001. **TI** Shocks and Institutions in a Job Matching Model. **AU** Den Haan, Wouter J.; Haefke, Christian; Ramey, Garey. **AA** Den Haan: UC San Diego, CEPR, and NBER. Haefke: Universitat Pompeu Fabra. Ramey: UC San Diego. **SR** National Bureau of Economic Research Working Paper: 8463; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** E24, J64. **KW** Unemployment. Matching. Shocks. Institutions.

**AB** This paper explains the divergent behavior of European and US unemployment rates using a job market matching model of the labor market with an interaction between shocks and institutions. It shows that a reduction in TFP growth rates, an increase in real interest rates, and an increase in tax rates leads to a permanent increase in unemployment rates when the replacement rates or initial tax rates are high, while no increase in unemployment occurs when institutions are "employment friendly." The paper also shows that an increase in turbulence, modeled as an increased probability of skill loss, is not a robust explanation for the European unemployment puzzle in the context of a matching model with both endogenous job creation and job destruction.

**Desai, Mihir A.**

**PD** January 2002. **TI** Dividend Policy Inside the Firm. **AU** Desai, Mihir A.; Foley, C. Fritz; Hines, James R., Jr. **AA** Desai: Harvard Business School and NBER. Foley: Harvard Business School. Hines: University of Michigan and NBER. **SR** National Bureau of Economic Research Working Paper: 8698; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 38. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** F23, G31, G35, H25, H87. **KW** Multinational Firms. Dividend Payment. Capital Markets.

**AB** This paper analyzes dividend remittances by a large panel of foreign affiliates of U.S. multinational firms. The dividend policies of foreign affiliates, which convey no signals to public capital markets, nevertheless resemble those used by publicly held companies in paying dividends to diffuse common shareholders. Robustness checks verify that dividend policies of foreign affiliates are little affected by the dividend policies of

their parent companies or parent company exposure to public capital markets. Systematic differences in the payout behavior of affiliates that differ in organizational form, and those that face differing tax costs of paying dividends, reveal the importance of tax factors; nevertheless, dividend policies are not solely determined by tax considerations. The absence of capital market considerations and the incompleteness of tax explanations together suggest that dividend policies are largely driven by the need to control managers of foreign affiliates. Parent firms are more willing to incur tax penalties by simultaneously investing funds while receiving dividends when their foreign affiliates are partially owned, located far from the United States, or in jurisdictions in which property rights are weak, all of which are implied by control theories of dividends.

### Deschenes, Olivier

**PD** August 2001. **TI** Unobserved Ability, Comparative Advantage, and the Rising Return to Education in the United States: A Cohort-Based Approach. **AA** Princeton University. **SR** Princeton University, Industrial Relations Section Working Paper: 456; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. Website: [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). **PG** 32. **PR** no charge for single copies. **JE** I21, J30. **KW** Education. Earnings. Ability. Cohort-Based Approach.

**AB** This paper quantifies the change in the causal effect of education on earnings in the United States between 1979 and 2000. In absence of instruments for schooling, a causal model that incorporates heterogeneity in absolute and comparative advantage across individuals is used to impose structure on the observed relationship between schooling and earnings. Changes in the observed relationship can therefore be decomposed into year-specific and cohort-specific factors corresponding to causal and confounding components. Using CPS data for men born between 1930 and 1970, this paper finds that the causal return to education increased by 30% between 1979 and 2000, after controlling for the confounding effects of time-varying ability and comparative advantage biases across cohorts.

### Desmet, Klaus

**PD** October 2001. **TI** Rational Underdevelopment. **AU** Desmet, Klaus; Ortuno Ortin, Ignacio. **AA** Desmet: Banco de Espana and Universidad Carlos III de Madrid. Ortuno: Universidad de Alicante. **SR** Banco de Espana, Documentos de Trabajo: 0114; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 24. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** H70, O10, R10, R58. **KW** Uneven Development. Regional Policy. Transfers. Mezzogiorno. Technological Change.

**AB** We propose a two-region two-sector model of uneven development, where technological change benefits either the lagging or the leading region. In this framework inter-regional transfers may lead to persistent underdevelopment; by raising wages without changing productivity, transfers reduce the chance of the backward region adopting a new technology and taking off. Due to uncertainty about which region benefits from technological change, the backward region may rationally choose to remain underdeveloped, while the advanced region continues to pay transfers. The model provides a rationale for

cases, such as Italy's Mezzogiorno, where the same rich region subsidizes the same poor region on a continuous basis.

**PD** November 2002. **TI** Asymmetric Shocks, Risk Sharing, and the Latter Mundell. **AA** Universidad Carlos III de Madrid and CEPR. **SR** Banco de Espana, Documentos de Trabajo: 0222; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 28. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** E50, F30, F42. **KW** Asymmetric Shocks. Risk Sharing. Monetary Cooperation. Terms of Trade. Security Markets.

**AB** This paper analyzes optimal monetary policy in a two-country model with asymmetric shocks. Agents insure against risk through the exchange of Arrow-Debreu securities. Although central banks commit to the policy that maximizes domestic welfare, this does not lead to price stability. In an attempt to improve their country's terms of trade of securities, central banks may choose an inflationary policy rule in good states. If both central banks do so, the effects on the terms of trade wash out, leaving both countries worse off. Countries facing asymmetric shocks may therefore gain from monetary cooperation.

### Detken, Carsten

**PD** July 2002. **TI** Model Uncertainty and the Equilibrium Value of the Real Effective Euro Exchange Rate. **AU** Detken, Carsten; Dieppe, Alistair; Henry, Jerome; Marin, Carmen; Smets, Frank. **AA** Detken, Dieppe, Henry, and Marin: University of Murcia. Smets: European Central Bank. **SR** European Central Bank Working Paper: 160; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 52. **PR** no charge. **JE** F31, F32. **KW** Equilibrium Exchange Rate. Euro. Model Uncertainty.

**AB** On the basis of historical data aggregated over the period 1973 to 2000, we estimated four different equilibrium exchange rate models for the synthetic euro. Using the same data set, variable definitions and sample period offers the possibility to assess the uncertainty surrounding such equilibrium levels, both from a statistical and a theoretical perspective. We employed reduced form co-integration models, a structural Vector Autoregression, a Natrex model (estimated in structural form) and the European Central Bank's small-sized euro area wide macro-economic model. In this order the approaches feature an increasing degree of "structure", in the sense of the constraints based on economic theory embedded in the econometric models that were estimated. The results confirm the high likelihood for the euro having been undervalued in Q4 2000, while stressing the significant empirical and theoretical uncertainty with respect to the equilibrium exchange rate level.

### Devereux, Michael B.

**PD** July 2001. **TI** International Risk-Sharing and the Exchange Rate: Re-evaluating the Case for Flexible Exchange Rates. **AU** Devereux, Michael B.; Pome, Alessandra; Siniscalco, Domenico. **AA** Devereux: University of British Columbia and CEPR. **SR** CEPR Discussion Paper: 2900; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** E52, F31, F41.

**KW** Risk Sharing. Exchange Rates. Flexible Exchange Rates. Fixed Exchange Rates.

**AB** A classic argument for flexible exchange rates is that the exchange rate plays a 'shock-absorber' role in an open economy hit by country specific shocks. This paper presents a sharp counterexample to this argument within a very simple open economy model. Countries are subject to unpredictable shocks to world demand for their goods. Efficient adjustment is prevented, both by sticky nominal wages and by the absence of a market for hedging consumption risk across countries. A flexible exchange rate policy, by stabilizing domestic prices, fully stabilizes output and replicates the flexible wage outcome, acting perfectly as a 'shock absorber'. Despite this, a policy that fixes the exchange rate may be welfare superior, even though fixed exchange rates cause GDP to fluctuate away from the flexible wage outcome. Moreover, an optimal monetary rule in this environment would always dampen exchange rate movements, and may even be a fixed exchange rate.

### Diamond, Jack

**PD** May 2002. **TI** The Role of Internal Audit in Government Financial Management: An International Perspective. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/94; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 34. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** D90, E60, H10, M42, P20. **KW** Internal Audit. Budget Systems. Capacity Building. Government Financial Management.

**AB** The internal audit function has received increasing attention as an important component of government financial management and a tool for improving the performance of the government sector. Recently, a consensus has been reached on what audit standards governments should meet. This paper reviews these standards from an international perspective, noting that a large number of countries would face severe problems of meeting such standards. It is argued that, internationally, there are many different models for internal audit, and it may be necessary to take into account different audit traditions and different institutional capacities when introducing measures to strengthen internal audit in developing and transitional countries. The paper then discusses the main issues to be addressed in developing the internal audit in such countries, and offers a framework for introducing much needed reforms in this area.

**PD** June 2002. **TI** The Micro Basis of Budget System Reform: The Case of Transactional Economies. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/105; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 29. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** D70, E60, P20. **KW** Budget Reform. Government Procurement. Human Resource Management. Internal Controls.

**AB** In reviewing the means to strengthen public expenditure management (PEM) systems, there has been increased emphasis on the micro basis of broader budget system reforms, especially reforms of the internal financial management systems in government agencies. Specifically in transition economies, there has been increasing recognition that OECD-type budget systems need to be broadly based on a firm

platform of financial management in government institutions. At the same time, many transitional countries have generally acknowledged that this aspect of their PEM systems is problematic and needs to be rectified; hence, international agencies have been actively promoting reforms in these areas. In particular, three areas have been emphasized: human resource management, procurement, and internal audit. This paper explores the problems faced by transitional economies in each of these areas and reviews the generally recommended solutions to these problems.

### Dieppe, Alistair

**TI** Model Uncertainty and the Equilibrium Value of the Real Effective Euro Exchange Rate. **AU** Detken, Carsten; Dieppe, Alistair; Henry, Jerome; Marin, Carmen; Smets, Frank.

### Dominguez, Kathryn M. E.

**PD** September 2001. **TI** Exchange Rate Exposure. **AU** Dominguez, Kathryn M. E.; Tesar, Linda L. **AA** University of Michigan and NBER. **SR** National Bureau of Economic Research Working Paper: 8453; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 16. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F23, F31, G15. **KW** Exchange Rate. Firm Value.

**AB** We examine the relationship between exchange rate movements and firm value. We estimate the exchange rate exposure of publicly listed firms in a sample of eight industrialized and emerging markets, and find that a significant percentage of these firms are indeed exposed. In robustness checks we find that: (i) the choice of exchange rate matters, (ii) conditioning on the value-weighted vs. the equally-weighted market index has little effect on estimated exposure, while conditioning on the international index does change the estimate of exposure, (iii) the extent of exposure is not a result of a spurious correlation between random variables with high variances, (iv) exposure increases with the return horizon, (v) within a country and an industry, exposure coefficients are roughly evenly split between positive and negative values, (vi) averaging across the significant exposure coefficients, we find an exposure coefficient of about 0.5, (vii) the extent of exposure is not sensitive to the sample period, but the set of firms that is exposed does vary over time, and (viii) the sign of the exposure coefficients changes across sub-periods for about half of the firms of our sample.

### Dominitz, Jeff

**PD** January 2002. **TI** Social Security Expectations and Retirement Savings Decisions. **AU** Dominitz, Jeff; Heinz, Jordan; Manski, Charles F. **AA** Dominitz: Carnegie Mellon University. Manski: Northwestern University and NBER. Heinz: Northwestern University. **SR** National Bureau of Economic Research Working Paper: 8718; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 33. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D84, E21, H55. **KW** Retirement Savings. Social Security. Expectations.

**AB** Retirement savings decisions should depend on expectations of Social Security retirement income. Persons may be uncertain of their future Social Security benefits for several reasons, including uncertainty about their future labor earnings, the formula now determining social security benefits, and the

future structure of the Social Security system. To learn how Americans perceive their benefits, we have elicited Social Security expectations from respondents to the Survey of Economic Expectations. We have also performed a more intensive face-to-face survey on a small sample of respondents. This paper presents the empirical findings. It also illustrates how data on expectations may help predict how Social Security policy affects retirement savings.

#### **Dranove, David**

**PD** January 2002. **TI** Is More Information Better? The Effects of "Report Cards" on Health Care Providers. **AU** Dranove, David; McClellan, Mark; Kessler, Daniel; Satterthwaite, Mark. **AA** Dranove and Satterthwaite: Northwestern University. McClellan: Council of Economic Advisers and NBER. Kessler: Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 8697; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 19. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** I11, I18. **KW** Health Care. Evaluation. Asymmetric Information.

**AB** Health care report cards -- public disclosure of patient health outcomes at the level of the individual physician and/or hospital -- may address important informational asymmetries in markets for health care, but they may also give doctors and hospital incentives to decline to treat more difficult, severely ill patients. Whether report cards are good for patients and for society depends on whether their financial and health benefits outweigh their costs in terms of the quantity, quality, and appropriateness of medical treatment that they induce. Using national data on Medicare patients at risk for cardiac surgery, we find that cardiac surgery report cards in New York and Pennsylvania led both to selection behavior by providers and to improved matching of patients with hospitals. On net, this led to higher levels of resource use and to worse health outcomes, particularly for sicker patients. We conclude that, at least in the short run, these report cards decreased patient and social welfare.

#### **Drehmann, Mathias**

**PD** October 2002. **TI** Herding and Contrarian Behavior in Financial Markets-An Internet Experiment. **AU** Drehmann, Mathias; Oechssler, Joerg; Roeder, Andreas. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 25/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 56. **PR** no charge. **JE** C99, D83, D84, G12, G14. **KW** Herd Behavior. Informational Cascades. Contrarian Investors. Market Efficiency. Internet Experiment.

**AB** We report results of an Internet experiment designed to test the theory of informational cascades in financial markets. More than 6000 subjects, including a subsample of 267 consultants from an international consulting firm, participated in the experiment. As predicted by theory, we find that the presence of a flexible market price prevents herding. However, the presence of contrarian behavior, which can (partly) be rationalized via error models, distorts prices, and even after 20 decisions convergence to the fundamental value is rare. We also study the effects of transaction costs and the expectations of subjects with respect to future prices. Finally, we look at the behavior of various subsamples of our heterogeneous subject

pool.

#### **Driscoll, John C.**

**TI** A Note on Inflation Persistence. **AU** Holden, Steinar; Driscoll, John C.

#### **Drummond, Paulo**

**PD** April 2002. **TI** Macroeconomic Management and the Devolution of Fiscal Powers. **AU** Drummond, Paulo; Mansoor, Ali. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/76; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 29. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** H30, H70. **KW** Fiscal Policies. State and Local Government. Intergovernmental Relations.

**AB** Several of the transition economies are devolving fiscal authority to sub-national governments at a time when it is also important to consolidate fiscal policy. This can be problematic because, without appropriate care, the central government's ability to determine the level and structure of revenues, public spending, and borrowing may well diminish as fiscal policy is devolved. This paper focuses on how the center can maintain its ability to conduct fiscal policy while devolving revenue, spending, and borrowing powers to lower levels of government. Empirical evidence shows that countries with good governance have maintained fiscal control despite a high degree of fiscal devolution. And decentralization is associated with better fiscal outcomes for middle-income countries with strong governance. Fiscal management issues are explored in four key areas: budget coordination mechanisms at the macro level; tax-effort incentives and revenue-sharing mechanisms; expenditure control and hard-budget constraints; and criteria and rules for borrowing.

#### **Duarte, Margarida**

**PD** December 2002. **TI** Regional Inflation in a Currency Union: Fiscal Policy vs. Fundamentals. **AU** Duarte, Margarida; Wolman, Alexander L. **AA** Federal Reserve Bank of Richmond. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 746; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 36. **PR** no charge. **JE** E31, E32, F41, H63. **KW** Currency Union. Fiscal Policy. Inflation Differentials. Productivity Differentials. Nominal Rigidities.

**AB** We develop a general equilibrium model of a two-region currency union. There are two types of goods: non-trade goods, and traded goods for which markets are segmented. Monetary policy is set by a central monetary authority and is non-neutral due to nominal price rigidities. Fiscal policy is determined at the regional level by each region's government. We find that productivity shocks alone generate significant variation in inflation across the two countries. Government spending shocks, in contrast, do not account for a significant portion of inflation variation. Varying relative country size, we find that smaller countries experience higher variability of their inflation differential in response to shocks to productivity growth. Moreover, we show that regional governments can suppress incipient inflation differentials associated with shocks to productivity growth by letting the income tax rate respond

negatively to inflation differentials.

### Dudenhausen, Antje

**PD** May 2002. **TI** Effectiveness of Hedging Strategies under Model Misspecification and Trading Restrictions. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 13/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 27. **PR** no charge. **JE** G13. **KW** Incomplete Markets. Model Misspecification. Hedging. Martingale Measures. Discretization. Duplication Costs. Trading Restrictions.

**AB** The following paper focuses on the incompleteness arising from model misspecification combined with trading restrictions. While asset price dynamics are assumed to be continuous time processes, the hedging of contingent claims occurs in discrete time. The trading strategies under consideration are understood to be self-financing with respect to an assumed model which may deviate from the "true" model, thus associating duplication costs with respect to a contingent claim to be hedged. Based on the robustness result of Gaussian hedging strategies, saying that a superhedge is achieved for convex payoff-functions if the "true" asset price volatility is dominated by the assumed one, the error of time discretizing these strategies is analyzed. It turns out that the time discretization of Gaussian hedges gives rise to a duplication bias caused by asset price trends, which can be avoided by discretizing the hedging model instead of discretizing the hedging strategies. Additional results also yield a strong argument in favor of discretizing the hedge model instead of time discretizing the strategies.

**PD** September 2002. **TI** An Examination of the Effects of Parameter Misspecification. **AU** Dudenhausen, Antje; Schloegl, Lutz. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 22/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 19. **PR** no charge. **JE** E43, G12, G13. **KW** Model Misspecification. Bond Duplication. Volatility Mismatch. Hedging.

**AB** It is well-known that Gaussian hedging strategies are robust in the sense that they always lead to a cost process of bounded variation and that a superhedge is possible if upper bounds on the volatility of the relevant processes are available, cf. El Karoui, Jeanblanc-Picque, and Shreve (1998) and in particular for applications to fixed income derivatives Dudenhausen, Schloegl, and Schloegl (1998). These results crucially depend on the choice of certain "natural" hedge instruments which are not always available in the market, and fail to hold otherwise. In this paper, the problem of optimally selecting hedging instruments from a given set of traded assets, in particular of zero coupon bonds, is studied. Misspecified hedging strategies lead to a non-vanishing cost process, which in turn depends on the particular choice of instruments. The effect of this choice on the cost process is analyzed. Referring to bond markets, a thorough study of the implications of volatility mismatching is made and explicit results are stated for a broad range of volatility scenarios.

### Dueker, Michael

**PD** January 2002. **TI** Fixing Swiss Potholes: The Importance of Improvements. **AU** Dueker, Michael; Fischer, Andreas M. **AA** Dueker: Federal Reserve Bank of St Louis.

Fischer: Swiss National Bank. **SR** CEPR Discussion Paper: 3159; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E22, E32. **KW** Improvements. Capital Utilization. Switzerland. Road Maintenance.

**AB** The objective of this note is to document the importance of improvements relative to the other forms of capital spending and to determine whether improvements have similar cyclical properties as maintenance and repair. To shed some light on these issues, we look at a unique data set on Swiss road spending. The data on road spending are broken down into new roads, road improvements, and road maintenance and repair (hereafter road maintenance). The long-run evidence finds that road improvement is larger in size than road maintenance. In addition, road improvement exhibits similar dynamic properties as road maintenance. This result strengthens the view of McGratten and Schmitz (1999) that countercyclical spending of firms on maintenance (and on improvement) of existing capital is too large to be ignored.

### Duflo, Esther

**PD** January 2002. **TI** The Medium Run Effects of Educational Expansion: Evidence from a Large School Construction Program in Indonesia. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8710; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I21, O41. **KW** Human Capital. Indonesia. Educational Expansion.

**AB** This paper studies the medium run consequences of an increase in the rate of accumulation of human capital in a developing country. From 1974 to 1978, the Indonesian government built over 61,000 primary schools. The school construction program led to an increase in education among individuals who were young enough to attend primary school after 1974, but not among the older cohorts. Two-Stage Least Squares estimates suggest that an increase of 10 percentage points in the proportion of primary school graduates in the labor force reduced the wages of the older cohorts by 3.8% to 10% and increased their formal labor force participation by 4% to 7%. This paper proposes a two-sector model as a framework to interpret these findings. The results suggest that physical capital did not adjust to the faster increase in human capital.

### Dungey, Mardi

**PD** April 2002. **TI** International Contagion Effects from the Russian Crisis and the LTCM Near-Collapse. **AU** Dungey, Mardi; Fry, Renee; Gonzalez-Hermosillo, Brenda; Martin, Vance. **AA** Dungey: Australian National University. Fry: Queensland University of Technology. Gonzalez-Hermosillo: IMF. Vance: University of Melbourne. **SR** International Monetary Fund Working Paper: WP/02/74; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 36. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** C33, E44, F34. **KW** Financial Crises. Contagion Effects. International Spillovers. Russia. LTCM.

**AB** We examine empirically the episode of extraordinary turbulence in global financial markets during 1998. The

analysis focuses on the market assessment of credit risk captured by daily movements in bond spreads for twelve countries. A dynamic latent factor model is estimated using indirect inference to quantify the effects of unanticipated shocks across borders or "contagion," controlling for common global shocks, country-specific shocks and regional factors. The results show that there were substantial international contagion effects resulting from both the Russian and LTCM crises. The proportion of volatility explained by contagion is not necessarily larger in developing than in developed nations.

### Dutta, Jayasri

**PD** April 2002. **TI** Dread of Depreciation: Measuring Real Exchange Rate Interventions. **AU** Dutta, Jayasri; Leon, Hyginus. **AA** Dutta: University of Birmingham. Leon: IMF. **SR** International Monetary Fund Working Paper: WP/02/63; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 20. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** C22, F31. **KW** Real Exchange Rates. Interventions. Parity Conditions. Depreciation.

**AB** We specify an empirical framework to detect the effects of official intervention on real exchange rate dynamics. Using data for 27 advanced and emerging market economies, we find evidence that interventions are a near-universal practice; almost all countries intervene when real exchange rates depreciate; interventions reduce the degree of persistence in real exchange rates; and the defense of an overvalued currency tends to be contractionary.

### Dyck, Alexander

**PD** January 2002. **TI** Private Benefits of Control: An International Comparison. **AU** Dyck, Alexander; Zingales, Luigi. **AA** Dyck: Harvard Business School. Zingales: University of Chicago, GSB and NBER. **SR** National Bureau of Economic Research Working Paper: 8711; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 37. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G15, K22. **KW** Private Benefits. Capital Markets. Ownership Concentration. Privatizations.

**AB** See the abstract for Dyck, Alexander; Zingales, Luigi. January 2002, "Private Benefits of Control: An International Comparison". CEPR Discussion Paper: 3177; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org.

**PD** January 2002. **TI** Private Benefits of Control: An International Comparison. **AU** Dyck, Alexander; Zingales, Luigi. **AA** Dyck: Harvard Business School. Zingales: University of Chicago. **SR** CEPR Discussion Paper: 3177; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G15, K22. **KW** Private Benefits. Investor Protection. Financial Development.

**AB** Based on 412 control transactions between 1990 and 2000 we construct a measure of the private benefits of control in 39 countries. We find that the value of control ranges between -4% and +65%, with an average of 14%. As predicted by theory, in countries where private benefits of control are

larger capital markets are less developed, ownership is more concentrated, and privatizations are less likely to take place as public offerings. We also analyze what institutions are most important in curbing these private benefits. A high degree of statutory protection of minority shareholders and high degree of law enforcement are associated with lower levels of private benefits of control, but so are a high level of diffusion of the press, a high rate of tax compliance, and a high degree of product market competition. A crude R-squared test suggests that the "non traditional" mechanisms have at least as much explanatory power as the legal ones commonly mentioned in the literature. In fact, in a multivariate analysis newspapers' circulation and tax compliance seem to be the dominating factors. We advance an explanation why this might be the case.

### Edwards, Sebastian

**PD** December 2001. **TI** Dollarization, Inflation and Growth. **AU** Edwards, Sebastian; Magendzo, I. Igal. **AA** Edwards: UCLA and NBER. Magendzo: Central Bank of Chile. **SR** National Bureau of Economic Research Working Paper: 8671; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 13. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** E31, F30, F31, F40, O40. **KW** Dollarization. Inflation. Growth.

**AB** In this paper we analyze the macroeconomic record of dollarized economies. In particular, we investigate whether, as its supporters claim, dollarization is associated with lower inflation and faster growth. We analyze this issue by using a matching estimator technique developed in the training evaluation literature. Our findings suggest that inflation has been significantly lower in dollarized nations than in non-dollarized ones. We also find that dollarized nations have had a lower rate of economic growth than non-dollarized ones. Finally, we find that macroeconomic volatility is not significantly different across dollarized and non-dollarized economies. We conjecture that the lower rate of economic growth in dollarized countries is due, at least in part, to these countries' difficulties in accommodating external disturbances, such as major term of trade and capital flows shocks.

### Ehrmann, Michael

**PD** January 2002. **TI** Financial Systems and the Role of Banks in Monetary Policy Transmission in the Euro Area. **AU** Ehrmann, Michael; Gambacorta, Leonardo; Martinez Pages, Jorge; Sevestre, Patrick; Worms, Andreas. **AA** Ehrmann: European Central Bank. Gambacorta: Banca d'Italia. Martinez: Banco de Espana. Sevestre: Banque de France and Universite Paris Val de Marne. Worms: Deutsche Bundesbank. **SR** Banco de Espana, Documentos de Trabajo: 0118; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcalá, 50, 28014 Madrid, Spain. Website: www.bde.es/. **PG** 25. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** C23, E44, E52, G21. **KW** Monetary Policy Transmission. Financial Structure. Bank Lending.

**AB** This paper offers a comprehensive comparison of the structure of banking and financial markets in the euro area. Based on this, several hypotheses about the role of banks in monetary policy transmission are developed. Many of the predictions that have been proposed for the U.S. are deemed unlikely to apply in Europe. Testing these hypotheses, we find



that monetary policy does alter bank loan supply, with the effects most dependent on the liquidity of individual banks. Unlike in the U.S., the size of a bank does generally not explain its lending reaction. We also show that the standard publicly available database, BankScope, obscures the heterogeneity across banks. Indeed, for several types of questions BankScope data suggest very different answers than more complete data that reside at national central banks.

### Eichenbaum, Martin

**TI** Why Are Rates of Inflation So Low After Large Devaluations? **AU** Burstein, Ariel Thomas; Eichenbaum, Martin; Rebelo, Sergio.

### Eichengreen, Barry

**TI** Between Meltdown and Moral Hazard: The International Monetary and Financial Policies of the Clinton Administration. **AU** DeLong, J. Bradford; Eichengreen, Barry.

**PD** January 2002. **TI** Crises Now and Then: What Lessons from the Last Era of Financial Globalization? **AU** Eichengreen, Barry; Bordo, Michael D. **AA** Eichengreen: University of California, Berkeley and NBER. Bordo: Rutgers University and NBER. **SR** National Bureau of Economic Research Working Paper: 8716; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 31. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F33, N20. **KW** International Capital Markets. Globalization. Financial Crisis.

**AB** We consider the operation of international capital markets in two periods of globalization, before 1914 and after 1971, with a focus on the crisis problem. We explore the idea that the incidence of crises in these two periods reflects how capital flows were embedded in the larger economic system. Other authors have made similar connections, suggesting that the international monetary framework was responsible for the relatively short-lived and mild nature of pre-World War I financial crises. However, we show that currency crises in fact were of longer duration before 1914. Only for banking and twin crises is there evidence that recovery was faster then than now. This leads us to a somewhat different view of the role of the monetary regime in the propagation of financial crises. A key difference between then and now, we suggest, is that prior to 1914 banking crises were less prone to undermine confidence in the currency, and to thereby compound financial problems, in the countries that were at the core of the international monetary system.

### Eijffinger, Sylvester C. W.

**PD** September 2001. **TI** Flexible Inflation Targeting Under a Non-Linear Phillips Curve. **AU** Eijffinger, Sylvester C. W.; Verhagen, Willem. **AA** Eijffinger: Tilburg University and CEPR. **SR** CEPR Discussion Paper: 2941; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D82, E52, E58. **KW** Phillips Curve. Central Bank. Flexibility. Uncertainty. Inflation Targeting.

**AB** This paper analyzes the optimal degree of flexibility under a Lucas type convex Phillips Curve. As a benchmark, we first analyze optimal monetary policy with a linear Phillips Curve and persistent cost-push shocks. As in Svensson (1997a), a central banker who possesses private information and who

inherits society's preferences will engage in too much output stabilization. If the central banker has no private information under a linear Lucas type Phillips Curve, it will be optimal to abstain from output stabilization entirely. Next, we extend the symmetric information case by assuming the Phillips Curve is convex. In this respect, it is shown that even under strict inflation targeting, the optimal conditional inflation forecast will be state-dependent. Furthermore, if the degree of flexibility is zero, monetary policy will be subject to a deflationary bias which will exceed the bias obtained in a model where the expected slope of the Phillips Curve is constant. We also show that the long run average rate of inflation will be strictly increasing in the degree of flexibility. Some degree of flexibility will be socially optimal in this model.

**PD** February 2002. **TI** How Transparent are Central Banks? **AU** Eijffinger, Sylvester C. W.; Geraats, Petra M. **AA** Eijffinger: Tilburg University and CEPR. Geraats: University of Cambridge. **SR** CEPR Discussion Paper: 3188; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E52, E58. **KW** Central Banking. Monetary Policy. Independence. Accountability. Transparency.

**AB** Central bank transparency has become the topic of a lively public and academic debate on monetary policy. Unfortunately, it has been complicated by the fact that transparency is a qualitative concept that is hard to measure. This paper proposes a comprehensive index for central bank transparency that comprises the political, economic, procedural, policy and operational aspects of central banking. The index is compiled for nine major central banks. It is based on an analysis of information disclosure practices and reveals a rich variety in the degree of central bank transparency.

### Elborgh-Woytek, Katrin

**TI** An Intern Assessment of Ukrainian Output Developments, 2000-01. **AU** Berengaut, Julian; De Vrijer, Erik; Elborgh-Woytek, Katrin; Lewis, Mark; Lissovlik, Bogdan.

### Ely, Jeffrey C.

**PD** April 2001. **TI** Rationalizability and Approximate Common-Knowledge. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1324; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: [www.kellogg.nwu.edu/research/math/](http://www.kellogg.nwu.edu/research/math/). **PG** 12. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C70. **KW** Rationalizability. Approximate Common-Knowledge. **AB** Abstract not available.

### Engel, Charles

**PD** January 2002. **TI** The Responsiveness of Consumer Prices to Exchange Rates and the Implications for Exchange-Rate Policy: A Survey of a Few Recent New Open-Economy Macro Models. **AA** University of Wisconsin and NBER. **SR** National Bureau of Economic Research Working Paper: 8725; Working Papers, NBER, 1050 Massachusetts Avenue,

Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 32. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F33, F41. KW Optimal Monetary Policy. Exchange Rates. Consumer Prices. New Open-Economy.

**AB** The traditional case for flexibility in nominal exchange rates assumes that there is nominal price stickiness that prevents relative prices from adjusting in response to real shocks. When prices are sticky in producers' currencies, nominal exchange rate changes can achieve the relative price change that is required between home and foreign goods. The nominal exchange rate flexibility provides the desired "expenditure-switching" effect of relative price changes. But if prices are fixed *ex ante* in consumers' currencies, nominal exchange rate flexibility cannot, achieve any relative price adjustment. In fact, nominal exchange rate fluctuations are undesirable because they lead to deviations from the law of one price. So, fixed exchange rates are optimal. The empirical literature appears to support the notion that prices are sticky in consumers' currencies. This paper surveys the approaches taken in the new open economy macroeconomic literature to formalize the role of optimal monetary policy. The survey explores how this literature has dealt with the empirical evidence on pass-through of exchange rate changes to consumer prices.

#### Erceg, Christopher J.

**PD** December 2002. **TI** Optimal Monetary Policy with Durable and Non-Durable Goods. **AU** Erceg, Christopher J.; Levin, Andrew T. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 748; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). PG 31. PR no charge. **JE** E31, E32, E52. **KW** Dynamic General Equilibrium. Sectoral Disaggregation. Durable Goods. Monetary Policy. Social Welfare.

**AB** The durable goods sector is much more interest sensitive than the non-durables sector, and these sectoral differences have important implications for monetary policy. In this paper, we perform Vector Autoregression analysis of quarterly US data and find that a monetary policy innovation has a peak impact on durable expenditures that is roughly five times as large as its impact on non-durable expenditures. We then proceed to formulate and calibrate a two-sector dynamic general equilibrium model that roughly matches the impulse response functions of the data. While the social welfare function involves sector-specific output gaps and inflation rates, we find that performance of the optimal policy rule can be closely approximated by a very simple rule that targets a weighted average of aggregate wage and price inflation rates. In contrast, some commonly-prescribed policy rules (such as strict price inflation targeting and Taylor's rule) perform very poorly in terms of social welfare.

#### Eschenbach, Felix

**PD** May 2002. **TI** Asset Prices and Fiscal Balances. **AU** Eschenbach, Felix; Schuknecht, Ludger. **AA** Eschenbach: Tinbergen Institute, Rotterdam. Schuknecht: European Central Bank. **SR** European Central Bank Working Paper: 141; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany.

Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 27. PR no charge. **JE** E62, G12, H62. **KW** Fiscal Policies. Deficits. Asset Prices. Revenue. Fiscal Institutions.

**AB** The paper argues that there are important links between asset prices and public finances which can strongly affect the variability of fiscal balances. Asset prices affect fiscal balances via capital gains and turnover related taxes, and via wealth effects on consumption and indirect taxes. The fiscal costs of asset price changes can be higher if government can be held liable for balance sheet losses from an asset price downturn. An empirical study finds significant effects of house and/or stock prices on revenue in a majority of the 17 Organization for Economic Co-operation and Development (OECD) countries and revenue categories examined. On average, a 10-percent change in real estate and stock prices has a similar effect on the fiscal balance as a 1-percent change in output, although effects differ considerably across countries. By 2001/2002, some countries' fiscal balances seem upward biased, due to positive effects from earlier asset price booms.

#### Estrada, Angel

**PD** August 2001. **TI** Accounting for Spanish Productivity Growth Using Sectoral Data: New Evidence. **AU** Estrada, Angel; Lopez-Salido, J. David. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0110; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). PG 16. PR single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** D24, E32. **KW** Total Factor Productivity. Sectoral Data. Aggregation. Spain.

**AB** In this paper we measure, at sectoral level, the sources of Spanish productivity growth, distinguishing among the roles played by labor productivity, the degree of factor substitution and total factor productivity (Solow residual). In terms of value added, total factor productivity growth in the manufacturing sector is higher than in services (2.4% and 1.1% respectively), although the Communication Sector constitutes an exception. In terms of gross production productivity growth in both sectors is virtually the same (0.6% and 0.7% respectively) because of the relative lower weight of intermediate inputs in producing services. During the latest cyclical expansion, 1995-1999, we have observed a market deceleration in labor productivity, associated to an increase in employment, and to a deceleration in the capital-labor ratio, while total factor productivity has remained more stable.

**PD** November 2001. **TI** Sectoral and Aggregate Technology Growth in Spain. **AU** Estrada, Angel; Lopez-Salido, J. David. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0116; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). PG 22. PR single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** D24, E22, E32, O30. **KW** Productivity. Sectors. Aggregation. Technology Growth. Spain.

**AB** In this paper we analyze technological change in the Spanish economy by constructing adjusted Solow residuals, where the adjustment attempts to correct for the bias associated with the potential presence of imperfect competition, increasing returns, variable input utilization and, especially,

sectoral reallocation of inputs across sectors. We refer to this modified Solow residual as a technology index. Sectoral reallocations and variable input utilization are key determinants of the differences between the aggregate Solow residual and the technology index resulting from the aggregation of estimated sectoral technological growth. In particular, we show that technological growth has been in the last two decades more intense than what suggests the standard aggregate Solow residual indices. However, starting in the mid-nineties, there has been a deceleration in the aggregate growth rate of technology, which is basically due to the behavior of the manufacturing sectors.

**PD** March 2002. **TI** Understanding Spanish Dual Inflation. **AU** Estrada, Angel; Lopez-Salido, J. David. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0205; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 9. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** D24, D40, L60, L80. **KW** Total Factor Productivity. Prices. Services. Manufacturing. Dual Inflation.

**AB** We explore the implications of the differential behavior of total factor productivity across sectors to understand the dynamics of the relative prices of services and manufacturing. We find that contrary to the assumption of the Balassa-Samuelson hypothesis, the evolution of relative markups between services and manufacturing sectors has been a key determinant of recent Spanish dual inflation.

**PD** April 2002. **TI** Los flujos de trabajadores en España: el impacto del empleo temporal. (Worker Flows in Spain: The Impact of Temporary Employment). **AU** Estrada, Angel; Garcia-Perea, Pilar; Izquierdo, Mario. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0206; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 20. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** J41, J63, J64. **KW** Worker Flows. Employment. Unemployment. Temporary Employment. Spain.

**AB** This paper analyses recent gross worker flows in Spain using EPA (Labour Force Survey) and INEM (National Employment Office) data. These databases show significant differences both in the levels and trends of gross worker flows in Spain. Focusing on EPA data, unemployment inflows and outflows are large and similar to those which characterize labor markets with high dynamic efficiency. However, this aggregate behavior hides a strong segmentation of the Spanish labor market between workers with temporary contracts, the more dynamic sector, and workers with permanent contracts, with much smaller flows. The cyclical behavior of flows is similar to that found in other European countries: inflows into unemployment are procyclical and inflows into employment and outflows from employment are countercyclical. On the other hand, outflows from unemployment are countercyclical, due to the high percentage of temporary workers. This paper is available in Spanish.

**TI** The Spanish Block of the ESCB-Multi-Country Model. **AU** Willman, Alpo; Estrada, Angel.

**TI** The Spanish Block of the ESCB-Multi-Country Model.

**AU** Willman, Alpo; Estrada, Angel.

### Estrin, Saul

**TI** Mass Privatisation and Partial State Ownership of Firms in Transition Economics. **AU** Bennett, John; Estrin, Saul; Maw, James.

### Etro, Federico

**TI** The Political Economy of International Unions. **AU** Alesina, Alberto F.; Angeloni, Ignazio; Etro, Federico.

### Euwals, Rob

**PD** January 2002. **TI** The Predictive Value of Subjective Labour Supply Data: A Dynamic Panel Data Model with Measurement Error. **AA** CPB and CEPR. **SR** CEPR Discussion Paper: 3121; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C23, J22. **KW** Dynamic Panel Data Models. Labor Supply. Measurement Error. Subjective Data.

**AB** This paper tests the predictive value of subjective labor supply data for adjustments in working hours over time. The idea is that if subjective labor supply data help to predict next year's working hours, such data must contain at least some information on individual labor supply preferences. This informational content can be crucial to identify models of labor supply. Furthermore, it can be crucial to investigate the need for, or, alternatively, the support for laws and collective agreements on working hours flexibility. This paper applies dynamic panel data models that allow for measurement error. The paper finds evidence for the predictive power of subjective labor supply data concerning desired working hours in the German Socio-Economic Panel 1988-96.

### Evstigneev, Igor V.

**PD** October 2002. **TI** On the Fundamental Theorem of Asset Pricing: Random Constraints and Bang-Bang No-Arbitrage Criteria. **AU** Evstigneev, Igor V.; Schuenger, Klaus; Taksar, Michael I. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 24/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 42. **PR** no charge. **JE** G12, G13. **KW** No-Arbitrage Criteria. Portfolio Constraints. Supermartingale Measures. Bang-Bang Control. Asset Pricing.

**AB** The paper generalizes and refines the Fundamental Theorem of Asset Pricing of Dalang, Morton, and Willinger in the following two respects: (a) the result is extended to a model with portfolio constraints; (b) versions of the no-arbitrage criterion based on the bang-bang principle in control theory are developed.

### Faina, J. Andres

**PD** October 2001. **TI** The Regional Policy of the European Union and the Enlargement Process to Central and Eastern European Countries. **AU** Faina, J. Andres; Rodriguez, Jesus Lopez. **AA** University of A Coruna. **SR** University of Exeter, Department of Economics Discussion Paper: 01/07; Editor, Discussion Papers in Economics, Department of Economics, School of Business and Economics, University of Exeter, Streatham Court, Rennes

Drive, Exeter EX4 4PU, UK. Website: [www.ex.ac.uk/sobe](http://www.ex.ac.uk/sobe). PG 20. PR no charge. JE O18, R58. KW Regional Policy. European Union. Structural Policy.

AB The successive enlargement processes of the European Union (EU) have implied reforms in Regional Policy. Since the Single European Act (1987), Europe has got a structural policy mainly focused on regions whose development is lagging behind. The accession of Central and Eastern European Countries (CEECs) will mean an extraordinary increase in regional development disparities. However, the current EU Regional Policy is addressed to deal with such a kind of development lags. Competition in a large market combined with regional development policy of the EU is a successful policy mix to boost growth of CEECs in the framework of an open market economy. The own success of regional policy in current objective 1 regions will lead to an important reduction of assisted population. The financial perspectives approved in the Berlin Summit (March 1999) provides enough financial space to assist 90% of population in CEECs and 75% of current population under objective 1. The main challenge involved in the successful extension of EU Regional Policy to CEECs lies in the field of management capabilities and administration reforms that must be carried out in these countries.

#### Falk, Armin

PD January 2002. TI Psychological Foundations of Incentives. AU Falk, Armin; Fehr, Ernst. AA Falk: Universitat Zurich and CEPR. Fehr: Universitat Zurich. SR CEPR Discussion Paper: 3185; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE A12, Z13. KW Incentives. Contracts. Reciprocity. Social Approval. Social Norms. Intrinsic Motivation.

AB During the last two decades economists have made much progress in understanding incentives, contracts and organizations. Yet, they constrained their attention to a very narrow and empirically questionable view of human motivation. The purpose of this paper is to show that this narrow view of human motivation may severely limit understanding the determinants and effects of incentives. Economists may fail to understand the levels and the changes in behavior if they neglect motives like the desire to reciprocate or the desire to avoid social disapproval. We show that monetary incentives may backfire and reduce the performance of agents or their compliance with rules. In addition, these motives may generate very powerful incentives themselves.

#### Farber, Henry S.

PD May 2001. TI Notes on the Economics of Labor Unions. AA Princeton University. SR Princeton University, Industrial Relations Section Working Paper: 452; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. Website: [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). PG 20. PR no charge for single copies. JE J50, J51, J52. KW Labor Unions. Dispute Resolution. Strikes. Union Growth.

AB A common definition of a labor union is that it is an association of workers who bargain collectively with their employer regarding the terms and conditions of employment. Economic analysis of labor unions falls largely into four related

categories: 1) unions as maximizing agents, 2) dispute resolution: strikes and arbitration, 3) the effect of unions on wages, and 4) the determination of union membership. This essay is organized around discussions of these topics.

PD June 2001. TI Job Loss in the United States, 1981-1999. AA Princeton University. SR Princeton University, Industrial Relations Section Working Paper: 453; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. Website: [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). PG 32. PR no charge for single copies. JE J63, J64, J65. KW Job Loss. Displacement.

AB This paper examines changes in the incidence and consequences of job loss between 1981 and 1999 using data from the Displaced Workers Surveys (DWS) from 1984-2000. The overall rate of job loss has a strong counter-cyclical component, but the job loss rate was higher than might have been expected during the mid-1990's given the strong labor market during that period. While the job loss rate of more-educated workers increased, less-educated workers continue to have the highest rates of job loss overall. Displaced workers have a substantially reduced probability of employment and an increased probability of part-time employment subsequent to job loss.

PD December 2001. TI Ronald Reagan and the Politics of Declining Union Organization. AU Farber, Henry S.; Western, Bruce. AA Princeton University. SR Princeton University, Industrial Relations Section Working Paper: 460; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. Website: [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). PG 18. PR no charge for single copies. JE J51, J52, J53. KW Union Elections. Win Rate. Costs of Organizing.

AB While research on U.S. union election activity has focused on the declining proportion of union victories, a large share of the decline in new union organizing is due to a fall in the number of elections contested. We examine the level of election activity and find that the number of union elections fell by 50 percent in the early 1980s. A formal model indicates that declining election activity may be due to an unfavorable political climate which significantly raises the costs of organizing, even though the union win-rate remains unaffected. We then relate the timing of declining election activity to two key political events -- the air-traffic controllers strike of 1981 and the appointment of the Reagan Labor Board in 1983. Empirical analysis of monthly election time series shows that the sharp fall in union organizing preceded these political developments.

#### Farmer, Roger E. A.

PD January 2002. TI Business Cycles With Heterogenous Agents. AA UCLA and CEPR. SR CEPR Discussion Paper: 3154; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D58, D91, E32. KW Business Cycles. Dynamic General Equilibrium. Overlapping Generations. Heterogenous Agents.

AB This paper shows how to construct a stochastic long-lived overlapping generation's model that is based on a non-stochastic model developed by Olivier Blanchard and Philippe

Weil and that nests the real business cycle model as a special case. This paper's new addition to the literature is that it adds an aggregate stochastic shock. The paper provides three different calibrations of the model economy. One mimics the RBC model and the other two are heterogeneous agent economies with and without corporate income taxes (HA and HATAX). The paper shows that the HA and HATAX models can explain the low safe rate of interest that has been observed for long periods in US data. The HATAX model can also explain the fact that the investment to gross domestic product (GDP) ratio in US data is lower than the profit share. All three models are almost identical in their predictions for the comovements and volatility's of consumption, investment, employment and GDP at business cycle frequencies.

### Farrelly, Matthew C.

**PD** December 2001. **TI** The Impact of Tobacco Control Program Expenditures on Aggregate Cigarette Sales: 1981-1998. **AU** Farrelly, Matthew C.; Chaloupka, Frank J.; Pechacek, Terry F. **AA** Farrelly: Research Triangle Institute. Chaloupka: University of Illinois at Chicago and NBER. Pechacek: Centers for Disease Control and Prevention. **SR** National Bureau of Economic Research Working Paper: 8691; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 27. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** I12, I18. **KW** Tobacco Industry. Control Programs.

**AB** Since the 1998 Master Settlement Agreement between states and the tobacco industry, states have unprecedented resources for programs to reduce tobacco use. Decisions concerning the use of these funds will, in part, be based on the experiences of states with existing programs. We review the experiences of several states that have adopted comprehensive tobacco control programs. We also report estimates from econometric analyses of the impact of tobacco control expenditures on aggregate tobacco use in all states and in selected states with comprehensive programs for the period from 1981 through 1998. Our analyses clearly show that increases in funding for state tobacco control programs reduce tobacco use.

### Faust, Jon

**PD** October 2002. **TI** Identifying the Effects of Monetary Policy Shocks on Exchange Rates Using High Frequency Data. **AU** Faust, Jon; Rogers, John H.; Swanson, Eric; 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: 739; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 45. **PR** no charge. **JE** C32, E52, F33. **KW** Vector Autoregression. Identification. Monetary Policy. High Frequency Data.

**AB** This paper proposes a new approach to identifying the effects of monetary policy shocks in an international vector autoregression. Using high-frequency data on the prices of Fed Funds futures contracts, we measure the impact of the surprise component of the Federal Open Market Committee (FOMC)-day Federal Reserve policy decision on financial variables, such as the exchange rate and the foreign interest rate. We show how this information can be used to achieve identification without having to make the usual strong assumption of a

recursive ordering.

### Feenstra, Robert

**PD** July 2001. **TI** Global Production Sharing and Rising Inequality: A Survey of Trade and Wages. **AU** Feenstra, Robert; Hanson, Gordon. **AA** Feenstra: University of California, Davis and NBER. Hanson: University of California, San Diego and NBER. **SR** National Bureau of Economic Research Working Paper: 8572; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 48. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F16, J31. **KW** Wage Inequality. Input Trade. International Trade.

**AB** We argue that trade in intermediate inputs, or "global production sharing," is a potentially important explanation for the increase in the wage gap between skilled and unskilled workers in the U.S. and elsewhere. Using a simple model of heterogeneous activities within an industry, we show that trade in inputs has much the same impact on labor demand as does skill-biased technical change: both of these will shift demand away from low-skilled activities, while raising relative demand and wages of the higher skilled. Thus, distinguishing whether the change in wages is due to international trade, or technological change, is fundamentally an empirical rather than a theoretical question. We review three empirical methods that have been used to estimate the effects of trade in intermediate inputs and technological change on wages, and summarize the evidence for the U.S. and other countries.

### Feess, Eberhard

**PD** June 2002. **TI** When Bidding More is Not Enough: All-Pay Auctions with Handicaps. **AU** Feess, Eberhard; Muehlheusser, Gerd; Walzl, Markus. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 14/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 23. **PR** no charge. **JE** D44, D82. **KW** All-Pay Auction. Contest. Allocation Rule. Asymmetric Information. Auctions.

**AB** We consider a standard two-player all-pay auction with private values, where the valuation for the object is private information to each bidder. The crucial feature is that one bidder is favored by the allocation rule in the sense that he need not bid as much as the other bidder to win the auction. Analogously, the other bidder is handicapped by the rule, as overbidding the rival may not be enough to win the auction. Clearly, this has important implications on equilibrium behavior. We fully characterize the equilibrium strategies for this auction format and show that there exists a unique pure strategy Bayesian Nash Equilibrium.

### Fehr, Ernst

**TI** Psychological Foundations of Incentives. **AU** Falk, Armin; Fehr, Ernst.

### Feldstein, Martin

**PD** September 2001. **TI** Social Security. **AU** Feldstein, Martin; Liebman, Jeffrey B. **AA** Feldstein: NBER. Liebman: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8451; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 85. **PR** \$10.00 per

copy (plus \$10.00 per order for shipping outside U.S.).  
**JE** H55. **KW** Social Security. Pay As-You-Go. Public Pensions.

**AB** This paper, a forthcoming chapter in the Handbook of Public Economics, reviews the theoretical and empirical issues dealing with Social Security pensions. The first part of the paper discusses pure pay as-you-go plans. It considers the effects of introducing such a plan on the present value of consumption, the optimal level of benefits in such plans, and the empirical research on the effects of pay-as-you-go pension systems on labor supply and saving. The second part of the paper discusses the transition to investment-based systems, analyzing the effect on the present value of consumption of such a transition and considering such issues as the distributional effects and risk associated with such systems.

### Felli, Leonardo

**PD** January 2002. **TI** Endogenous Lobbying. **AU** Felli, Leonardo; Merlo, Antonio. **AA** Felli: London School of Economics and CEPR. Merlo: University of Pennsylvania. **SR** CEPR Discussion Paper: 3174; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D72, D74, D78. **KW** Endogenous Lobbying. Citizen-Candidate Model. Representative Democracy.

**AB** In this paper, we present a citizen-candidate model of representative democracy with endogenous lobbying. We find that lobbying induces policy compromise and always affects equilibrium policy outcomes. In particular, even though the policy preferences of lobbies are relatively extreme, lobbying biases the outcome of the political process toward the center of the policy space, and extreme policies cannot emerge in equilibrium. Moreover, in equilibrium, not all lobbies participate in the policy-making process.

### Feltenstein, Andrew

**PD** May 2002. **TI** Why is it so Hard to Finance Budget Deficits? Problems of a Developing Country. **AU** Feltenstein, Andrew; Iwata, Shigeru. **AA** Feltenstein: IMF. Iwata: University of Kansas. **SR** International Monetary Fund Working Paper: WP/02/95; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 14. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E44, E62, H62, O16. **KW** Pakistan. Savings. Interest Rates. Budget Deficits.

**AB** This paper examines possible ways for a developing country to finance budget deficits from domestic resources. It does so by analyzing Pakistan's National Savings Scheme (NSS). The NSS has a number of unusual attributes, but given Pakistan's chronic fiscal difficulties, the NSS is of great importance in financing the public sector deficit. We use an econometric model to analyze the relationship between the demands for NSS deposits and various other financial instruments, in particular, bank deposits, and foreign-currency deposits. We conclude that NSS and bank deposits are net substitutes, as are NSS and foreign-currency deposits. Bank deposits and foreign-currency deposits, however, seem to be neither substitutes nor complements. Also, the estimated income elasticity of the demand for bank deposits is negative,

while that of foreign-currency deposits is positive, and that of NSS is not significantly different from zero. Finally, there is evidence that foreign-currency deposits are a net substitute for NSS deposits. Thus, there is some empirical evidence that foreign currency deposits have absorbed part of the demand for NSS deposits. Accordingly, the availability of foreign-currency deposits may have reduced the ability of the government to finance itself.

### Feres, Patricio

**PD** January 2003. **TI** Indicators for Social Inclusion in the European Union: How Responsive Are They to Macro-Level Changes? **AU** Feres, Patricio; Immervoll, Herwig; Lietz, Christine; Levy, Horacio; Mantovani, Daniela; Sutherland, Holly. **AA** Feres, Immervoll, Lietz, Mantovani, and Sutherland: University of Cambridge. Levy: University of Barcelona. **SR** University of Cambridge, EUROMOD Working Paper: EM2002/03; Microsimulation Unit, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae/mu/emod3.htm. **PG** 43. **PR** \$10 (5 pounds) STG/EURO 8; make checks payable to University of Cambridge. **JE** C81, D31, I32. **KW** European Union. Microsimulation. Social Indicators. Tax-Benefit Model.

**AB** Two weeks before the Euro was introduced, the European Union (EU) adopted a set of commonly agreed indicators for social inclusion. It is hoped that Member States can devise policies to reduce poverty and social exclusion and that these reductions will be reflected by the indicators. If income-based indicators are to be used as generally accepted measures of the outcomes of policy, then it is important that their responsiveness to other influences is understood. The relationships between macro- and micro- levels are complex and this paper uses a range of simple, simulated changes to illustrate possible consequences of wider changes. We use the EU-wide tax-benefit model, EUROMOD, to establish baseline indicators using simulated incomes for 14 Member States. Subsequently we explore the sensitivity of these indicators to (a) an increase in employment, (b) failure to index social and fiscal policies for inflation or real income growth, and (c) increasing earnings inequality.

### Fernandez de Lis, Santiago

**TI** The Quest for Nominal and Real Convergence Through Integration in Europe and Latin America. **AU** Alberola, Enrique; Buisan, Ana; Fernandez de Lis, Santiago.

### Fernandez, Raquel

**PD** July 2001. **TI** Education, Segregation and Marital Sorting: Theory and an Application to UK Data. **AA** New York University, NBER, and CEPR. **SR** National Bureau of Economic Research Working Paper: 8377; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 31. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D31, D69, I21, J12. **KW** Education. Marital Sorting. Segregation. Income Distribution. Parents. Skill.

**AB** This paper presents a model of the intergenerational transmission of education and marital sorting where parents matter both because of their household income and because parental human capital determines the expected value of a child's disutility from making an effort to become skilled. We

show that an increase in segregation has potentially ambiguous effects on the fraction of individuals that become skilled in the steady state, and hence on marital sorting, the personal and household income distribution, and welfare. We calibrate the steady-state of our model to UK statistics and compare a version of the model to the results obtained previously for the US. We find that segregation is likely to have a smaller negative impact in the UK than in the US as a result of the fertility and education transmission process. When the relative supply of skilled individuals is endogenous, the welfare effect of increased sorting on unskilled individuals depends on the magnitude of the supply increase.

### Fershtman, Chaim

**PD** January 2002. **TI** Discrimination and Nepotism: The Efficiency of the Anonymity Rule. **AU** Fershtman, Chaim; Gneezy, Uri; Verboven, Frank. **AA** Fershtman: Tel Aviv University and NBER. Gneezy: University of Chicago. Verboven: Katholieke Universiteit Leuven and CEPR. **SR** CEPR Discussion Paper: 3175; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C93, J17. **KW** Discrimination. Nepotism. Efficiency. Anonymity. Experimental Testing.

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

### Findlay, Ronald

**PD** January 2002. **TI** Commodity Market Integration 1500-2000. **AU** Findlay, Ronald; O'Rourke, Kevin H. **AA** Findlay: Columbia University. O'Rourke: Institute for International Economic Studies and Trinity College, Dublin. **SR** CEPR Discussion Paper: 3125; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F10, F15, N70. **KW** Trade. Market Integration. Trends. History.

**AB** This paper provides a summary of what is known about trends in international commodity market integration during the second half of the second millennium. The range of goods that have been traded between continents since the Voyages of

Discovery has steadily increased over time, and there has been substantial commodity market integration over the period, driven by technology in the 19th century and politics in the late 20th century. This trend towards greater market integration was not, however, monotonic; it was periodically interrupted by shocks such as wars and world depressions, or by endogenous political responses to the distributional effects of globalization itself. In some periods politics has reinforced the effects of technology, while in other periods it has offset them. In several cases, severe shocks have had long-run effects on the international integration of commodity markets, as a result of politically induced hysteresis. Finally, we know remarkably little about international commodity market integration during the 20th century.

### Fischer, Andreas M.

**PD** January 2002. **TI** Giving Up the Swiss Franc: Some Consideration on Seigniorage Flows Under EMU. **AU** Fischer, Andreas M.; Jordan, Thomas; Lack, Caeser P. **AA** Fischer: Swiss National Bank and CEPR. Jordan and Lack: Swiss National Bank. **SR** CEPR Discussion Paper: 3156; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E58, E62, H22. **KW** Seigniorage. Swiss National Bank. The Euro.

**AB** The monetary debate in Switzerland about joining the European Monetary Union (EMU) has primarily focused on the gains in terms of transaction costs and lower uncertainty from using a common currency versus the sacrifice of giving up an independent monetary policy. This paper considers an additional factor in this debate, namely the decrease of seigniorage for Switzerland in the case of joining EMU. Our calculations reveal that this loss of revenues is not trivial. Swiss currency holdings per capita are among the largest in the world. They are estimated to be 5,000 Swiss francs per capita in 2002. If Switzerland joined EMU at that time, about half of the seigniorage stemming from the previous Swiss franc currency circulation would be redistributed among the EMU member countries in the worst case. Our results indicate that Switzerland would be the third largest contributor of seigniorage in absolute terms after Germany and Spain. In relative terms, the Swiss per capita contribution would be more than four times as high as the German contribution.

**TI** Fixing Swiss Potholes: The Importance of Improvements. **AU** Dueker, Michael; Fischer, Andreas M.

### Flavin, Thomas

**PD** January 2002. **TI** Macroeconomic Influences on Optimal Asset Allocation. **AU** Flavin, Thomas; Wickens, Michael R. **AA** Flavin: National University of Ireland. Wickens: University of York. **SR** CEPR Discussion Paper: 3144; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E31, G11. **KW** Asset Allocation. Macroeconomic Effects. Multivariate GARCH. United Kingdom.

**AB** We develop a tactical asset allocation strategy that incorporates the effects of macroeconomic variables. The joint distribution of financial asset returns and the macroeconomic variables is modeled using a vector autoregressive framework

with a multivariate generalized autoregressive conditional heteroskedasticity (M-GARCH) error structure. As a result the portfolio frontier is time varying and subject to contagion from the macroeconomic variable. Optimal asset allocation requires that this be taken into account. We illustrate the how to do this using three risky United Kingdom assets and inflation as a macroeconomic factor. Taking account of inflation generates portfolio frontiers that lie closer to the origin, and offers investors superior risk-return combinations.

#### **Fleurbaey, Marc**

**PD** April 2002. **TI** Education, Distributive Justice and Adverse Selection. **AU** Fleurbaey, Marc; Gary-Bobo, Robert. **AA** Universite de Cergy-Pontoise. **SR** CEPR Discussion Paper: 2897; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D63, D82, H41, I20. **KW** Effort. Inequality Aversion. Redistribution. Education.

**AB** We consider a model of education planning in an economy in which agents differ in their costs of acquiring education. The agents' cost parameter, called "talent," is not observed. The Principal is endowed with a fixed sum of money, with which two types of transfer can be made: in cash and in kind. The Principal can finance transfers in kind, called "help," by means of schooling expenditures, which reduce the agent's education cost. The Principal seeks to maximize a social welfare function that is a constant elasticity of substitution index of utility levels. We study the optimal allocation of individual education effort, schooling expenditures (help), and cash, under self-selection and budget constraints. Assuming first that the set of types is finite, and that help and effort are sufficiently substitutable, we find that individual education investment levels are an increasing function, and help is a decreasing function of talent. Utility levels cannot be equalized because of self-selection constraints. More aversion for inequality unequivocally leads to more inequality of educational achievements, and to more assistance through redistribution. The same qualitative properties hold in the general case of a continuum of types.

#### **Flood, Robert P.**

**PD** September 2001. **TI** Uncovered Interest Parity in Crisis: The Interest Rate Defense in the 1990s. **AU** Flood, Robert P.; Rose, Andrew K. **AA** Flood: IMF. Rose: University of California, Berkeley. **SR** CEPR Discussion Paper: 2943; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** F31, F32, G15. **KW** Exchange Rates. Interest Rates. Financial Crisis. UIP.

**AB** This paper tests for uncovered interest parity (UIP) using daily data for twenty-three developing and developed countries through the crisis-strewn 1990s. We find that UIP works better on average in the 1990s than in previous eras in the sense that the slope coefficient from a regression of exchange rate changes on interest differentials yields a positive coefficient (which is sometimes insignificantly different from unity). UIP works systematically worse for fixed and flexible exchange rate countries than for crisis countries, but we find no significant differences between rich and poor countries. Finally, we find evidence that varies considerably across countries and time, but

is usually weakly consistent with an effective "interest rate defense" of the exchange rate.

**PD** April 2002. **TI** Holding International Reserves in an Era of High Capital Mobility. **AU** Flood, Robert P.; Marion, Nancy. **AA** Flood: IMF. Marion: Dartmouth College. **SR** International Monetary Fund Working Paper: WP/02/62; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 36. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E11, F20, F30. **KW** Capital Mobility. International Reserves. Financial Volatility. Floating Exchange Rates.

**AB** Why do countries hold so much international reserves? Global reserve holdings (excluding gold) were equivalent to 17 weeks of imports at the end of 1999. That is almost double what they were at the end of 1960 and about 20 percent higher than they were at the start of the 1990s. In this paper we study countries' reserve holdings in light of both the increased financial volatility experienced in the last decade and diminished adherence to fixed exchange rates. We find that buffer-stock reserve models work about as well in the modern floating-rate period as they did during the Bretton Woods regime. During both periods, however, the models' fundamentals explain only a small portion (10-15 percent) of reserves volatility.

#### **Foley, C. Fritz**

**TI** Dividend Policy Inside the Firm. **AU** Desai, Mihir A.; Foley, C. Fritz; Hines, James R., Jr..

#### **Forni, Mario**

**PD** August 2001. **TI** Knowledge Spillovers and the Growth of Local Industries. **AU** Forni, Mario; Paba, Sergio. **AA** Forni: Universita di Modena and CEPR. **SR** CEPR Discussion Paper: 2934; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** L60, O30, R11, R12. **KW** Growth. Spatial Agglomeration. Spillovers.

**AB** The literature on localized knowledge spillovers and growth focuses on the relative importance of intra vs. inter-industry externalities, but the nature and the characteristics of the dynamic linkages across manufacturing sectors are not investigated. In this paper we perform a very disaggregated analysis in order to identify, for each 3-digit industry, which composition of industrial activity is more conducive to growth. We find that diversity matters for growth, but each industry needs its own diversity. We provide some evidence of clustering of industries based on dynamic externalities. We find that many spillovers occur within input-output relationships. They often originate in downstream sectors favoring the growth of upstream industries. Lastly, the importance of spillovers does not depend on the technological intensity of the industry.

**PD** January 2002. **TI** Do Financial Variables Help Forecasting Inflation and Real Activity in the Euro Area? **AU** Forni, Mario; Hallin, Marc; Lippi, Marco; Reichlin, Lucrezia. **AA** Forni: Universita di Modena and CEPR. Hallin and Reichlin: Universite Libre de Bruxelles. Lippi: Universita di Roma La Sapienza. **SR** CEPR Discussion Paper: 3146; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United



Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C13, C33, C43. **KW** Business Cycle. Dynamic Factor Models. Financial Variables. Forecasting. Principal Components.

**AB** The paper uses a large data set, consisting of 447 monthly macroeconomic time series concerning the main countries of the Euro area to simulate out-of-sample predictions of the Euro area industrial production and the harmonized inflation index and to evaluate the role of financial variables in forecasting. We considered two models which allow forecasting based on large panels of time series: Forni, Hallin, Lippi, and Reichlin (2000, 2001c) and Stock and Watson (1999). Performance of both models was compared to that of a simple univariate autoregressive model. Results show that multivariate methods outperform univariate methods for forecasting inflation at one, three, six, and twelve months and industrial production at one and three months. We find that financial variables do help forecasting inflation, but do not help forecasting industrial production.

#### Forsells, Magnus

**PD** August 2002. **TI** The Rationality of Consumers' Inflation Expectations: Survey-Based Evidence for the Euro Area. **AU** Forsells, Magnus; Kenny, Geoff. **AA** European Central Bank. **SR** European Central Bank Working Paper: 163; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 40. **PR** no charge. **JE** D12, D84, E31. **KW** Inflation. Expectations. Surveys. Rationality. Euro Area.

**AB** This paper uses survey data to assess consumers' inflation expectations in the euro area. The probability approach is used to derive quantitative estimates of inflation expectations from the European Commission's Consumer Survey. The paper subsequently analyses the empirical properties of the estimated inflation expectations by considering the extent to which they fulfill some of the necessary conditions for rationality. The results suggest an intermediate form of developments and they incorporate -- though not always completely -- a broad set of macroeconomic information: In addition, although persistent deviations between consumers' expectations and the rational outcome have occurred, consumers are shown to rationally adjust their expectations in order to eventually "weed out" any systematic expectational errors. Interestingly, perhaps reflecting changes in the monetary regime, there is also evidence of "growing" rationality over the 1990s compared with the 1980s.

#### Forslid, Rikard

**PD** January 2002. **TI** Globalization, Industrial Policy and Clusters. **AU** Forslid, Rikard; Midelfart, Karen-Helene. **AA** Forslid: Stockholm University and CEPR. Midelfart: Norwegian School of Economics and Business Administration. **SR** CEPR Discussion Paper: 3129; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F12, F15, F20, H20, R13. **KW** Economic Geography. Globalization. Industrial Clusters. Industrial Policy.

**AB** This paper analyses industrial policy in a high wage open economy hosting an agglomeration consisting of vertically

linked upstream and downstream firms. We show that optimal policy towards upstream industries typically differ from the optimal policy towards downstream industries. Internationalization impacts on the costs as well as on the benefits related to sustaining an industrial agglomeration. Whether maintaining the agglomeration is compatible with a welfare maximizing policy is shown to depend on level of economic integration.

#### Fotopoulos, Georgios

**PD** January 2002. **TI** Corporate Growth and FDI: Are Multinationals Stimulating Local Industrial Development? **AU** Fotopoulos, Georgios; Louri, Helen. **AA** Fotopoulos: University of Thessaly. Louri: Athens University of Business and Economics. **SR** CEPR Discussion Paper: 3128; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F23, L11. **KW** Corporate Growth. Multinational Firms. Quantile Regression. Spillovers.

**AB** The aim of this paper is to improve our understanding of the empirical determinants of corporate growth by extending the literature to include a new group of variables related to FDI, namely the degree of foreign ownership and technology spillovers. Based on recent developments in the field, our analysis takes also into account the role of sunk costs and financial structure, while quantile regression techniques as more suitable to the data available (2640 manufacturing firms operating in Greece in the 1992-97 period) are used. Our findings highlight the role of multinationals in increasing corporate growth with varying intensity depending on industry groups and regression quantiles, and vindicate the use of new variables.

#### Foucault, Thierry

**PD** August 2001. **TI** Limit Order Book as a Market for Liquidity. **AU** Foucault, Thierry; Kadan, Ohad; Kandel, Eugene. **AA** Foucault: Hautes Etudes Commerciales, Jouyen-Josas and CEPR. **SR** CEPR Discussion Paper: 2889; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** G12, G14, G24. **KW** Limit Order Markets. Liquidity. Market Orders. Impatience.

**AB** We develop a dynamic model of an order-driven market populated by discretionary liquidity traders. These traders must trade, yet can choose the type of order and are fully strategic in their decision. Traders differ in their impatience: less patient traders demand liquidity, more patient traders provide it. Three equilibrium patterns are obtained, and these patterns are determined by three parameters: the degree of impatience on the part of patient traders, which we model as the cost of execution delay in providing liquidity; their proportion in the population, which determines the degree of competition among the liquidity providers; and the tick size, which is the cost of the minimal price improvement. Despite its simplicity, the model generates a rich set of empirical predictions on the relation between market parameters, time to execution, and spreads.

**Francis, Neville**

**PD** January 2002. **TI** Is the Technology-Driven Real Business Cycle Hypothesis Dead? **AU** Francis, Neville; Ramey, Valerie A. **AA** Francis: Lehigh University. Ramey: UCSD and NBER. **SR** National Bureau of Economic Research Working Paper: 8726; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 33. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E32, E37. **KW** Real Business Cycle. Technology Shocks. Business Fluctuations.

**AB** In this paper, we re-examine the recent evidence that technology shocks do not produce business cycle patterns in the data. We first extend Gali's (1999) work, which uses long-run restrictions to identify technology shocks, by examining whether the identified shocks can be plausibly interpreted as technology shocks. We do this in three ways. First, we derive additional long-run restrictions and use them as tests of overidentification. Second, we compare the qualitative implications from the model with the impulse responses of variables such as wages and consumption. Third, we test whether some standard "exogenous" variables predict the shock variables. We find that oil shocks, military build-ups, and Romer dates do not predict the shock labeled "technology." We then show ways in which a standard Dynamic General Equilibrium model can be modified to fit Gali's finding that a positive technology shock leads to lower labor input. Finally, we re-examine the properties of the other key shock to the system.

**Franks, Julian R.**

**PD** July 2001. **TI** Ownership and Control of German Corporations. **AU** Franks, Julian R.; Mayer, Colin. **AA** Franks: London Business School and CEPR. Mayer: University of Oxford. **SR** CEPR Discussion Paper: 2898; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** G32, G34. **KW** Bank Control. Board Turnover. Corporate Control. Ownership Structure. Pyramiding. German Corporations.

**AB** In a study of the ownership of German corporations, we find a strong relation between board turnover and corporate performance, little association between concentrations of ownership with managerial disciplining, and only limited evidence that pyramid structures can be used for control purposes. The static relation of ownership to control in Germany is therefore similar to the UK and US. There are, however, marked differences in dynamic relations involving transfers of ownership. There is an active market in share blocks giving rise to changes in control, but the gains are limited and accrue solely to the holders of large blocks, not to minority investors. We provide evidence of low overall benefits from control changes and the exploitation of private benefits of control.

**Fratzscher, Marcel**

**PD** April 2002. **TI** On Currency Crises and Contagion. **AA** European Central Bank. **SR** European Central Bank Working Paper: 139; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 41. **PR** no charge. **JE** E44, E65, F36. **KW** Currency Crises. Contagion.

Markov-Switching. Panel Data. Prediction. Sunspots.

**AB** This paper analyzes the role of contagion in the currency crises in emerging markets during the 1990s. It employs a non-linear Markov-switching model to conduct a systematic comparison and evaluation of three distinct causes of currency crises: contagion, weak economic fundamentals, and sunspots, i.e. unobservable shifts in agents' beliefs. Testing this model empirically through Markov-switching and panel data models reveals that contagion, i.e. a high degree of real integration and financial interdependence among countries, is a core explanation for recent emerging market crises. The model has a remarkably good predictive power for the 1997-98 Asian crisis. The findings suggest that in particular the degree of financial interdependence and also real integration among emerging markets are crucial not only in explaining past crises but also in predicting the transmission of future financial crises.

**TI** Towards a New Early Warning System of Financial Crises. **AU** Bussiere, Matthieu; Fratzscher, Marcel.

**PD** June 2002. **TI** The Euro Bloc, the Dollar Bloc and the Yen Bloc: How Much Monetary Policy Independence Can Exchange Rate Flexibility Buy in an Interdependent World? **AA** European Central Bank. **SR** European Central Bank Working Paper: 154; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 44. **PR** no charge. **JE** E52, F31, F41. **KW** Exchange Rate Regime. Monetary Policy. International Transmission. GARCH. Error Correction Model.

**AB** The paper analyses the trade-off between exchange rate flexibility and monetary policy autonomy. It tests empirically the "Possible Duality" hypothesis, i.e. whether countries with more flexible currency regimes are indeed able to exert more monetary policy autonomy than those with less flexible ones, and whether moving towards exchange rate flexibility allows countries to gain monetary independence. The results for a set of open emerging markets and exchange rate mechanism (ERM) countries show no systematic link between exchange rate flexibility and monetary independence. It is also found that the Fed is still the dominant force in world capital markets, although the importance of European Union monetary policy decisions has been increasing and a Euro bloc has formed in Europe.

**Freeman, Richard B.**

**TI** Shared Modes of Compensation and Firm Performance: UK Evidence. **AU** Conyon, Martin J.; Freeman, Richard B.

**Freixas, Xavier**

**TI** Corporate Finance and the Monetary Transmission Mechanism. **AU** Bolton, Patrick; Freixas, Xavier.

**Froelich, Markus**

**PD** January 2002. **TI** Immigration and Heterogeneous Labour in Western Germany: A Labour Market Classification Based on Nonparametric Estimation. **AU** Froelich, Markus; Puhani, Patrick A. **AA** Froelich: University of St. Gallen. Puhani: University of St. Gallen, IZA, University of Michigan, and CEPR. **SR** CEPR Discussion Paper: 3158; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C14, J31, J61, J64, J68.

**KW** Wage. Unemployment. Migration. Rigidity. Nonparametric Regression.

**AB** This paper presents a methodology to identify net demand shocks as well as wage rigidities in heterogeneous labor markets on the basis of nonparametric regression. We show how this approach can be used to make suggestions for immigration policy in economies with labor market rigidities. In an application to western Germany it is demonstrated that nonparametric regression is feasible in higher dimensions with only a few thousand observations. In sum, labor markets able to absorb immigrants are characterized by above average age and by professional occupations. On the other hand, labor markets for young workers in service occupations are identified to exhibit rising unemployment due to wage rigidities and are therefore not recommended for immigration.

**Fry, Renee**

**TI** International Contagion Effects from the Russian Crisis and the LTCM Near-Collapse. **AU** Dungey, Mardi; Fry, Renee; Gonzalez-Hermosillo, Brenda; Martin, Vance.

**Fudenberg, Drew**

**TI** Learning to Play Bayesian Games. **AU** Dekel, Eddie; Fudenberg, Drew; Levine, David K.

**Fuhrer, Jeffrey C.**

**PD** December 2000. **TI** Optimal Monetary Policy in a Model with Habit Formation. **AA** Federal Reserve Bank of Boston. **SR** Federal Reserve Bank of Boston Working Paper: 00/05; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: [www.bos.frb.org/economic/wp/index.htm](http://www.bos.frb.org/economic/wp/index.htm). **PG** 26. **PR** no charge; available only online. **JE** D12, E43, E52. **KW** Monetary Policy. Interest Rates. Consumer Behavior.

**AB** A number of recent papers have explored monetary policy options, including inflation targeting and inflation forecast targeting (notably Svensson (1999a, 1999b, 2000)) and price level targeting (Wolman 2000, Batini and Yates 1999, Blinder 1999). Most papers explore "optimal" monetary policy in the context of a single model. However, a number of conclusions made in the literature depend strongly on the model specification used. In addition, most papers have used the efficient policy frontier concept to define optimal monetary policy. This paper investigates the behavior of a variety of small structural macro models under a variety of targeting rules. The paper examines both minimum variance policy frontiers and utility-maximizing policy.

**PD** December 2001. **TI** Optimal Monetary Policy in a Model with Habit Formation and Explicit Tax Distortions. **AA** Federal Reserve Bank of Boston. **SR** Federal Reserve Bank of Boston Working Paper: 01/06; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: [www.bos.frb.org/economic/wp/index.htm](http://www.bos.frb.org/economic/wp/index.htm). **PG** 25. **PR** no charge; available only online. **JE** D12, E43, E52. **KW** Monetary Policy. Consumption. Habit Formation. Tax Distortions.

**AB** This paper investigates the behavior of a variety of small structural macro models under a variety of targeting rules. The paper examines both minimum variance policy frontiers and utility-maximizing policy. In the latter case, an explicit model of consumer behavior with inflation-induced tax distortions is explored. The paper examines the improvement in utility from an optimal price-level target and re-examines the improvement

in utility in moving from a positive to a zero target inflation rate. This paper is a revised version of Working Paper 00-5, "Optimal Monetary Policy in a Model with Habit Formation."

**PD** September 2002. **TI** Estimating the Euler Equation for Output. **AU** Fuhrer, Jeffrey C.; Rudebusch, Glenn D. **AA** Fuhrer: Federal Reserve Bank of Boston. Rudebusch: Federal Reserve Bank of San Francisco. **SR** Federal Reserve Bank of Boston Working Paper: 02/03; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: [www.bos.frb.org/economic/wp/index.htm](http://www.bos.frb.org/economic/wp/index.htm). **PG** 12. **PR** no charge; available only online. **JE** E12, E21. **KW** Consumption. Keynesian Economics. Forward-Looking Behavior. Euler Equation.

**AB** New Keynesian macroeconomic models have generally emphasized that expectations of future output are a key factor in determining current output. The theoretical motivation for such forward-looking behavior relies on a straightforward generalization of the well-known Euler equation for consumption. In this paper, we use maximum likelihood and generalized method of moments (GMM) methods to explore the empirical importance of output expectations. We find little evidence that rational expectations of future output help determine current output, especially after taking into account the small-sample bias in GMM.

**Fujita, Masahisa**

**PD** January 2002. **TI** Does Geographical Agglomeration Foster Economic Growth? And Who Gains and Loses From It? **AU** Fujita, Masahisa; Thisse, Jacques-Francois. **AA** Fujita: Kyoto University. Thisse: Universite Catholique de Louvain. **SR** CEPR Discussion Paper: 3135; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F12, O40, R11. **KW** Agglomeration. Endogenous Growth. Patent. Regional Growth. Core-Periphery Model.

**AB** This paper proposes a two-region model of endogenous growth, which is a natural combination of a core-periphery model a la Krugman and of a model of endogenous growth a la Grossman/Helpman/Romer. Specifically, we add to the core-periphery model an R&D sector that uses skilled labor to create new varieties for the modern sector, while forward-looking migration behavior is introduced. The innovation activity in the R&D sector involves knowledge externalities among skilled workers. Our analysis suggests that the presence of such a sector reinforces the tendency toward agglomeration, and supports the idea that the additional growth spurred by agglomeration may lead to a Pareto-dominant outcome such that when the economy moves from dispersion to agglomeration, innovation follows a much faster pace. As a consequence, even those who stay put in the periphery are better off than under dispersion, provided that the growth effect triggered by the agglomeration is strong enough.

**Fullerton, Don**

**PD** January 2002. **TI** Suggested Subsidies are Sub-Optimal Unless Combined with an Output Tax. **AU** Fullerton, Don; Mohr, Robert D. **AA** Fullerton: University of Texas at Austin and NBER. Mohr: University of New Hampshire. **SR** National Bureau of Economic Research Working Paper: 8723; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website:

www.nber.org. PG 25. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE H23, H25, Q24, Q28. KW Output Tax. Subsidies. Pollution.

AB Because of difficulties measuring pollution, many prior papers suggest a subsidy to some observable method of reducing pollution. We take three papers from the Journal of Environmental Economics and Management as examples, and we extend them to make an additional important point. In each case, we show that welfare under the suggested subsidy can be increased by the addition of an output tax. While the suggested subsidy reduces damage per unit of output, it also decreases the firm's cost of production and the equilibrium break-even price. It might therefore increase output -- unless combined with an output tax. Using one example, we show that a properly-constructed subsidy-tax combination is equivalent to a Pigovian tax. Another example is a computational model, used to show that the subsidy-tax combination can yield a welfare gain that is more than three times the gain from using the subsidy alone. The third example is theoretical model, used to show that the subsidy alone increases production and thus could increase total pollution. An additional output tax offsets this increase in production.

#### Fumagalli, Chiara

TI Internal Capital Markets, Cross-Subsidization and Product Market Competition. AU Cestone, Giacinta; Fumagalli, Chiara.

#### Gagnon, Joseph E.

TI Preventing Deflation: Lessons from Japan's Experience in the 1990s. AU Ahearne, Alan; Gagnon, Joseph E.; Haltmaier, Jane; Kamin, Steven B.; Erceg, Christopher; Faust, Jon; Guerrieri, Luca; Hemphill, Carter; Kole, Linda; Roush, Jennifer; Rogers, John; Sheets, Nathan; Wright, Jonathan.

PD January 2003. TI Long-Run Supply Effects and the Elasticities Approach to Trade. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 754; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). PG 21. PR no charge. JE F14, F41. KW Import Demand. Income Elasticity. International Trade. Product Differentiation. AB Krugman (1989) argued that differences across countries in estimated income elasticities of import demand are due to omission of an exporter supply effect. He showed that such an effect can be derived in a theoretical model with economies of scale in production and a taste for variety in consumption. In his model, countries grow by producing new varieties of goods, and they are able to export these goods without suffering any deterioration in their terms of trade. This paper analyzes U.S. import demand from different source countries and finds strong evidence of a supply effect of roughly half the magnitude (0.75) of the income elasticity (1.5). Price elasticities for the most part are estimated close to -1, which is typical for the literature. Exclusion of the supply effect leads to overestimation of the income elasticity. Results based on U.S. exports to different destinations are less robust, but largely corroborate these findings.

#### Gale, Douglas M.

PD July 2001. TI Dollarization, Bailouts and the Stability of the Banking System. AU Gale, Douglas M.; Vives,

Xavier. AA Gale: New York University. Vives: INSEAD. SR CEPR Discussion Paper: 2901; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG not available. PR 5 pounds, \$8 or 8 euros. JE E58, F33, F34, G28. KW Banking Crises. International Monetary Fund. Lender of Last Resort. Dollarization. Moral Hazard.

AB Central bank policy suffers from time-inconsistency when facing a banking crisis: A bailout is optimal ex post but ex ante it should be limited to control moral hazard. Dollarization provides a credible commitment not to help at the cost of not helping even when it would be ex ante optimal to do so. Dollarization is preferable when the costs of establishing a reputation for the central bank are high, monitoring effort by the banker is important in improving returns, and when the cost of liquidating projects is moderate. A very severe moral hazard problem could make dollarization undesirable, however. The results obtained are applied to assess the desirability of dollarization in a range of countries and the potential role of the International Monetary Fund as International lender of last resort.

#### Galenson, David W.

PD July 2001. TI Young Geniuses and Old Masters: The Life Cycles of Great Artists from Masaccio to Jasper Johns. AU Galenson, David W.; Jensen, Robert. AA Galenson: University of Chicago and NBER. Jensen: University of Kentucky. SR National Bureau of Economic Research Working Paper: 8368; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 37. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE Z11. KW Art Innovators. Genius. Innovators.

AB There have been two very different life cycles for great artists: some have made their greatest contributions very early in their careers, whereas others have produced their best work late in their lives. These two patterns have been associated with different working methods, as art's young geniuses have worked deductively to make conceptual innovations, while its old masters have worked inductively, to innovate experimentally. We demonstrate the value of this typology by considering the careers of four great conceptual innovators -- Masaccio, Raphael, Picasso, and Johns -- and five great experimental innovators -- Michelangelo, Titian, Rembrandt, Cezanne, and Pollock. Recognition of the effect of an artist's methods on the timing of his contribution appears to solve a puzzle that has been recognized by art historians for more than a century.

#### Gali, Jordi

PD June 2001. TI A New Phillips Curve for Spain. AU Gali, Jordi; Lopez-Salido, J. David. AA Gali: Universitat Pompeu Fabra, CEPR and Banco de Espana. Lopez-Salido: Banco de Espana. SR Banco de Espana, Documentos de Trabajo: 0109; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). PG 21. PR single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. JE E31. KW Inflation Persistence. Marginal Costs. New Phillips Curve. Spain.

AB In this paper we provide evidence on the fit of the New

Phillips Curve (NPC) for Spain over the most recent disinflationary period (1980- 1998). Some of the findings can be summarized as follows: (a) the NPC fits the data well; (b) yet, the backward looking component of inflation is important; (c) the degree of price stickiness implied by the estimates is plausible; (d) the use of independent information about prices on imported intermediate goods (which is influenced by the exchange rate) affects the measure of the firm's marginal costs and so inflation dynamics; and finally, (e) labor market frictions, as manifested in the behavior of the wage markup, appear to have also played a key role in shaping the behavior of marginal costs.

**PD** March 2002. **TI** Markups, Gaps, and the Welfare Costs of Business Fluctuations. **AU** Gali, Jordi; Gertler, Mark; Lopez-Salido, J. David. **AA** Gali: CREI, Universitat Pompeu Fabra and Banco de Espana. Gertler: New York University. Lopez-Salido: Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0204; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 19. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** D61, E32. **KW** Business Cycles. Markups. Welfare Costs.

**AB** In this paper we present a simple, theory-based measure of the variations in aggregate economic efficiency associated with business fluctuations. We decompose this indicator, which we refer to as "the gap", into two constituent parts: a price markup and a wage markup, and show that the latter accounts for the bulk of the fluctuations in our gap measure. Finally, we derive a measure of the welfare costs of business cycles that is directly related to our gap variable, and which takes into account explicitly the existence of a varying aggregate inefficiency. When applied to postwar US data, for plausible parametrizations, our measure suggests welfare losses of fluctuations that are of a higher order of magnitude than those derived by Lucas (1987). It also suggests that the major postwar recessions involved substantial efficiency costs.

### Gallego, Sonsoles

**TI** Latin American Financial Development in Perspective. **AU** Garcia Herrero, Alicia; Santillan, Javier; Gallego, Sonsoles; Cuadro, Lucia; Egea, Carlos.

**PD** September 2002. **TI** The Asian and European Banking Systems: The Case of Spain in the Quest for Development and Stability. **AU** Gallego, Sonsoles; Garcia Herrero, Alicia; Saurina, Jesus. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0217; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 25. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** F36, G10, G20, O57. **KW** Financial Development. Financial Liberalization. Spanish Financial System.

**AB** After a brief review of the literature on the determinants of financial development, the paper reviews the Asian and European financial systems in terms of their size and efficiency. It also compares the steps taken in the two regions in the quest for financial development and stability, which in a few cases are very similar but differ markedly in others. While there has been a clear move towards a more balanced financial structure

in both regions, financial liberalization, as well as the strengthening of bank regulation and supervision occurred later in Asia and with a different speed and sequencing. The most striking difference between the two areas is the degree of international -- and regional -- financial integration, much lower for Asia. Finally, the case of Spain -- as a European country with a finance-led convergence process -- is analyzed in more detail. Lessons are drawn from the Spanish experience for Asian countries.

### Galor, Oded

**PD** January 2002. **TI** Why are a Third of People Indian and Chinese? Trade, Industrialization and Demographic Transition. **AU** Galor, Oded; Mountford, Andrew. **AA** Galor: Brown University and CEPR. Mountford: Royal Holloway University. **SR** CEPR Discussion Paper: 3136; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F11, F43, N30, O40. **KW** Demographic Transition. Growth. Human Capital. Industrial Revolution. International Trade.

**AB** This research argues that international trade has played a significant role in the timing of demographic transitions across countries and has thereby been a major determinant of the distribution of world population and a prime cause of sustained differences in population growth and income levels across countries. In industrial economies, international trade enhanced the specialization in the production of skilled-intensive goods and stimulated technological progress. The rise in the demand for skilled labor induced an investment in the quality of the population, expediting the demographic transition, stimulating technological progress and further enhancing the comparative advantage of these industrial economies in the production of skilled intensive goods. In non-industrial economies, in contrast, the specialization in the production of unskilled-intensive goods that was brought about by international trade reduced the demand for skilled labor and provided limited incentives to invest in population quality. The demographic transition was therefore delayed, increasing further the abundance of unskilled labor in these economies and enhancing their comparative disadvantage in the production of skilled intensive goods. International trade has therefore widened the gap between the industrial and non-industrial economies.

### Gambacorta, Leonardo

**TI** Financial Systems and the Role of Banks in Monetary Policy Transmission in the Euro Area. **AU** Ehrmann, Michael; Gambacorta, Leonardo; Martinez Pages, Jorge; Sevestre, Patrick; Worms, Andreas.

### Garcia Herrero, Alicia

**PD** September 2002. **TI** Latin American Financial Development in Perspective. **AU** Garcia Herrero, Alicia; Santillan, Javier; Gallego, Sonsoles; Cuadro, Lucia; Egea, Carlos. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0216; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 42. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** C82, G10, G20, O54.

**KW** Financial Development. Latin America. Financial Systems. Cluster Analysis.

**AB** This paper assesses financial sector development in Latin America, both in the banking system and in the capital markets. After a brief review of the explanatory factors and the definitions of financial development found in the literature, Latin American countries are classified in groups of similar characteristics by using cluster analysis. In the worldwide exercise, virtually all Latin American countries appear in the same cluster, which argues in favor of a regional dimension in financial development. A comparison of the Asian and Eastern European emerging regions shows that Latin America lags behind Asia in terms of financial development and compares slightly unfavorably with Eastern Europe. Although no conclusions on causality can be drawn from this review, it argues in favor of a virtuous circle, in terms of financial depth and efficiency, for countries with the most appropriate structure of the financial system.

**TI** The Asian and European Banking Systems: The Case of Spain in the Quest for Development and Stability. **AU** Gallego, Sonsoles; Garcia Herrero, Alicia; Saurina, Jesus.

#### Garcia-Perea, Pilar

**TI** Los flujos de trabajadores en Espana: el impacto del empleo temporal. (Worker Flows in Spain: The Impact of Temporary Employment). **AU** Estrada, Angel; Garcia-Perea, Pilar; Izquierdo, Mario.

#### Garibaldi, Pietro

**PD** April 2002. **TI** What Moves Capital to Transition Economies? **AU** Garibaldi, Pietro; Mora, Nada; Sahay, Ratna; Zettelmeyer, Jeromin. **AA** Garibaldi: Bocconi University. Mora: MIT. Sahay and Zettelmeyer: IMF. **SR** International Monetary Fund Working Paper: WP/02/64; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 30. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** F21, F32, F36, P20, P50. **KW** Transition Economies. Capital Flows. Foreign Direct Investment. Portfolio Investment.

**AB** Between 1991 and 1999, capital flows to 25 transition economies in Europe and the Former Soviet Union differed widely in terms of overall levels and the share and composition of private flows. With some exceptions (notably Russia), the main form of private inflows was foreign direct investment. Portfolio investment was volatile and concentrated in a handful of countries. Regressions show that direct investment can be well explained in terms of economic fundamentals, whereas the presence of a financial market infrastructure and a property-rights indicator are the only explanatory variables that seem to have had a robust effect on portfolio investment.

#### Garicano, Luis

**PD** July 2001. **TI** Referrals. **AU** Garicano, Luis; Santos, Tano. **AA** Garicano: University of Chicago. Santos: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8367; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D23, G32, L22, L23, M12. **KW** Referrals. Incentives.

Partnerships.

**AB** Specialization requires that workers deal with some valuable opportunities themselves and refer other, possibly unverifiable, opportunities to other workers. How do markets and organizations ensure the matching of opportunities with talent in the presence of informational asymmetries about their value? The cost of providing incentives for effort in this context is that they increase the risk of the agent appropriating an opportunity she should refer upstream. Thus spot markets are severely limited in their ability to support referrals, as they involve very powerful effort incentives on those opportunities kept by the referring agents. We show that partnerships, in which agents agree to share opportunities and the income from the opportunities, appear endogenously as a solution to this problem. Partnership contracts support better communication rules at the expense of biasing effort provision away from first best for all activities. The structure of the contract depends both on the frequency of communications and on the interaction between the relative skill of the agents and the direction of the referral flow.

**PD** July 2001. **TI** Favoritism Under Social Pressure. **AU** Garicano, Luis; Palacios, Ignacio; Prendergast, Canice J. **AA** Garicano: University of Chicago. Palacios: Brown University. Prendergast: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8376; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 20. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D81, L83, Z13. **KW** Favoritism. Social Pressure. Soccer. Referees.

**AB** This paper provides empirical evidence of favoritism by agents, where that favoritism is generated by social pressure. To do so, we explore the behavior of professional soccer referees. Referees have discretion over the addition of extra time at the end of a soccer game (called injury time), to compensate for lost time due to unusual stoppages. We test for systematic bias shown by Spanish referees in favor of home teams. We show that referees systematically favor home teams by shortening close games where the home team is ahead, and lengthening close games where the home team is behind. They show no such bias for games that are not close. We further show that when the rewards for winning games increase, referees change their bias accordingly. We also identify that the mechanism through which bias operates is the referees' desire to satisfy the crowd, by documenting how the size and composition of the crowd affect referee favoritism.

#### Gary-Bobo, Robert

**TI** Education, Distributive Justice and Adverse Selection. **AU** Fleurbaey, Marc; Gary-Bobo, Robert.

#### Gautier, Axel

**PD** March 2002. **TI** Common and Separate Ownership of Projects. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 08/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 13. **PR** no charge. **JE** D23, G31, G32, L22. **KW** Conglomerate. Firm Organization. Hierarchies.

**AB** This note points out the differences between conducting several projects within one big firm (common ownership) and conducting each project within an independent firm (separate

ownership).

**PD** June 2002. **TI** Financing Infrastructure Under Budget Constraint. **AU** Gautier, Axel; Mitra, Manipushpak. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 15/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 18. **PR** no charge. **JE** D82, H42, L51. **KW** Regulation. Asymmetric Information. Budget Constraint.

**AB** In this paper we consider the problem of financing infrastructure when the regulator faces a budget constraint. The optimal budget-constrained mechanism satisfies four properties. The first property is bunching at the top -- that is the more efficient firms produce the same quantity. The second property is self-selection for the less efficient firms. The third property is that the mechanism is a third best one. In other words, as long as the budget constraint is binding, the optimal output is strictly lower than the second best output for any given type. Finally, if the budget constraint is too strong, then we have a full bunching solution.

**PD** June 2002. **TI** Regulation Under Financial Constraints. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 16/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 12. **PR** no charge. **JE** D82, H42, L43, L51. **KW** Regulation. Asymmetric Information. Monopolist.

**AB** This article studies the problem of regulating a monopolist with unknown marginal cost. The originality of the paper is to consider that the regulator faces a cash-in-advance constraint. The introduction of such a constraint not only reduces the amount of public good provided but also limits the instruments available to the regulator. The wealth constraint could change the optimal regulatory contract from a two-part tariff, where the quantities produced depend on the firm's cost, to a fixed fee where the firm produces the same quantity whatever its cost.

**PD** July 2002. **TI** Delegation and Information Revelation. **AU** Gautier, Axel; Paolini, Dimitri. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 18/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 32. **PR** no charge. **JE** D23, D82, L22. **KW** Delegation. Asymmetric Information. Transferable Control Action. Signaling Game.

**AB** This paper addresses the question of delegation in a partial contracting set-up, where only the control over actions is contractible. We consider an organization that should make two decisions, affected by a common state of the world parameter only known by the agent. We show that if the principal gives up the control over the first decision to the better informed agent, the decision of the agent signals his private information to the principal. The revelation of information associated with delegation is valuable for the principal if she retains control over the second decision. Hence, this paper provides a new rationale for partial delegation: a transfer of control to the better-informed party can be used by the supervisor to elicit the agent's private information. We establish this result by using the properties of signaling games. Finally, we show that even if there is loss of control associated with delegation, the benefits of information revelation outweighs these costs and delegation

could dominate centralization of all decisions by the principal, even in the case where she uses messages from the agent to acquire information, because those messages could be noisy.

### Gehrig, Thomas

**PD** February 2002. **TI** Introductory Offers in a Model of Strategic Competition. **AU** Gehrig, Thomas; Stenbacka, Rune. **AA** Gehrig: University of Freiburg and CEPR. Stenbacka: Swedish School of Economics and Business Administration. **SR** CEPR Discussion Paper: 3189; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D43, L14. **KW** Introductory Offers. Price Discrimination. Switching Costs. Competitiveness. Hotelling Model.

**AB** We show how introductory offers emerge endogenously under conditions of competition in markets with switching costs. In a standard Hotelling model we find the combination of switching costs and introductory discounts to reduce industry profits relative to industries without switching costs, in which introductory offers do not emerge. Thus, our analysis offers a formalized argument for the policy conclusion that the strategic use of introductory offers should be promoted, not banned, in environments where firms are able to discriminate across different vintages of customers.

### Generale, Andrea

**TI** Firm Investment and Monetary Policy Transmission in the Euro Area. **AU** Chatelain, Jean-Bernard; Generale, Andrea; Hernando, Ignacio; von Kalckreuth, Ulf; Vermeulen, Philip.

### Geraats, Petra M.

**TI** How Transparent are Central Banks? **AU** Eijffinger, Sylvester C. W.; Geraats, Petra M.

### Gerlach, Stefan

**PD** February 2002. **TI** Interpreting the Term Structure of Interbank Rates in Hong Kong. **AA** Hong Kong Monetary Authority (HKMA), Hong Kong Institute for Monetary Research (HKIMR), and CEPR. **SR** CEPR Discussion Paper: 3187; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D84, E43. **KW** Interest Rates. Expectations Hypothesis. Hong Kong. Term Spreads.

**AB** This paper studies the term structure of short-term interbank rates in Hong Kong. Principal component analysis suggests that the variation of the term structure can be largely attributed to two components that capture shifts in the level and slope of the yield curve. We find that term spreads contain no information about future short-term rates. The Expectations Hypothesis (EH), which states that long-term rates depend on expected future short-term rates plus a constant term premium, is also soundly rejected by the data. We are, however, unable to reject a modified version of the EH that incorporates time-varying term premia.

### Gertler, Mark

**TI** Markup, Gaps, and the Welfare Costs of Business Fluctuations. **AU** Gali, Jordi; Gertler, Mark; Lopez-Salido, J.

David.

### Gilchrist, Simon

**PD** March 2001. **TI** Transition Dynamics in Vintage Capital Models: Explaining the Postwar Catch-Up of Germany and Japan. **AU** Gilchrist, Simon; Williams, John C. **AA** Gilchrist: Boston University, Federal Reserve Bank of Boston, and NBER. Williams: Board of Governors of the Federal Reserve System. **SR** Federal Reserve Bank of Boston Working Paper: 01/01; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. **Website:** [www.bos.frb.org/economic/wp/index.htm](http://www.bos.frb.org/economic/wp/index.htm). **PG** 26. **PR** no charge; available only online. **JE** D24, E22, N10, O41. **KW** Putty-Clay. Embodied Technology. Productivity Growth. Convergence. Investment.

**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.

**PD** December 2002. **TI** Monetary Policy and the Financial Accelerator in a Monetary Union. **AU** Gilchrist, Simon; Hairault, Jean-Olivier; Kempf, Hubert. **AA** Gilchrist: Boston University, Federal Reserve Bank of Boston, and NBER. Hairault and Kempf: Universite Paris-1 Pantheon-Sorbonne. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 750; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. **Website:** [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 37. **PR** no charge. **JE** E44, E58, F31, F33, F41. **KW** Financial Accelerator. Exchange Rate Policy. Monetary Union. Stochastic General Equilibrium. Market Imperfections.

**AB** In this paper, we consider the effect of a monetary union in a model with a significant role for financial market imperfections. We do so by introducing a financial accelerator into a stochastic general equilibrium macro model of a two country economy. We show that financial market imperfections introduce important cross-country transmission mechanisms to asymmetric shocks to supply and demand. Within this framework, we study the likely costs and benefits of monetary union. We also consider the effects of cross-country heterogeneity in financial markets. Both the presence of financial frictions and the use of a single currency have significant impacts on the international propagation of exogenous shocks. The introduction of asymmetries in the financial contract widens the difference in cyclical behavior of national economies in a monetary union, but financial integration compensates the loss of policy instruments.

### Glaeser, Edward L.

**PD** December 2001. **TI** Cities and Warfare: The Impact of Terrorism on Urban Form. **AU** Glaeser, Edward L.; Shapiro, Jesse M. **AA** Glaeser: Harvard University and NBER. Shapiro: Harvard University. **SR** National Bureau of Economic Research Working Paper: 8696; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** [www.nber.org](http://www.nber.org). **PG** 24.

**PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** N40, O18. **KW** Terrorism. Warfare. Violence. Urban Form.

**AB** What impact will terrorism have on America's cities? Historically, large-scale violence has impacted cities in three ways. First, concentrations of people have an advantage in defending themselves from attackers, making cities more appealing in times of violence. Second, cities often make attractive targets for violence, which creates an incentive for people to disperse. Finally, since warfare and terrorism often specifically target means of transportation, violence can increase the effective cost of transportation, which will usually increase the demand for density. Evidence on war and cities in the 20th century suggests that the effect of wars on urban form can be large (for example, Berlin in World War II), but more commonly neither terrorism nor wars have significantly altered urban form. As such, across America the effect of terrorism on cities is likely to be small. The only exception to this is downtown New York which, absent large-scale subsidies, will probably not be fully rebuilt. Furthermore, such subsidies make little sense to us.

### Glick, Reuven

**PD** July 2001. **TI** Does a Currency Union Affect Trade? The Time Series Evidence. **AU** Glick, Reuven; Rose, Andrew K. **AA** Glick: Federal Reserve Bank of San Francisco. Rose: University of California, Berkeley. **SR** CEPR Discussion Paper: 2891; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** F15, F33. **KW** Bilateral Trade. Common Currency. Currency Union. International Trade.

**AB** Does leaving a currency union reduce international trade? We answer this question using a large annual panel data set covering over 230 countries from 1948-97. During this sample over one hundred pairs of countries had currency union dissolutions; they experienced economically and statistically significant declines in bilateral trade, after accounting for other factors. Assuming symmetry, we estimate that a pair of countries that starts to use a common currency experiences a doubling in bilateral trade.

### Gneezy, Uri

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

### Goetzmann, William N.

**PD** December 2001. **TI** Equity Portfolio Diversification. **AU** Goetzmann, William N.; Kumar, Alok. **AA** Goetzmann: Yale University and NBER. Kumar: Cornell University. **SR** National Bureau of Economic Research Working Paper: 8686; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** [www.nber.org](http://www.nber.org). **PG** 21. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** G00, G11, G20. **KW** Portfolio Diversification. Risk Taking Behavior. Correlations.

**AB** In this paper we examine the portfolios of more than 40,000 equity investment accounts from a large discount brokerage during 1991-96. Using the historical performance for the equities in these accounts, we find that a vast majority of



investors in our sample are under-diversified. Even accounting for the likelihood we have selected on speculators, the magnitude of the idiosyncratic risk taken by investors in our sample is surprising. Investors are aware of the benefits of diversification but they appear to adopt a "naive" diversification strategy where they form portfolios without giving proper consideration to the correlations among the stocks. Over time, the degree of diversification among investor portfolios has improved but these improvements result primarily from changes in the correlation structure of the US equity market. Cross-sectional variations in diversification across demographic groups suggest that investors in low income and non-professional categories hold the least diversified portfolios. In addition, we find that young, active investors are over-focused and hold under-diversified portfolios. Overall, our results indicate that investors realize the benefit of diversification but they face a daunting task of "implementing" and maintaining a well-diversified portfolio.

### Goh, Ai Ting

PD January 2002. TI Free Trade and Protection of Intellectual Property Rights: Can We Have One Without the Other? AU Goh, Ai Ting; Olivier, Jacques. AA Goh: National University of Singapore, Universite Catholique de Louvain, and CEPR. Olivier: HEC School of Management. SR CEPR Discussion Paper: 3127; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE F13, O34. KW Intellectual Property Rights. Multilateral Trade Agreements. Trade Policy.

AB This paper is concerned with the interaction between trade policies and the protection of Intellectual Property Rights (IPRs). In particular, it investigates, within the framework of a general equilibrium model with endogenous growth, the welfare implications of an international agreement on one or both policy instruments. High tariffs and low patent protection both allow agents of an individual country to consume more respectively, through rent extraction redistributed by lump-sum transfers, and lower mark-up. Both high tariffs and low patent protection reduce the incentives for firms to do R&D, and, hence, growth. The main insight concerning optimal policies are first, that the two policy instruments are substitutes and second, that they are affected by the same Prisoner's Dilemma problem. As a consequence, an agreement in both policy instruments is needed to achieve any positive welfare gains, which supports the long standing claim of policy makers from developed countries that protection of IPRs should be included in multilateral trade agreements.

### Gompers, Paul A.

PD August 2001. TI Corporate Governance and Equity Prices. AU Gompers, Paul A.; Ishii, Joy L.; Metrick, Andrew. AA Gompers and Ishii: Harvard University and NBER. Metrick: University of Pennsylvania and NBER. SR National Bureau of Economic Research Working Paper: 8449; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 36. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE G30, G31, G32. KW Corporate Governance. Equity Prices. Firm Value. Shareholder Rights. AB Corporate governance provisions related to takeover

defenses and shareholder rights vary substantially across firms. In this paper, we use the incidence of 24 different provisions to build a "Governance Index", and then study the relationship between this index and several forward-looking performance measures. We find a striking relationship between corporate governance and stock returns. An investment strategy that bought the firms in the lowest decile of the index (strongest shareholder rights) and sold the firms in the highest decile of the index (weakest shareholder rights) would have earned abnormal returns of 8.5 percent per year during the sample period. Furthermore, the Governance Index is highly correlated with firm value. In 1990, a one-point increase in the index is associated with a 2.4 percentage-point lower value for Tobin's Q. By 1999, this difference had increased significantly, with a one-point increase in the index associated with an 8.9 percentage-point lower value for Tobin's Q. Finally, we find that weaker shareholder rights are associated with lower profits, lower sales growth, higher capital expenditures, and a higher amount of corporate acquisitions. We conclude with a discussion of several causal interpretations.

### Gonzalez Minguez, Jose M.

TI Differences in Exchange Rate Pass-Through in the Euro Area. AU Campa, Jose Manuel; Gonzalez Minguez, Jose M.

### Gonzalez, Alvarez

PD February 2002. TI Implicaciones para la inflacion de la conversion de precios a euros. AU Gonzalez, Alvarez; Julian, Luis; Jareno Morago, Javier. AA Banco de Espana. SR Banco de Espana, Documentos de Trabajo: 0202; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcalá, 50, 28014 Madrid, Spain. Website: www.bde.es/. PG 38. PR single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. JE E31. KW Euro. Inflation. Attractive Prices. Psychological Prices.

AB In the medium run the introduction of the euro will have a restraining influence on the Spanish economy's inflation rate. However, initially there are a series of factors that might exert a temporary upward effect on the inflation rate. Firms may wish to set prices in euro that are attractive to consumers. Moreover, there may be a pass-through to consumer prices of costs in adapting to the new currency. This paper analyses in detail the potential inflationary risk. As regards the results presented, and despite statistical limitations, certain fairly robust conclusions are drawn. These pertain to the neutrality of symmetrical adjustments, the greater relative scale of adjustments for very low price levels and the moderate inflationary effects, even in the case of generalized upward adjustments, with the exception of the extreme case whereby a generalized rounding to tenths of a euro were to occur. This paper is available in Spanish.

### Gonzalez-Hermosillo, Brenda

TI International Contagion Effects from the Russian Crisis and the LTCM Near-Collapse. AU Dungey, Mardi; Fry, Renee; Gonzalez-Hermosillo, Brenda; Martin, Vance.

### Gottschalk, Jan

PD August 2001. TI Measuring the Effects of Monetary Policy in the Euro Area: The Role of Anticipated Policy. AU Gottschalk, Jan; Hoppner, Florian. AA Gottschalk: University of Kiel. Hoppner: University of Bonn. SR Bonn

Econ Discussion Paper: 21/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). PG 23. PR no charge. JE C32, C52, E52. KW Vector Autoregression. Monetary Policy. Historical Decomposition.

AB This paper investigates within a structural vector autoregression (SVAR) framework the effects of anticipated monetary policy in the euro area. Building on a procedure recently proposed by Cochrane yielding the response of output to an anticipated monetary policy impulse, we show that in the past twenty years anticipated monetary policy had a considerable influence on output. Moreover, we compute the output effects of the systematic monetary policy response to aggregate demand and supply shocks. We find that monetary policy pursues a counter-cyclical policy in response to demand shocks and is pro-cyclical with regard to supply shocks, even though there are considerable lags.

#### Goulder, Lawrence H.

TI Environmental Taxation and Regulation.  
AU Bovenberg, A. Lans; Goulder, Lawrence H.

#### Goyal, Rajan

PD May 2002. TI Yield Spread as a Leading Indicator of Real Economic Activity: An Empirical Exercise on the Indian Economy. AU Goyal, Rajan; Kanagasabapathy, K. AA Goyal: IMF. Kanagasabapathy: Reserve Bank of India. SR International Monetary Fund Working Paper: WP/02/91; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). PG 17. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE E37, E47, G14. KW Yield Curve. Yield Spread. Leading Indicators. India.

AB There is growing evidence that the yield spread could serve as a leading indicator of real economic activity. This paper is an attempt to test this hypothesis for the Indian economy by relating movements in the yield spread in the government securities market to movements in the index of industrial production. The results show that yield spread could, inter alia, be considered as a leading indicator of industrial activity in India.

#### Grafe, Clemens

TI Anchor, Float or Abandon Ship: Exchange Rate Regimes for Accession Countries. AU Buitert, Willem H.; Grafe, Clemens.

#### Graham, John R.

PD December 2001. TI Expectations of Equity Risk Premia, Volatility and Asymmetry from a Corporate Finance Perspective. AU Graham, John R.; Harvey, Campbell R. AA Graham: Duke University. Harvey: Duke University and NBER. SR National Bureau of Economic Research Working Paper: 8678; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 16. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE D84, G10, G30. KW Expectations. Equity Risk Premia. Volatility. Corporate Finance.

AB We present new evidence on the distribution of the ex ante risk premium based on a multi-year survey of Chief

Financial Officers (CFOs) of U.S. corporations. Currently, we have responses from surveys conducted from the second quarter of 2000 through the third quarter of 2001. The results in this paper will be augmented, as future surveys become available. We find direct evidence that the one-year risk premium is highly variable through time and 10-year expected risk premium is stable. In particular, after periods of negative returns, CFOs significantly reduce their one-year market forecasts, disagreement (volatility) increases and returns distributions are more skewed to the left. We also examine the relation between ex ante returns and ex ante volatility. The relation between the one-year expected risk premium and expected risk is negative. However, our research points to the importance of horizon. We find a significantly positive relation between return and expected risk at the 10-year horizon.

#### Gray, Wayne B.

PD January 2002. TI When Do Firms Shift Production Across States to Avoid Environmental Regulation? AU Gray, Wayne B.; Shadbegian, Ronald J. AA Gray: Clark University and NBER. Shadbegian: University of Massachusetts at Dartmouth and U.S. Environmental Protection Agency. SR National Bureau of Economic Research Working Paper: 8705; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 20. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE D22, L51, L71, L73, Q28. KW Firm Production. Environmental Protection. Sensitivity to Regulation.

AB This paper examines whether a firm's allocation of production across its plants responds to the environmental regulation faced by those plants, as measured by differences in stringency across states. We also test whether sensitivity to regulation differs based on differences across firms in compliance behavior and/or differences across states in industry importance and concentration. We use Census data for the paper and oil industries to measure the share of each state in each firm's production during the 1967-1992 period. We use several measures of state environmental stringency and test for interactions between regulatory stringency and three factors: the firm's overall compliance rate, a Herfindahl index of industry concentration in the state, and the industry's share in the state economy. We find significant results for the paper industry: firms allocate smaller production shares to states with stricter regulations. This impact is concentrated among firms with low compliance rates, suggesting that low compliance rates are due to high compliance costs, not low compliance benefits. Our results are weaker for the oil industry, reflecting either less opportunity to shift production across states or greater impact of environmental regulation on paper mills.

#### Greenstone, Michael

TI Using Mandated Speed Limits to Measure the Value of a Statistical Life. AU Ashenfelter, Orley; Greenstone, Michael.

#### Grinblatt, Mark

PD January 2002. TI The Disposition Effect and Momentum. AU Grinblatt, Mark; Han, Bing. AA Grinblatt: UCLA and NBER. Han: UCLA. SR National Bureau of Economic Research Working Paper: 8734; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org).

**PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G11, G12. **KW** Disposition Effect. Stock Prices. Momentum Strategy.

**AB** Prior experimental and empirical research documents that many investors have a lower propensity to sell those stocks on which they have a capital loss. This behavioral phenomenon, known as "the disposition effect," has implications for equilibrium prices. We investigate the temporal pattern of stock prices in an equilibrium that aggregates the demand functions of both rational and disposition investors. The disposition effect creates a spread between a stock's fundamental and its market price. Spread convergence, generates predictable equilibrium prices. This convergence implies that stocks with large past price runups and stocks on which most investors experienced capital gains have higher expected returns than those that have experienced large declines and capital losses. The profitability of a momentum strategy, which makes use of this spread, depends on the path of past stock prices. Cross-sectional empirical tests of the model find that stocks with large aggregate unrealized capital gains tend to have higher expected returns than stocks with large aggregate unrealized capital losses and that this capital gains "overhang" appears to be the key variable that generates the profitability of a momentum strategy. When this capital gains variable is used as a regressor along with past returns and volume to predict future returns, the momentum effect disappears.

#### Gropp, Reint

**PD** June 2002. **TI** Equity and Bond Market Signals as Leading Indicators of Bank Fragility. **AU** Gropp, Reint; Vesala, Jukka; Vulpes, Giuseppe. **AA** Gropp and Vesala: European Central Bank. Vulpes: Unicredit Banca Mobiliare, Italy. **SR** European Central Bank Working Paper: 150; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 60. **PR** no charge. **JE** G12, G21. **KW** Banking. Bank Fragility. Market Indicators. Default.

**AB** We analyze the ability to the distance-to-default and bond spreads to signal bank fragility. We show that both indicators are complete and unbiased and that spreads are non-linear in the probability of bank default. We empirically test these properties in a sample of European Union banks. We find leading properties for both indicators. The distance-to-default exhibits lead times of 6 to 18 months. Spreads have signal value close to default only, in line with the theory. We also find that implicit safety nets weaken the predictive power of spreads. Further, the results suggest complementarity between both indicators, reducing type I errors. We also examine the interaction of the indicators with other bank information.

#### Grosfeld, Irena

**PD** July 2001. **TI** Competition, Corporate Governance: Substitutes or Complements? Evidence from the Warsaw Stock Exchange. **AU** Grosfeld, Irena; Tressel, Thierry. **AA** Grosfeld: DELTA, Paris and SITE, Stockholm School of Economics. **SR** CEPR Discussion Paper: 2888; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D24, G32, L10, P23, P27. **KW** Competition. Corporate Governance. Productivity Growth. Ownership Structure.

**AB** In this paper we analyze the impact of product market

competition and ownership structure on corporate performance. We focus on the firms listed on the Warsaw Stock Exchange, which are either privatized or newly created firms. First, we study the separate effects of competition and ownership concentration on firm-level productivity growth. Next, we investigate their interaction: are they substitutes or complements? We take care of the crucial problem of potential endogeneity of explanatory variables by using generalized method of moments estimators proposed by Arellano and Bond (1991). We also control for several types of selection bias that could affect the productivity levels and productivity growth. Our results show that product market competition has a positive and significant impact on performance. Concerning the effect of ownership concentration, we find a U-shaped relationship with performance. Finally, product market competition and good governance tend to reinforce each other rather than act as substitutes.

#### Grossman, Gene

**PD** January 2002. **TI** International Protection of Intellectual Property. **AU** Grossman, Gene; Lai, Edwin L. C. **AA** Grossman: Princeton University and CEPR. Lai: City University of Hong Kong. **SR** CEPR Discussion Paper: 3118; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F13, O34. **KW** Harmonization. Intellectual Property. Patents. TRIPs.

**AB** We study the incentives that governments have to protect intellectual property in a trading world economy. We consider a world economy with ongoing innovation in two countries that differ in market size, in their capacities for innovation and in their absolute and comparative advantage in manufacturing. We associate the strength of IPR protection with the duration of a country's patents that are applied with national treatment. After describing the determination of national policies in a non-cooperative regime of patent protection, we ask, "why are patents longer in the North?" We also study international patent agreements by deriving the properties of an efficient global regime of patent protection and asking whether harmonization of patent policies is necessary or sufficient for global efficiency.

**PD** January 2002. **TI** International Protection of Intellectual Property. **AU** Grossman, Gene; Lai, Edwin L. C. **AA** Grossman: Princeton University and NBER. Lai: City University of Hong Kong. **SR** National Bureau of Economic Research Working Paper: 8704; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 39. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** F13, O34. **KW** Intellectual Property. Government Protection. World Economy. Patents.

**AB** See the abstract for Grossman, Gene; Lai, Edwin L. C.. January 2002, "International Protection of Intellectual Property". CEPR Discussion Paper: 3118; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org).

**PD** January 2002. **TI** Outsourcing in a Global Economy. **AU** Grossman, Gene; Helpman, Elhanan. **AA** Grossman: Princeton University and CEPR. Helpman: Tel Aviv University. **SR** CEPR Discussion Paper: 3165; Centre for Economic

Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D23, F12, L14, L22. KW Outsourcing. Imperfect Contracting. Trade. Intermediate Goods. Intra-Industry Trade.

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

**PD** January 2002. **TI** Outsourcing in a Global Economy. **AU** Grossman, Gene; Helpman, Elhanan. **AA** Grossman: Princeton University and NBER. Helpman: Tel Aviv University, Harvard University, and NBER. **SR** National Bureau of Economic Research Working Paper: 8728; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 41. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D23, F12, L14, L22. **KW** Outsourcing. Trade. Sub-Contracted Activity. Incomplete Contracts.

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

### Grossman, Herschel I.

**PD** January 2002. **TI** Constitution or Conflict? **AA** Brown University and NBER. **SR** National Bureau of Economic Research Working Paper: 8733; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 25. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D72, D74. **KW** Self-Enforcing Constitution. Resolving Disputes. Civil Conflict. Constitutional Failure.

**AB** A self-enforcing constitution creates a political process that provides an alternative to civil conflict for resolving disputes among the constituent groups of the polity. This paper is concerned with discovering the conditions under which it is possible to design such a self-enforcing constitution. The paper is also concerned with discovering generic features of a self-enforcing constitution. The analysis yields the following theoretical propositions: If and only if (1) none of the parties to a dispute regards the dispute to be too important relative to the expected incremental cost of civil conflict and (2) no party has too big of an advantage in civil conflict, then the parties are able to resolve a dispute constitutionally. Also, under a constitution that is self-enforcing the outcomes of constitutional contests for political power do not matter too much. The paper illustrates the relevance of the theoretical analysis by applying these propositions to two dramatic historical examples of constitutional failure: the secession of eleven Southern states

from the Union in 1861 and the National Socialist revolution in Germany in 1933.

### Gruber, Jonathan

**TI** Health Policy in the Clinton Era: Once Bitten, Twice Shy. **AU** Cutler, David; Gruber, Jonathan.

### Gruber, Joseph W.

**PD** August 2002. **TI** Productivity Shocks, Habits, and the Current Account. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 733; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 28. **PR** no charge. **JE** E21, F32, F41. **KW** Habit Formation. Intertemporal Current Account. Present Value Tests. Productivity Shocks.

**AB** Empirical work regarding Intertemporal Current Account (ICA) models has centered around two distinct testing methodologies, present value tests and a productivity shock approach as formulated in Glick and Rogoff (1995). Previous work, Gruber (2001), has tested an ICA model that allows for habits in aggregate consumption via the present value method. This paper applies the alternative Glick and Rogoff style approach to testing the model. The benefits of doing such are an ability to separate country-specific from worldwide output changes, a distinction of considerable importance, as well as to impose restrictions on the relationship between investment and output, neither of which are possible in the present value framework. The results of the test are supportive of the existence of habits and coincide with the results of Gruber (2001). The degree of habit persistence implied by the model is estimated for the Group of Seven (G-7) countries. The paper also proposes habit formation as a possible solution to an empirical puzzle identified in the original Glick and Rogoff paper.

### Gruener, Hans Peter

**PD** January 2002. **TI** Capital Redistribution and the Market Allocation of Firm-Ownership. **AU** Gruener, Hans Peter; Schils, Ruediger. **AA** Gruener: Universitat Mannheim and CEPR. Schils: not available. **SR** CEPR Discussion Paper: 3130; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D24, D30, D72, P12, P16. **KW** Firm-Ownership. Inequality. Moral Hazard. Redistributive Taxation.

**AB** This paper studies the relationship between political wealth redistribution and the allocation of firm-ownership when production requires an unobservable input. The economy's wealth distribution affects the equilibrium interest rate and the allocation of entrepreneurial rents because wealth serves as a bonding device and determines agents' ability and willingness to borrow. This leads to unconventional voting behavior of the politically decisive middle class: the political preferences of middle and upper class voters coincide when redistribution only has an adverse interest-rate effect. Middle class voters vote with the lower class instead if redistribution enables them to get access to entrepreneurial rents. Technological change may induce dramatic changes in political outcomes and greater inequality pronounces the interest-rate effect and may lead to less redistribution.

**Guerrieri, Luca**

**PD** August 2002. **TI** The Inflation Persistence of Staggered Contracts. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 734; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 34. **PR** no charge. **JE** E31, E32. **KW** Maximum Likelihood. Phillips Curve. Staggered Contracts. Inflation Persistence. Taylor Contracts. **AB** One of the criticisms routinely advanced against models of the business cycle with staggered contracts is their inability to generate inflation persistence. This paper finds that staggered Taylor contracts are, in fact, capable of reproducing the inflation persistence implied by U.S. data. Following Fuhrer and Moore, this paper captures the moments that the contract specification needs to replicate by using the correlograms from a small vector autoregression (VAR) that includes inflation among the endogenous variables. A simple structural model substitutes the inflation equation from the VAR with the contract specification. The paper estimates the contract parameters in the structural model by maximum likelihood. The correlogram for the endogenous variables from the estimated structural model, including that for inflation, are very close to the correlograms from the VAR (and are contained within their 90% confidence intervals). By the same metric, where Taylor contracts do not fare well is in reproducing the cross-correlations between inflation and output.

**Guin-Siu, Maria Teresa**

**TI** More on the Effectiveness of Public Spending on Health Care and Education: A Covariance Structure Model. **AU** Baldacci, Emanuele; de Mello, Luiz; Guin-Siu, Maria Teresa.

**Gupta, Sanjeev**

**TI** Expenditure Composition, Fiscal Adjustment, and Growth in Low-Income Countries. **AU** Baldacci, Emanuele; Clements, Benedict; Gupta, Sanjeev; Mulas-Granados, Carlos.

**TI** Expenditure Composition, Fiscal Adjustment, and Growth in Low-Income Countries. **AU** Baldacci, Emanuele; Clements, Benedict; Gupta, Sanjeev; Mulas-Granados, Carlos.

**Gust, Christopher J.**

**TI** Are Depreciations as Contractionary as Devaluations? A Comparison of Selected Emerging and Industrial Economies. **AU** Ahmed, Shaghil; Gust, Christopher J.; Kamin, Steven B.; Huntley, Jonathan.

**Haacker, Markus**

**PD** April 2002. **TI** You Say You Want a Revolution: Information Technology and Growth. **AU** Haacker, Markus; Morsink, James. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/70; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 15. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** O33, O57. **KW** Information Technology. Technological Change. Growth. Productivity.

**AB** The information technology (IT) revolution has arrived, but how much will it change the world? It has been established

that IT is contributing to labor productivity growth through both increases in the levels of IT capital per worker and total factor productivity (TFP) growth in the production of IT equipment. The main outstanding issue is whether IT is contributing to TFP growth more generally. Using data on IT expenditure and production for a broad sample of countries, we find a positive, large, and significant effect of IT expenditure on the acceleration in TFP in the late 1990s and a smaller -- and significant -- effect of IT production. We also find evidence that the impact of IT expenditure on TFP growth increases over time, suggesting that spillovers materialize gradually. Our results suggest that the increase in IT expenditure across industrial countries during 1995-2000 will eventually lead to an average increase in TFP growth of about one-third of 1 percent per year.

**Haaland, Jan**

**PD** January 2002. **TI** Multinational investment, Industry Risk and Policy Competition. **AU** Haaland, Jan; Wooton, Ian. **AA** Haaland: Norwegian School of Economics and CEPR. Wooton: University of Glasgow. **SR** CEPR Discussion Paper: 3152; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D92, F12, F23. **KW** Multinational Firms. Investment Subsidies. Entry. Exit. Uncertainty.

**AB** In an uncertain business climate, multinational enterprises must take account of future exit costs in deciding where to locate a branch plant. We study how differences in national labor-market conditions between countries influence this decision. Other things equal, the most attractive location has a flexible labor market (low closure costs) together with a low opportunity cost of employment (high unemployment). In a game between two countries, a nation with an inflexible labor market and high unemployment will succeed in attracting low-risk firms, while that with more flexible labor markets and low unemployment will win the game for higher risk firms.

**Habir, Manggi**

**PD** April 2002. **TI** The Boom, Bust, and Restructuring of Indonesian Banks. **AU** Habir, Manggi; Pangestu, Mari. **AA** Habir: Harvard University. Pangestu: Centre for Strategic and International Studies, Jakarta. **SR** International Monetary Fund Working Paper: WP/02/66; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 33. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E50, E60, F30, G21. **KW** Indonesia. Asian Financial Crisis. Banking Reforms.

**AB** This paper studies why currency and monetary shock hit Indonesia's economy and banking sector so severely and the measures that were taken to deal with the banking crisis, the lessons learned, and challenges faced in restructuring and strengthening the banking system. The vulnerable state of the banking sector, in combination with exchange rate and interest rate shocks, led to a systemic banking crisis. The priorities for bank restructuring are to complete the separation of nonviable from viable banks, recoup losses, implement new rules and regulations, and develop an incentive-based system for the consolidation of banks.

**Haefke, Christian**

**TI** Shocks and Institutions in a Job Matching Model. **AU** Den Haan, Wouter J.; Haefke, Christian; Ramey, Garey.

**Hain, Roland**

**PD** July 2001. **TI** Simple Sequencing Problems with Interdependent Costs. **AU** Hain, Roland; Mitra, Manipushpak. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 20/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. **Website:** www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 19. **PR** no charge.

**JE** C44, C72, C78, D82. **KW** Simple Sequencing Problems. Ex-Post Equilibrium. First Best Implementability. Implementability.

**AB** In this paper we analyze sequencing situations under incomplete information where agents have interdependent costs. We first argue why the Vickrey-Clarke-Groves (or VCG) mechanism fails to implement a simple sequencing problem in dominant strategies. Given this impossibility, we try to implement simple sequencing problems in ex-post equilibrium. We show that a simple sequencing problem is implementable if and only if the mechanism is a "generalized VCG mechanism". We then show that for implementable  $n$ -agent simple sequencing problems, with polynomial cost function of order  $(n-2)$  or less, one can achieve first best implementability. Moreover, for the class of simple sequencing problems with "sufficiently well behaved" cost function, this is the only class of first best implementable simple sequencing problems.

**PD** July 2002. **TI** The Delegation Perspective on Representative Democracy. **AU** Hain, Roland; Mitra, Manipushpak. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 17/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. **Website:** www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 34. **PR** no charge. **JE** D72, D83, P16. **KW** Constitutional Design. Representative Democracy. Parliament Size. Information Costs. Political Models.

**AB** Why do political constituencies delegate decision power to representative assemblies? And how is the size of such assemblies determined? We analyze these questions of constitutional design in a model with voters learning their preferred alternative only after engaging in costly information gathering. We show that there is an optimal assembly size that would be chosen at a constitutional stage. This implies a relationship between assembly and constituency size. We then compared this relationship to actual data. Fitting a single parameter to the data, we show that our model can explain the actual relationship between assembly and constituency size quite well.

**Hairault, Jean-Olivier**

**TI** Monetary Policy and the Financial Accelerator in a Monetary Union. **AU** Gilchrist, Simon; Hairault, Jean-Olivier; Kempf, Hubert.

**Hallin, Marc**

**TI** Do Financial Variables Help Forecasting Inflation and Real Activity in the Euro Area? **AU** Forni, Mario; Hallin, Marc; Lippi, Marco; Reichlin, Lucrezia.

**Haltmaier, Jane**

**TI** Preventing Deflation: Lessons from Japan's Experience in the 1990s. **AU** Ahearne, Alan; Gagnon, Joseph E.; Haltmaier, Jane; Kamin, Steven B.; Erceg, Christopher; Faust, Jon; Guerrieri, Luca; Hemphill, Carter; Kole, Linda; Roush, Jennifer; Rogers, John; Sheets, Nathan; Wright, Jonathan.

**Ham, Hwikwon**

**TI** Do Industrial Relations Institutions Impact Economic Outcomes?: International and U.S. State-Level Evidence. **AU** Kleiner, Morris M.; Ham, Hwikwon.

**Hamdani, Assaf**

**TI** Optimal Defaults for Corporate Law Evolution. **AU** Bebchuk, Lucian Arye; Hamdani, Assaf.

**TI** Optimal Defaults for Corporate Law Evolution. **AU** Bebchuk, Lucian Arye; Hamdani, Assaf.

**Han, Bing**

**TI** The Disposition Effect and Momentum. **AU** Grinblatt, Mark; Han, Bing.

**Hanany, Eran**

**PD** September 2001. **TI** Ordinal Nash Social Welfare Function. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1325; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. **Website:** www.kellogg.nwu.edu/research/math/. **PG** 23. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C70, D60, D80. **KW** Social Welfare Function. Risk Preferences.

**AB** A social welfare function entitled "ordinal Nash" is proposed based on risk preferences and assuming a common, worst social state for all individuals. The crucial axiom in the characterization of the solution is a weak version of IIA, in which only the relative risk position with respect to the worst state is considered. Thus the resulting social preference takes into account non (necessarily) EU risk preference intensity by directly comparing certainty equivalent probabilities. The solution provides an interesting interpretation of the Nash-like utility product principle in the realm of social choice. However, necessary and sufficient conditions over the solution domain state that all individuals should have the same probability distortion functions in their preference representations (clearly satisfied in the EU case).

**Hanousek, Jan**

**PD** January 2002. **TI** Banking Passivity and Regulatory Failure in Emerging Markets: Theory and Evidence from the Czech Republic. **AU** Hanousek, Jan; Roland, Gerard. **AA** Hanousek: CERGE-EI and CEPR. Roland: Universite Libre de Bruxelles and University of California, Berkeley. **SR** CEPR Discussion Paper: 3122; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C53, E58, G21, G28, G33. **KW** Bank Failures. Bank Supervision. Czech Banking Crisis. Default Risk. Transitional Economies.

**AB** We present a model of bank passivity and regulatory failure. Banks with low equity positions have more incentives to be passive in liquidating bad loans. We show that they tend to hide distress from regulatory authorities and are ready to offer a higher rate of interest in order to attract deposits compared to banks that are not in distress. Therefore, higher deposit rates may act as an early warning signal of bank failure. We provide empirical evidence that the balance sheet information collected by the Czech National Bank is not a better predictor of bank failure than higher deposit rates. This confirms the importance of asymmetric information between banks and the regulator and suggests the usefulness of looking at deposit rate differentials as early signals of distress in emerging market economies where banks' equity positions are often low.

#### Hanson, Gordon

**TI** Global Production Sharing and Rising Inequality: A Survey of Trade and Wages. **AU** Feenstra, Robert; Hanson, Gordon.

#### Hanushek, Eric A.

**PD** January 2002. **TI** New Evidence about Brown v. Board of Education: The Complex Effects of School Racial Composition on Achievement. **AU** Hanushek, Eric A.; Kain, John F.; Rivkin, Steven G. **AA** Hanushek: Stanford University and NBER. Kain: University of Texas at Dallas. Rivkin: Amherst College. **SR** National Bureau of Economic Research Working Paper: 8741; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 30. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H41, I21. **KW** Scholastic Achievement. School Racial Composition. Education.

**AB** Uncovering the effects of school racial composition on achievement is difficult, because racial mixing in the schools is not an accident but instead represents a complex mixture of government and family choices. While the goals of the integration of schools legally inspired by Brown v. Board of Education are very broad, here we focus more narrowly on how school racial composition effects scholastic achievement. Our evaluation, made possible by rich panel data on the achievement of Texas students, disentangles racial composition effects from other aspects of school quality and from differences in student abilities and family background. The results show that a higher percentage of Black schoolmates have a strong adverse effect on achievement of Blacks and, moreover, that the effects are highly concentrated in the upper half of the ability distribution. In contrast, racial composition has a noticeably smaller effect on achievement of lower ability blacks, of whites, and of Hispanics -- strongly suggesting that the results are not a simple reflection of unmeasured school quality.

#### Harrigan, James

**PD** December 2001. **TI** Specialization and the Volume of Trade: Do the Data Obey the Laws? **AA** Federal Reserve Bank of New York and NBER. **SR** National Bureau of Economic Research Working Paper: 8675; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 47. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** F10. **KW** Specialization. Volume of Trade. Comparative Advantage. Gravity.

**AB** The core subjects of trade theory are the pattern and volume of trade: which goods are traded by which countries, and how much of those goods are traded. The first part of the paper discusses evidence on comparative advantage, with an emphasis on carefully connecting theory models to data analyses. The second part of the chapter first considers the theoretical foundations of the gravity model, and then reviews the small number of papers that have tried to test, rather than simply use, the implications of gravity. Both parts of the paper yield the same conclusion: we are still in the very early states of empirically understanding specialization and the volume of trade, but the work that has been done can serve as a starting point for further research.

#### Hartmann, Philipp

**TI** Competition and Stability: What's Special About Banking? **AU** Carletti, Elena; Hartmann, Philipp.

#### Harvey, Campbell R.

**PD** September 2001. **TI** The Effect of Capital Structure When Expected Agency Costs are Extreme. **AU** Harvey, Campbell R.; Lins, Karl V.; Roper, Andrew H. **AA** Harvey: Duke University and NBER. Lins: University of Utah. Roper: Duke University. **SR** National Bureau of Economic Research Working Paper: 8452; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G15, G21, G30, G32. **KW** Capital Structure. Agency Costs. Shareholder Value. Ownership Structure.

**AB** We provide new evidence that debt creates shareholder value for firms that face agency costs. Our tests are unique in two respects. First, we focus on a sample of firms with potentially extreme agency problems. We study emerging market firms where the routine use of pyramid ownership structures provides an acute separation of management cash flow rights and control rights. Second, we argue that not all debt is the same. Using new data on global debt issuance, we find that the type of debt that positively impacts shareholder value is the type that closely monitors management. This combination of a sample of firms with extreme expected agency problems and detailed information on the different types of debt allows us to construct powerful tests of whether debt can mitigate the effects of agency and information problems. Among other results, we find that the abnormal returns resulting from syndicated term loans (which provide monitoring) are significantly related to the extent of the separation of ownership and control. Our results are consistent with the idea that debt creates value because it reduces the agency costs associated with over-investment.

**TI** Expectations of Equity Risk Premia, Volatility and Asymmetry from a Corporate Finance Perspective. **AU** Graham, John R.; Harvey, Campbell R.

#### Haskel, Jonathan E.

**PD** January 2002. **TI** Does Inward Foreign Direct Investment Boost the Productivity of Domestic Firms? **AU** Haskel, Jonathan E.; Pereira, Sonia C.; Slaughter, Matthew J. **AA** Haskel: University of London and CEPR. Pereira: University of London. Slaughter: Dartmouth College and NBER. **SR** National Bureau of Economic Research Working Paper: 8724; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website:

www.nber.org. **PG** 28. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F21, L60. **KW** Foreign Direct Investment. Productivity Spillovers. United Kingdom. Manufacturing.

**AB** Are there productivity spillovers from Foreign Direct Investment (FDI) to domestic firms, and, if so, how much should host countries be willing to pay to attract FDI? To examine these questions we use a plant-level panel covering United Kingdom (U.K.) manufacturing from 1973 through 1992. Across a wide range of specifications, we estimate a significantly positive correlation between a domestic plant's Total Factor Productivity (TFP) and the foreign-affiliate share of activity in that plant's industry. This is consistent with positive FDI spillovers. We do not generally find significant effects on plant TFP of the foreign-affiliate share of activity in that plant's region. Typical estimates suggest that a 10 percentage-point increase in foreign presence in a U.K. industry raises the TFP of that industry's domestic plants by about 0.5 percent. We also use these estimates to calculate the per-job value of these spillovers. These calculated values appear to be less than per-job incentives governments have granted in recent-high-profile cases, in some cases several times less.

### Heinz, Jordan

**TI** Social Security Expectations and Retirement Savings Decisions. **AU** Dominitz, Jeff; Heinz, Jordan; Manski, Charles F.

### Helpman, Elhanan

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

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

### Hemming, Richard

**PD** May 2002. **TI** Fiscal Policy and Economic Activity During Recessions in Advanced Economies. **AU** Hemming, Richard; Mahfouz, Selma; Schimmelpfennig, Axel. **AA** Hemming and Schimmelpfennig: IMF. Mahfouz: not available. **SR** International Monetary Fund Working Paper: WP/02/87; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. **PG** 22. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** C21, E62, E65, H30. **KW** Recessions. Fiscal Response. Economic Activity. Fiscal Multipliers.

**AB** Using data for advanced economies, this paper investigates whether factors identified in the theoretical and empirical literature explain the effectiveness of fiscal policy in responding to recessions. The results are informative about the fiscal response to recessions but provide only a partial explanation of the impact of fiscal policy on economic activity. Overall, it would appear that fiscal multipliers are very small.

### Henderson, Vernon

**TI** How Migration Restrictions Limit Agglomeration and Productivity in China. **AU** Au, Chun-Chung; Henderson, Vernon.

### Hennig-Schmidt, Heike

**PD** January 2001. **TI** The Impact of Fairness on Decision

Making -- An Analysis of Different Video Experiments. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 14/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 8. **PR** no charge. **JE** C72, C73, C78, C92, D63. **KW** Experiments. Video Experiments. Fairness. Equity Principle. Decision Making.

**AB** Experimentally observed deviations of behavior from game theoretic predictions suggest that fairness does influence decision making. Fairness in the sense of equality has become an essential element of economic models aiming at explaining actual behavior. In this paper I will argue that equality is not the only fairness norm to be taken into account. More equity norms than equality exist, including inequality of payoffs. Since inequitable payoff allocations are advantageous for one player and disadvantageous for the other, opponents may suffer from a self-serving bias in fairness judgments making an agreement impossible. Using the video method (Hennig-Schmidt 1999) I further show in a bargaining experiment that behavior is goal-oriented. Fairness criteria based on equity norms guide the formation and adaptation of aspiration levels. I analyze video experiments of the ultimatum game, the tripled-take game, and an alternating offer bargaining game.

**TI** Exploring Group Behavior in a Power-to-Take Video Experiment. **AU** Bosman, Ronald; Hennig-Schmidt, Heike; vanWinden, Frans.

**TI** Neutral versus Loaded Instructions in a Bribery Experiment. **AU** Abbink, Klaus; Hennig-Schmidt, Heike.

### Henriksen, Espen

**PD** July 2001. **TI** Economies of Scale in European Manufacturing Revisited. **AU** Henriksen, Espen; Knarvik, Karen-Helene Midelfart; Steen, Frode. **AA** Henriksen and Knarvik: Norwegian School of Economics and Business Administration. **SR** CEPR Discussion Paper: 2896; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** C33, D24, O47, R12. **KW** Clusters. Economies of Scale. New Economic Geography. European Manufacturing. **AB** We test for internal and external economies of scale in European manufacturing, employing a more disaggregated data set than has been used in earlier analyses. We aim to separate externalities from common business cycle effects. Fifteen European manufacturing industries in Germany, France, the UK, and Italy are analyzed. We focus on economies of scale at three levels: the national industry, the national industrial cluster, and the transnational industry. Our results suggest that external economies of scale arising from inter-industry external effects and cross-country effects are less prevalent than increasing returns at the level of the industry and firm. Our results underscore the importance of the level of disaggregation in studies of internal and external economies of scale and argue that the external effects are highly country and industry specific.

### Henry, Jerome

**TI** Model Uncertainty and the Equilibrium Value of the Real Effective Euro Exchange Rate. **AU** Detken, Carsten; Dieppe, Alistair; Henry, Jerome; Marin, Carmen; Smets, Frank.



**Heravi, Saeed**

**TI** A Failure in the Measurement of Inflation: Results from a Hedonic and Matched Experiment Using Scanner Data. **AU** Silver, Mick; Heravi, Saeed.

**Hernandez, Leonardo**

**TI** Determinants and Repercussions of the Composition of Capital Inflows. **AU** Carlson, Mark; Hernandez, Leonardo.

**Hernando, Ignacio**

**PD** January 2002. **TI** Is There a Bank Lending Channel of Monetary Policy in Spain? **AU** Hernando, Ignacio; Martinez Pages, Jorge. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0117; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 23. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** C23, E44, E52, G21. **KW** Bank Lending, Bank Funding, Monetary Policy, Transmission Mechanism, Spain.

**AB** This paper uses panel data on banks, for the period 1991-98, to test the existence of a bank-lending channel in the Spanish economy. In order to distinguish between loan demand and supply movements, several exercises are performed. First, we analyze the differential responses, to monetary policy changes, of bank lending by banks with different size, liquidity and capitalization. Second, we analyze the response to an exogenous deposit-reducing shock (a tax-induced shift from deposits to mutual fund shares). As this involves a pure loan supply shock, it best solves the above-mentioned identification problem. Our results are mostly against the existence of a bank-lending channel in the period under analysis. This result appears to be related to the important role of many small banks as collectors of savings, meaning they have a large volume of resources available for lending.

**TI** Firm Investment and Monetary Policy Transmission in the Euro Area. **AU** Chatelain, Jean-Bernard; Generale, Andrea; Hernando, Ignacio; von Kalckreuth, Ulf; Vermeulen, Philip.

**TI** Firm Investment and Monetary Policy Transmission in the Euro Area. **AU** Chatelain, Jean-Bernard; Generale, Andrea; Hernando, Ignacio; von Kalckreuth, Ulf; Vermeulen, Philip.

**PD** March 2002. **TI** The Contribution of ICT to Economic Activity: A Growth Accounting Exercise with Spanish Firm-Level Data. **AU** Hernando, Ignacio; Nunez, Soledad. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0203; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 18. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** D24, L63, O33. **KW** Information and Communication Technologies, Growth Accounting, Technological Change, Spain.

**AB** This paper applies a well-established growth accounting framework to measure the contribution of ICT inputs to output and labor productivity growth in Spain, using a sample of 1300 firms per year over the period 1991-2000. Firm-level data is helpful to overcome the availability lags and the mismeasurement of capital stocks associated with the use of

aggregate data. The main findings are: 1) The use of ICT inputs has made a positive and, relative to its cost share, significant contribution to output and productivity growth; 2) This contribution was higher in the second half of the 1990s. For this period, the use of ICT inputs accounted for nearly one-fourth of labor productivity growth; 3) At a sectoral level, there is a general rise in the share of ICT in total capital and a general reduction in ICT cost shares, driven by the sharp downward trend in the prices of ICT products.

**PD** August 2002. **TI** Financial Constraints and Investment in France and Spain: A Comparison Using Firm Level Data. **AU** Hernando, Ignacio; Tiomo, Andre. **AA** Hernando: Banco de Espana. Tiomo: Banque de France. **SR** Banco de Espana, Documentos de Trabajo: 0214; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 20. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** E22, G31, G32. **KW** Investment, Liquidity Constraints, Dividends, France, Spain.

**AB** This paper analyses corporate investment decisions in France and Spain, focusing on the role of financial constraints in explaining investment behavior. The information used consists of two carefully harmonized panel data sets of industry firms selected from those reporting information to the Central Balance Sheet Offices of the Banque de France and of the Banco de Espana over the period 1991-1999. So as to test for the existence of liquidity constraints, we conduct a test of excess sensitivity of investment to cash flow using a standard Euler equation model. Both the theoretical model and the testing strategy in this paper closely follow Bond and Meghir (1994). Overall, our results suggest that there are significant differences in investment behavior which are linked to the financial situation of firms. In particular, the evidence found is consistent with the investment expenditure of firms paying zero dividends being constrained by the availability of internal funds.

**Herring, Bradley**

**TI** Tax Credits, the Distribution of Subsidized Health Insurance Premiums, and the Uninsured. **AU** Pauly, Mark V.; Herring, Bradley; Song, David.

**Hiebert, Paul**

**TI** Identifying Endogenous Fiscal Policy Rules for Macroeconomic Models. **AU** Perez, Javier J.; Hiebert, Paul.

**Hildenbrand, Werner**

**PD** January 2002. **TI** Aggregation Under Structural Stability: The Change in Consumption of a Heterogeneous Population. **AU** Hildenbrand, Werner; Kneip, Alois. **AA** Hildenbrand: University of Bonn. Kneip: University of Mainz. **SR** Bonn Econ Discussion Paper: 04/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 31. **PR** no charge. **JE** C43, D11, D12, E21. **KW** Aggregation, Consumption, Heterogeneity, Income Distribution.

**AB** It is shown how one can effectively use cross-section data in modeling the change over time in aggregate consumption expenditure of a heterogeneous population. The starting point of our aggregation analysis is a dynamic behavioral relation on

the household level. Based on certain hypotheses on the evolution of the distribution of income and household characteristics we derive explanatory variables for the change in aggregate consumption expenditure that are quite different from the explanatory variables on the household level. It is shown that U.K. Family Expenditure Data support our theoretical model for aggregate consumption.

### Hines, James R., Jr.

**PD** July 2001. **TI** Another Look at Whether a Rising Tide Lifts All Boats. **AU** Hines, James R., Jr.; Hoynes, Hilary; Krueger, Alan B. **AA** Hines: University of Michigan and NBER. Hoynes: University of California, Davis and NBER. Krueger: Princeton University and NBER. **SR** Princeton University, Industrial Relations Section Working Paper: 454; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. **Website:** [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). **PG** 45. **PR** no charge for single copies. **JE** E24, H72, J23, J28, J31. **KW** Wages. Rising Tide. Economic Growth. Business Cycles.

**AB** Periods of rapid U.S. economic growth during the 1960s and 1970s coincided with improved living standards for many segments of the population, suggesting to some that a rising economic tide lifts all demographic boats. This paper investigates the impact of U.S. business cycle conditions on population well being since the 1970s. Aggregate employment and hours worked in this period are strongly procyclical, particularly for low-skilled workers, while aggregate real wages are only mildly procyclical. Similar patterns appear in a balanced panel of PSID respondents that removes the effects of changing workforce composition, though the magnitude of the responsiveness of real wages to unemployment appears to have declined in the last 20 years. Economic upturns increase the likelihood that workers acquire jobs in sectors with positively sloped career ladders. Spending by state and local governments in all categories rises during economic expansions, including welfare spending, for which needs vary counter cyclically. Since the disadvantaged are likely to benefit disproportionately from such government spending, it follows that the public finances also contribute to conveying the benefits of a strong economy to diverse population groups.

**TI** Dividend Policy Inside the Firm. **AU** Desai, Mihir A.; Foley, C. Fritz; Hines, James R., Jr.

### Hirsch, Astrid

**TI** Modelling the Daily Banknotes in Circulation in the Context of the Liquidity Management of the European Central Bank. **AU** Cabrero, Alberto; Camba-Mendez, Gonzalo; Hirsch, Astrid; Nieto, Fernando.

**TI** Modelling the Daily Banknotes in Circulation in the Context of the Liquidity Management of the European Central Bank. **AU** Cabrero, Alberto; Camba-Mendez, Gonzalo; Hirsch, Astrid; Nieto, Fernando.

### Hochguertel, Stefan

**TI** Dealer Pricing of Consumer Credit. **AU** Bertola, Giuseppe; Hochguertel, Stefan; Koeniger, Winfried.

### Hoebrechts, Marco

**PD** November 2002. **TI** The Credibility of Central Bank Announcements. **AA** Center for Financial Studies.

**SR** Banco de Espana, Documentos de Trabajo: 0221; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcalá, 50, 28014 Madrid, Spain. **Website:** [www.bde.es/](http://www.bde.es/). **PG** 15. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** D82, E52, E58. **KW** Monetary Policy. Private Information. Announcements. Credibility. Central Bank.

**AB** In this paper, we present a monetary policy game in which the central bank has a private forecast of supply and demand shocks. The public needs to form its inflationary expectations and can make use of central bank announcements. However, because of the credibility problem that the central bank faces, the public will not believe a precise announcement. By extending the arrangement proposed by Garfinkel and Oh (1995) to a model that includes private information about both demand and supply shocks, we investigate the feasibility of making imprecise credible announcements concerning the rate of inflation.

### Holden, Steinar

**PD** December 2001. **TI** A Note on Inflation Persistence. **AU** Holden, Steinar; Driscoll, John C. **AA** Holden: University of Oslo. Driscoll: Brown University and NBER. **SR** National Bureau of Economic Research Working Paper: 8690; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** [www.nber.org](http://www.nber.org). **PG** 11. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** E30, E31, E50. **KW** Inflation Persistence. New Keynesian Phillips Curve.

**AB** Macroeconomists have for some time been aware that the New Keynesian Phillips curve, though highly popular in the literature, cannot explain the persistence observed in actual inflation. We argue that two of the more prominent alternative formulations, the Fuhrer and Moore (1995) relative contracting model and the Blanchard and Katz (1999) reservation wage conjecture, are highly problematic. Fuhrer and Moore (1995)'s formulation generates inflation persistence, but this is a consequence of their assuming that workers care about the past real wages of other workers. Making the more reasonable assumption that workers care about the current real wages of other workers, one obtains the standard formulation with no inflation persistence. The Blanchard and Katz conjecture turns out to imply that inflation depends negatively on itself lagged, i.e. the opposite of the empirical regularity.

### Holland, Sara B.

**PD** January 2003. **TI** Firm-Level Access to International Capital Markets: Evidence >From Chilean Equities. **AU** Holland, Sara B.; 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: 753; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. **Website:** [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 20. **PR** no charge. **JE** F36, G11. **KW** Financial Liberalization. Portfolio Choice. Emerging Market. Home Bias. Cross-Listing.

**AB** High growth, liquid Chilean firms have greater relative weights in U.S. equity portfolios, but the most important determinant of a firm's portfolio weight is whether it is listed on a U.S. exchange. Cross-listing does not, however, appear to have permanent benefits: Weights in U.S. portfolios of firms

that cross-listed in the mid-1990s increased at the expense of firms that cross-listed earlier. Put another way, firms appear to be able to access international capital at the time of the cross-listing, but this access may well be short-lived.

### Hoppner, Florian

**TI** Measuring the Effects of Monetary Policy in the Euro Area: The Role of Anticipated Policy. **AU** Gottschalk, Jan; Hoppner, Florian.

### Hoynes, Hilary

**TI** Another Look at Whether a Rising Tide Lifts All Boats. **AU** Hines, James R., Jr.; Hoynes, Hilary; Krueger, Alan B.

### Hubbard, Thomas N.

**TI** Make Versus Buy in Trucking: Asset Ownership, Job Design and Information. **AU** Baker, George P.; Hubbard, Thomas N.

### Huck, Steffen

**PD** March 2001. **TI** Two are Few and Four are Many: Number Effects in Experimental Oligopolies. **AU** Huck, Steffen; Normann, Hans-Theo; Oechssler, Joerg. **AA** Huck: Royal Holloway. Normann: Humboldt University. Oechssler: University of Bonn. **SR** Bonn Econ Discussion Paper: 12/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 9. **PR** no charge. **JE** C72, C92, D43, L13. **KW** Cournot Oligopoly. Oligopoly. Experiments.

**AB** In this paper we investigate how the competitiveness of Cournot markets varies with the number of firms in an industry. We review previous Cournot experiments in the literature. Additionally, we conduct a new series of experiments studying oligopolies with two, three, four, and five firms in a unified frame. With two firms we find some collusion. Three-firm oligopolies tend to produce outputs at the Nash level. Markets with four or five firms are never collusive and typically settle at or above the Cournot outcome. Some of those markets are actually quite competitive with outputs close to the Walrasian outcome.

**PD** January 2002. **TI** Stability of the Cournot Process--Experimental Evidence. **AU** Huck, Steffen; Normann, Hans-Theo; Oechssler, Joerg. **AA** Huck: University College London. Normann: Royal Holloway. Oechssler: University of Bonn. **SR** Bonn Econ Discussion Paper: 01/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 20. **PR** no charge. **JE** C72, C92, D43, L13. **KW** Best Reply Process. Cournot Oligopoly. Learning Experiments. Imitation.

**AB** We report results of experiments designed to test the predictions of the best reply process. In a Cournot oligopoly with four firms, the best reply process should theoretically explode if demand and cost functions are linear. We find, however, no experimental evidence of such instability. Moreover, we find no differences between a market that theoretically should not converge to Nash equilibrium and one that should converge because of inertia. We investigate the power of several learning dynamics to explain this unpredicted stability.

### Hughes, Anthony W.

**TI** A Quantile Regression Analysis of the Cross Section of Stock Market Returns. **AU** Barnes, Michelle L.; Hughes, Anthony W.

### Hummels, David

**PD** January 2002. **TI** The Variety and Quality of a Nation's Trade. **AU** Hummels, David; Klenow, Peter J. **AA** Hummels: Purdue University. Klenow: Federal Reserve Bank of Minneapolis and NBER. **SR** National Bureau of Economic Research Working Paper: 8712; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 30. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F12, F43. **KW** Trade. Country Size. Large Economies. Small Economies.

**AB** Not surprisingly, big countries trade more than small countries. In this paper we use data on shipments by 110 exporters to 59 importers in 5,000 product categories to ask: how? Do big countries trade larger quantities of a common set of goods (the intensive margin), a larger set of goods (the extensive margin), or higher quality goods? We find that the extensive margin accounts for two-thirds of the greater exports of larger economies, and one-third of the greater imports of larger economies. Richer countries export more units at higher prices. These calculations are useful for distinguishing features of trade models that correspond more or less well to the data. Models with Armington national product differentiation do not feature the extensive margin, and wrongly predict that greater output will be accompanied by worse terms of trade. "Krugman" style models with firm level product differentiation fare better, but must be modified to include quality differentiation and fixed costs of trading to match all of the facts. Estimates based on these modifications imply that differences in goods' quality could be the proximate cause of about 25% of country differences in real income per worker.

### Huntley, Jonathan

**TI** Are Depreciations as Contractionary as Devaluations? A Comparison of Selected Emerging and Industrial Economies. **AU** Ahmed, Shaghil; Gust, Christopher J.; Kamin, Steven B.; Huntley, Jonathan.

### Hvide, Hans K.

**PD** October 2001. **TI** Worker Discretion and Misallocation of Talent within Firms. **AU** Hvide, Hans K.; Kaplan, Todd R. **AA** Hvide: Norwegian School of Economics and Business. Kaplan: University of Exeter. **SR** University of Exeter, Department of Economics Discussion Paper: 01/08; Editor, Discussion Papers in Economics, Department of Economics, School of Business and Economics, University of Exeter, Streatham Court, Rennes Drive, Exeter EX4 4PU, UK. Website: [www.ex.ac.uk/sobe](http://www.ex.ac.uk/sobe). **PG** 20. **PR** no charge. **JE** C72, D23, D82, M12. **KW** Discretion. Organizational Design. Peter Principle. Principal-Agent Theory. Sun Hydraulics. Wage Dynamics.

**AB** We develop a theory of worker discretion over task choice within a firm. Increasing the workers' discretion has a trade-off between the gains from workers using private information about their abilities, and the costs from adverse selection within the firm due to workers herding into prestigious tasks. The theory leads to the result that, in line with the Peter Principle, misallocation of talent within firms takes

the form of too many workers undertaking tasks with a high return to ability. Moreover we find that the degree of misallocation of talent is decreasing in the degree of discretion given to workers.

### Immervoll, Herwig

**PD** June 2001. **TI** Imputation of Gross Amounts from Net Incomes in Household Surveys: An Application Using EUROMOD. **AU** Immervoll, Herwig; O'Donoghue, Cathal. **AA** University of Cambridge. **SR** University of Cambridge, EUROMOD Working Paper: EM2001/01; Microsimulation Unit, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: [www.econ.cam.ac.uk/dae/mu/emod3.htm](http://www.econ.cam.ac.uk/dae/mu/emod3.htm). **PG** 20. **PR** \$10 (5 pounds) STG/EURO 8; make checks payable to University of Cambridge. **JE** C63, C81. **KW** Microsimulation. Imputation. Gross Incomes. Micro-Data. Tax-Benefit Model.

**AB** Household micro-datasets often do not contain information on gross incomes. We present an algorithm which exploits the tax- and contribution rules built into tax-benefit models to convert net income information into gross amounts. Using EUROMOD, a multi-country tax-benefit model covering all fifteen countries of the European Union, net-to-gross conversions can be performed for a large number of countries utilizing existing models of relevant fiscal rules. The algorithm takes into account all relevant complexities of tax- and contribution rules and can, thus, produce much more accurate results than statistical models which estimate net-to-gross ratios using only a few explanatory variables. Among the features of the algorithm is the ability to distinguish between different individuals in the same household. We undertake a case study to illustrate the importance of deriving separate net-to-gross factors for different individuals within a household/fiscal unit and for different income sources of the same individual.

**TI** The Impact of Tax-Benefit Systems on Low-Income Households in the Benelux Countries: A Simulation Approach Using Synthetic Datasets. **AU** Berger, Frederic; Borsenberger, Monique; Immervoll, Herwig; Lumen, Julie; Scholtus, Bertrand; De Vos, Klaas.

**PD** December 2001. **TI** Towards a Multi-Purpose Framework for Tax-Benefit Microsimulation. **AU** Immervoll, Herwig; O'Donoghue, Cathal. **AA** University of Cambridge. **SR** University of Cambridge, EUROMOD Working Paper: EM2001/02; Microsimulation Unit, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: [www.econ.cam.ac.uk/dae/mu/emod3.htm](http://www.econ.cam.ac.uk/dae/mu/emod3.htm). **PG** 31. **PR** \$10 (5 pounds) STG/EURO 8; make checks payable to University of Cambridge. **JE** C81, C88. **KW** Microsimulation. Tax-Benefit Model. European Union. Tax-Benefit Model.

**AB** This paper introduces a generalized model building platform (MMEANS) for implementing and using tax-benefit microsimulation models. It is designed to aid in the construction of single- and multi-country tax-benefit models by providing all essential components and a system by which these can be parameterized and combined into a full model. We explain the conceptual and computational issues arising in the design and development of MMEANS. One application of the software has been to construct EUROMOD, a 15 country European tax-benefit model (Immervoll et al., 1999; Sutherland, 2001). However, we argue that, apart from its direct

usefulness for this model, MMEANS can be used as a general software tool for microsimulation model building.

**PD** June 2002. **TI** Welfare Benefits and Work Incentives: An Analysis of the Distribution of Net Replacement Rates in Europe Using EUROMOD, a Multi-Country Microsimulation Model. **AU** Immervoll, Herwig; O'Donoghue, Cathal. **AA** University of Cambridge. **SR** University of Cambridge, EUROMOD Working Paper: EM2001/04; Microsimulation Unit, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: [www.econ.cam.ac.uk/dae/mu/emod3.htm](http://www.econ.cam.ac.uk/dae/mu/emod3.htm). **PG** 50. **PR** \$10 (5 pounds) STG/EURO 8; make checks payable to University of Cambridge. **JE** C81, H31, J65. **KW** Net Replacement Rate. Unemployment Benefits. Work Incentives. European Union. Microsimulation.

**AB** This paper considers the methodology of measuring replacement rates, comparing simulation based approaches, which simulate replacement rates for a representative sample of the population, with other approaches that simulate replacement rates for "typical" families or are entirely based on recorded household data. We emphasize the advantages of the first method. Utilizing a cross-country microsimulation model for Europe, EUROMOD, we generate the distribution of replacement rates for Denmark, France, Spain and the United Kingdom. In particular we show the important role of household composition and the presence of other household members' incomes in preserving the standard of living while out of work. We argue that, given this strong influence of primary incomes, replacement rates are not necessarily the best indicator of the impact of the tax-benefit system. To isolate the effects of the tax-benefit system on both work incentives and the degree of social protection for the out-of-work population, we therefore introduce a new measure, the "tax-benefit-to-earnings ratio".

**PD** October 2002. **TI** The Distribution of Average and Marginal Effective Tax Rates in European Union Member States. **AA** University of Cambridge. **SR** University of Cambridge, EUROMOD Working Paper: EM2002/02; Microsimulation Unit, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: [www.econ.cam.ac.uk/dae/mu/emod3.htm](http://www.econ.cam.ac.uk/dae/mu/emod3.htm). **PG** 61. **PR** \$10 (5 pounds) STG/EURO 8; make checks payable to University of Cambridge. **JE** C81, D31, H22. **KW** Effective Tax Rates. European Union. Microsimulation. Tax-Benefit Model.

**AB** Macro-based summary indicators of effective tax burdens cannot provide information on the level or distribution of the marginal effective tax rates thought to influence household behavior. They also do not capture differences in effective tax rates facing different sub-groups of the population. This paper uses EUROMOD, a European Union-wide tax-benefit microsimulation model, to compute distributions of average and marginal effective tax rates across the household population in fourteen European Union Member States. Using different definitions of "net taxes", the tax base and the unit of analysis this paper presents a range of measures showing the contribution of the tax-benefit system to household incomes; average effective tax rates applicable to income from labor; and marginal effective tax rates faced by working men and women. In a second step, these measures are broken down to separately analyze the influence of each type of tax-benefit instrument.

**TI** Indicators for Social Inclusion in the European Union: How Responsive Are They to Macro-Level Changes?  
**AU** Feres, Patricio; Immervoll, Herwig; Lietz, Christine; Levy, Horacio; Mantovani, Daniela; Sutherland, Holly.

### Inderst, Roman

**PD** January 2002. **TI** The Incentives for Takeover in Oligopoly. **AU** Inderst, Roman; Wey, Christian.  
**AA** Inderst: London School of Economics and CEPR. Wey: WZB. **SR** CEPR Discussion Paper: 3163; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D43, D44, L13, L41. **KW** Merger. Takeover Bidding. Oligopoly.

**AB** This paper presents a model of takeover incentives in an oligopolistic industry, which, in contrast to previous approaches, takes both insiders' and outsiders' gains from an increase in industry concentration into account. Our main application is to compare takeover incentives in a differentiated Cournot and Bertrand oligopoly model with linear demand and costs. We provide a complete analysis for arbitrary numbers of firms, complements and substitutes, and degrees of product differentiation. An increase in concentration is more likely under Cournot competition if products are complements and more likely under Bertrand competition if products are substitutes. Moreover, as products become closer substitutes, a takeover becomes more likely under Bertrand and less likely under Cournot competition.

### Irlenbusch, Bernd

**TI** An Experimental Test of Design Alternatives for the British 3G/UMTS Auction. **AU** Abbink, Klaus; Irlenbusch, Bernd; Pezaris-Christou, Paul; Rockenbach, Bettina; Sadrieh, Abdolkarim; Selten, Reinhard.

### Irwin, Douglas A.

**PD** December 2001. **TI** The Optimal Tax on Antebellum U.S. Cotton Exports. **AA** Dartmouth College and NBER. **SR** National Bureau of Economic Research Working Paper: 8689; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 19. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** F10, F13, N31, N51, Q10. **KW** Optimal Tax. Cotton. Exports. Civil War. Foreign Demand.

**AB** The United States produced about 80 percent of the world's cotton in the decades prior to the Civil War. How much monopoly power did the United States possess in the world cotton market and what would have been the effect of an optimal export tax? This paper estimates the elasticity of foreign demand for U.S. cotton exports and uses the elasticity in a simple partial equilibrium model to calculate the optimal export tax and its effect on prices, trade, and welfare. The results indicate that the export demand elasticity for U.S. cotton was about -1.7 and that the optimal export tax of about 50 percent would have raised U.S. welfare by about \$6 million, about 0.1 percent of U.S. GDP or about 0.5 percent of the South's GDP.

**PD** December 2001. **TI** The Welfare Cost of Autarky: Evidence from the Jeffersonian Trade Embargo, 1807-1809. **AA** Dartmouth College and NBER. **SR** National Bureau of Economic Research Working Paper: 8692; National Bureau

of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 15. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** F10, F13, F14, N71. **KW** Autarky. Trade Embargo. Welfare. GNP.

**AB** The United States came close to complete autarky in 1808 as a result of a self-imposed embargo on international shipping from December 1807 to March 1809. Monthly prices of exported and imported goods reveal the embargo's striking effect on commodity markets and allow a calculation of its welfare effects. A simple general equilibrium calculation suggests that the embargo cost about 8 percent of America's 1807 GNP, at a time when the trade share was about 13 percent (domestic exports and shipping earnings). The welfare cost was lower than the trade share because the embargo did not completely eliminate trade and because domestic producers successfully shifted production toward previously imported manufactured goods.

**PD** January 2002. **TI** Interpreting the Tariff-Growth Correlation of the Late Nineteenth Century. **AA** Dartmouth College and NBER. **SR** National Bureau of Economic Research Working Paper: 8739; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 9. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F13, F14, N70. **KW** Tariffs. Growth. Protectionist Trade Policy.

**AB** Recent research has documented a positive relationship between tariffs and growth in the late nineteenth century. Such a correlation does not establish a causal relationship between tariffs and growth, but it is tempting to view the correlation as constituting evidence that protectionist or inward-oriented trade strategies were successful during this period. This paper argues that such a conclusion is unwarranted and that the tariff-growth correlation should be interpreted with care. First, several individual country experiences in the late nineteenth century are not consistent with the view that import substitution promoted growth. For example, the two most rapidly expanding, high tariff countries of the period -- Argentina and Canada -- grew because capital imports helped stimulate export-led growth in agricultural staples products, not because of protectionist trade policies. Second, most land-abundant countries (such as Argentina and Canada) imposed high tariffs to raise government revenue, and revenue tariffs have a different structure than protective tariffs. The fact that labor-scarce, land-abundant countries had a high potential for growth and also tended to impose high revenue-generating tariffs confounds the inference that high tariffs were responsible for their strong economic performance during this period.

### Ishii, Joy L.

**TI** Corporate Governance and Equity Prices.  
**AU** Gompers, Paul A.; Ishii, Joy L.; Metrick, Andrew.

### Iwata, Shigeru

**TI** Why is it so Hard to Finance Budget Deficits? Problems of a Developing Country. **AU** Feltenstein, Andrew; Iwata, Shigeru.

### Izquierdo, Mario

**TI** Los flujos de trabajadores en Espana: el impacto del empleo temporal. (Worker Flows in Spain: The Impact of Temporary Employment). **AU** Estrada, Angel; Garcia-Perea, Pilar; Izquierdo, Mario.

**Jaeger, David A.**

**TI** Natives, the Foreign-Born and High School Equivalents: New Evidence on the Returns to the GED. **AU** Clark, Melissa A.; Jaeger, David A.

**Jagannathan, Ravi**

**PD** December 2001. **TI** An Evaluation of Multi-Factor CIR Models Using LIBOR, Swap Rates, and Cap and Swaption Prices. **AU** Jagannathan, Ravi; Kaplin, Andrew; Sun, Steve Guoqiang. **AA** Jagannathan: Northwestern University and NBER. Kaplin: Northwestern University. Sun: University Capital Strategies Group. **SR** National Bureau of Economic Research Working Paper: 8682; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 22. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** C13, C32, C51, E43, G12. **KW** CIR Models. Derivatives. Misspecification. Term Structure Models.

**AB** We evaluate the classical Cox, Ingersoll and Ross (1985) (CIR) model using data on LIBOR, swap rates and caps and swaptions. With three factors the CIR model is able to fit the term structure of LIBOR and swap rates rather well. The model is able to match the hump shaped unconditional term structure of volatility in the LIBOR-swap market. However, statistical tests indicate that the model is misspecified. In particular the pricing errors are related to the slope of the swap yield curve. The economic importance of these shortcomings is highlighted when the model is confronted with data on cap and swaption prices. Pricing errors are large relative to the bid-ask spread in these markets. The model tends to overvalue shorter maturity caps and undervalue longer maturity caps. With only one or two factors, the model also tends to undervalue swaptions. Our findings point out the need for evaluating term structure models using data on derivative prices.

**PD** January 2002. **TI** Do We Need CAPM for Capital Budgeting? **AU** Jagannathan, Ravi; Meier, Iwan. **AA** Jagannathan: Northwestern University and NBER. Meier: Northwestern University. **SR** National Bureau of Economic Research Working Paper: 8719; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G12, G31. **KW** Capital Asset Pricing Model. Market Risk Premium. Capital Budgeting.

**AB** A key input to the capital budgeting process is the cost of capital. Financial managers most often use the Capital Asset Pricing Model (CAPM) for estimating the cost of capital for which they need to know the market risk premium. Textbooks advocate using the historical value for the U.S. equity premium as the market risk premium. The CAPM as a model has been seriously challenged in the academic literature. In addition recent research indicates that the true market risk premium might have been as low as half the historical U.S. equity premium during the last two decades. If business finance courses have been teaching the use of the wrong model along with wrong inputs for twenty years, why has no one complained? We provide an answer to this puzzle.

**Jareno Morago, Javier**

**TI** Implicaciones para la inflacion de la conversion de precios a euros. **AU** Gonzalez, Alvarez; Julian, Luis; Jareno Morago, Javier.

**TI** ISIS: un indicador sintetico integral de los servicios de Mercado (ISIS: A synthetic Indicator for Market Services). **AU** Alvarez Gonzalez, Luis Julian; Jareno Morago, Javier.

**Jeanne, Olivier**

**PD** July 2001. **TI** The International Lender of Last Resort: How Large is Large Enough? **AU** Jeanne, Olivier; Wyplosz, Charles. **AA** Jeanne: IMF and CEPR. Wyplosz: Institut Universitaire des Hautes Etudes Internationales and CEPR. **SR** National Bureau of Economic Research Working Paper: 8381; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 30. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F32, F33, F34, G21. **KW** Lender of Last Resort. Currency Crises. Banking Crises. Emerging Economies.

**AB** This paper considers how an international lender of last resort (LOLR) can prevent self-fulfilling banking and currency crises in emerging economies. We compare two different arrangements: one in which the international LOLR injects liquidity into international financial markets, and one in which its resources are used to back domestic banking safety nets. Both arrangements would require important changes in the global financial architecture: the first one would require a global central bank issuing an international currency, while the second one would have to be operated by an "international banking fund" closely involved in the supervision of domestic banking systems.

**Jenkinson, Tim**

**TI** New Evidence of the Impact of Dividend Taxation and on the Identity of the Marginal Investor. **AU** Bell, Leonie; Jenkinson, Tim.

**Jensen, Robert**

**TI** Young Geniuses and Old Masters: The Life Cycles of Great Artists from Masaccio to Jasper Johns. **AU** Galenson, David W.; Jensen, Robert.

**Jimeno, Juan F.**

**PD** June 2002. **TI** Youth Unemployment in the OECD: Demographic Shifts, Labour Market Institutions, and Macroeconomic Shocks. **AU** Jimeno, Juan F.; Rodriguez-Palenzuela, Diego. **AA** Jimeno: Universidad de Alcala and CEPR. Rodriguez-Palenzuela: European Central Bank. **SR** European Central Bank Working Paper: 155; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 62. **PR** no charge. **JE** J13, J64. **KW** Youth. Unemployment. Labor Supply. Labor Market Institutions.

**AB** We use a panel of Organization for Economic Co-operation and Development (OECD) countries to gauge the relevance of the relative size of the youth population, labor market institutions and macroeconomic shocks at explaining observed relative youth unemployment rates. We find that the fluctuations of the youth population size caused by the baby boom of the 1950s and 1960s and the subsequent decline of fertility in many European countries are positively associated with fluctuations in relative youth unemployment rates. We also find that some labor market institutions contribute to increase youth unemployment, and that the adjustment to macroeconomic shocks has affected relatively more to young workers than to adult workers. To motivate the effects of

institution on the relative unemployment rate of young workers, we lay out a simple theoretical model that builds on the imperfect substitutability of workers of different ages, and on the non-allocative role of (age specific) wages.

### Johnson, Daniel K. N.

**PD** July 2001. **TI** Forced Out of the Closet: The Impact of the American Inventors Protection Act on the Timing of Patent Disclosure. **AU** Johnson, Daniel K. N.; Popp, David. **AA** Johnson: Wellesley College. Popp: Syracuse University and NBER. **SR** National Bureau of Economic Research Working Paper: 8374; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 23. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** O34, O38. **KW** Patents. Knowledge Diffusion.

**AB** Beginning in November 2000, patent applications filed in the United States are disclosed after 18 months, rather than when the patent is granted. Using U.S. patent data from 1976-1996, we find that major inventions are most likely to be affected, as they take longer to go through the application process. We provide evidence that this change will result in faster knowledge diffusion, and conclude with a simulation of the law's potential effect on patent grants.

### Johnson, Simon

**TI** Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution. **AU** Acemoglu, Daron; Robinson, James A.; Johnson, Simon.

### Jordan, Thomas

**TI** Giving Up the Swiss Franc: Some Consideration on Seigniorage Flows Under EMU. **AU** Fischer, Andreas M.; Jordan, Thomas; Lack, Caesar P.

### Joskow, Paul L.

**PD** August 2001. **TI** California's Electricity Crisis. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8442; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 45. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** L50, L94, L98. **KW** Electricity. Regulation. Market Liberalization.

**AB** This paper discusses the political, regulatory and economic factors that led to California's electricity crisis in 2000 and 2001. It begins with a discussion of the origins of California's electricity restructuring and competition programs. It then discusses the structure of the wholesale and retail markets and associated transition institutions created in 1996-98 and the performance of these institutions during their first two years of operation. The discussion of the electricity crisis is then conveniently broken down into three phases: (a) May 2000 through September 2000, (b) October 2000 through December 2000, January 2001 to the June 2001. Each phase is discussed in turn. The paper concludes with a discussion of lessons about electricity market liberalization gained from the recent experience in California.

**PD** September 2001. **TI** U.S. Energy Policy During the 1990s. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8454; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 59. **PR** \$10.00 per

copy (plus \$10.00 per order for shipping outside U.S.). **JE** L50, L70, Q40. **KW** Energy Policy. Energy Demand. Energy Supply.

**AB** This paper discusses U.S. energy policy and the associated evolution of energy supply, energy demand, energy prices and the industrial organization of the domestic energy industries during the period 1991 through 2000. This period covers the last two years of the George H. W. Bush administration and the entire Clinton administration. The paper begins with a background discussion of energy supply, consumption and energy policy prior to the 1990s. It then provides an overview of the evolution of energy markets and energy policy during the 1990s. This discussion is followed by a more detailed discussion of supply, demand and public policies affecting the primary sources of energy supply and demand during the 1990s: petroleum, natural gas, electricity, coal, nuclear energy, renewable energy and energy efficiency.

### Jovanovic, Boyan

**PD** January 2002. **TI** The Q-Theory of Mergers. **AU** Jovanovic, Boyan; Rousseau, Peter L. **AA** Jovanovic: University of Chicago, New York University, and NBER. Rousseau: Vanderbilt University and NBER. **SR** National Bureau of Economic Research Working Paper: 8740; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 12. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G31, G34. **KW** Q-Theory. Mergers. Acquisition. Investment.

**AB** The Q-theory of investment says that a firm's investment rate should rise with its Q. We argue here that this theory also explains why some firms buy other firms. We have three findings. The first is that, a firm's merger and acquisition (M&A) investment responds to its Q more - - by a factor of 2.6 -- than its direct investment does, probably because M&A investment is a high fixed cost and a low marginal adjustment cost activity. The second is that the typical firm wastes some cash on M&As, but not on internal investment, i.e., the "Free-Cash Flow" story works, but explains a small fraction of mergers only. The final finding is that the merger waves of 1900 and the 1920's, '80s, and '90s were a response to profitable reallocation opportunities, but the '60s wave was probably caused by something else.

### Joyce, Joseph P.

**PD** March 2001. **TI** Time Present and Time Past: A Duration Analysis of IMF Program Spells. **AA** Wellesley College. **SR** Federal Reserve Bank of Boston Working Paper: 01/02; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: www.bos.frb.org/economic/wp/index.htm. **PG** 25. **PR** no charge; available only online. **JE** F33, F34. **KW** Monetary Policy. International Finance. International Monetary Fund. Program Spells. Emerging Economies.

**AB** The programs of the International Monetary Fund (IMF) were originally designed to provide short-term assistance to countries implementing policies to address balance of payments disequilibria. In recent decades, however, the Fund has instituted new facilities with longer time horizons, while many developing countries have adopted consecutive programs. As a result, the length of time spent by countries in IMF programs has grown, and in some cases has extended over a decade. This paper analyzes the IMF program spells for a group of emerging

economies over the period of 1982 to 1997. Duration models are used to investigate the time dependence of the failure rate of the spells and the factors that affect the duration of program spells.

#### Juhn, Grace

**PD** June 2002. **TI** Long-Run Determinants of Exchange Rate Regimes: A Simple Sensitivity Analysis. **AU** Juhn, Grace; Mauro, Paolo. **AA** Juhn: Harvard University. Mauro: IMF. **SR** International Monetary Fund Working Paper: WP/02/104; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 27. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** F31. **KW** Exchange Rate Regimes. Sensitivity Analysis.

**AB** Many studies have attempted to uncover empirical regularities in how countries choose their exchange rate regimes. We survey previous studies showing that, taken as a whole, the literature is inconclusive. Drawing on a large data set with many potential explanatory variables and a variety of exchange rate regime classifications, we test old and new theories and confirm that no robust empirical regularities emerge.

#### Julian, Luis

**TI** Implicaciones para la inflacion de la conversion de precios a euros. **AU** Gonzalez, Alvarez; Julian, Luis; Jareno Morago, Javier.

#### Jullien, Bruno

**TI** Chicken and Egg: Competing Matchmakers. **AU** Caillaud, Bernard; Jullien, Bruno.

#### Jun, Byoung

**PD** July 2001. **TI** Incentives in Dynamic Duopoly. **AU** Jun, Byoung; Vives, Xavier. **AA** Jun: Korea University. Vives: INSEAD. **SR** CEPR Discussion Paper: 2899; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** C73, D43. **KW** Adjustment Costs. Bertrand. Cournot. Differential Game. Markov Perfect Equilibrium.

**AB** We compare steady states of open loop and locally stable Markov perfect equilibria (MPE) in a general symmetric differential game duopoly model with costs of adjustment. Strategic incentives depend on whether an increase in the state variable of a firm hurts or helps the rival and on whether there is intertemporal strategic substitutability or complementarity at the MPE. Furthermore, we characterize completely strategic incentives in the linear-quadratic specification of the model and find that when production (price) is costly to adjust there is intertemporal strategic substitutability (complementarity) and the steady state of the Markov perfect equilibrium is more (less) competitive than the steady state of the open-loop equilibrium, which coincides with the static outcome. In particular, in a differentiated product duopoly market with price competition and costly production adjustment, the leadership attempts by each firm turn into Stackelberg price warfare yielding a MPE steady state outcome more competitive than static Bertrand competition. The static strategic complementarity in the price game is turned into intertemporal

strategic substitutability.

#### Kadan, Ohad

**TI** Limit Order Book as a Market for Liquidity. **AU** Foucault, Thierry; Kadan, Ohad; Kandel, Eugene.

#### Kahn, James A.

**PD** January 2003. **TI** Tracking the New Economy: Using Growth Theory to Detect Changes in Trend Productivity. **AU** Kahn, James A.; Rich, Robert. **AA** Federal Reserve Bank of New York. **SR** Federal Reserve Bank of New York Staff Report: 159; Research and Market Analysis Group, Federal Reserve Bank of New York, 33 Liberty Street, 3rd Floor, New York, NY 10045-0001. Website: www.newyorkfed.org/rmaghome. **PG** 25. **PR** no charge; available only online. **JE** C32, O47, O51. **KW** Productivity Growth. Regime-Switching.

**AB** The acceleration of productivity since 1995 has prompted a debate over whether the economy's underlying growth rate will remain high. In this paper, we propose a methodology for estimating trend growth that draws on growth theory to identify variables other than productivity -- namely consumption and labor compensation -- to help estimate trend productivity growth. We treat that trend as a common factor with two "regimes," high-growth and low-growth. Our analysis picks up striking evidence of a switch in the mid-1990s to a higher long-term growth regime, as well as a switch in the early 1970s in the other direction. In addition, we find that productivity data alone provide insufficient evidence of regime changes; corroborating evidence from other data is crucial in identifying changes in trend growth. We also argue that our methodology would be effective in detecting changes in trend in real time: In the case of the 1990s, the methodology would have detected the regime switch within two years of its actual occurrence according to subsequent data.

#### Kain, John F.

**TI** New Evidence about Brown v. Board of Education: The Complex Effects of School Racial Composition on Achievement. **AU** Hanushek, Eric A.; Kain, John F.; Rivkin, Steven G.

#### Kaiser, Regina

**PD** June 2002. **TI** A Complete Model-Based Interpretation of the Hodrick-Prescott Filter: Spuriousness Reconsidered. **AU** Kaiser, Regina; Maravall, Agustin. **AA** Kaiser: Universidad Carlos III de Madrid. Maravall: Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0208; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: www.bde.es/. **PG** 21. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** C22, C51, E32. **KW** Business-Cycle Estimation. Stochastic Trends and Cycles. Unobserved Component Models. ARIMA Models.

**AB** The Hodrick-Prescott filter applied to seasonally adjusted series has become a paradigm for business-cycle estimation at many economic agencies and institutions. We show that the filter can be obtained from MMSE estimation of the components in an unobserved component model, where the original series is decomposed into (long-term) trend, cyclical, seasonal, and (highly-transitory) irregular components. The



component models are sensible and combine desirable "ad-hoc" features with series dependent features that guarantee consistency with the data. The model-based framework provides improvements having to do with the precision of end-point estimation and the stability of the cyclical signal.

### Kalemli-Ozcan, Sebnem

**PD** January 2002. **TI** Mortality Change, the Uncertainty Effect, and Retirement. **AU** Kalemli-Ozcan, Sebnem; Weil, David N. **AA** Kalemli-Ozcan: University of Houston. Weil: Brown University and NBER. **SR** National Bureau of Economic Research Working Paper: 8742; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 15. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E21, J12, J11, J26. **KW** Mortality. Retirement. Uncertainty Effect.

**AB** We examine the role of changing mortality in explaining the rise of retirement over the course of the 20th century. We construct a model in which individuals make labor/leisure choices over their lifetimes subject to uncertainty about their date of death. In an environment in which mortality is high, an individual who saved up for retirement would face a high risk of dying before he could enjoy his planned leisure. In this case, the optimal plan is for people to work until they die. As mortality falls, however, it becomes optimal to plan, and save for, retirement. We simulate our model using actual changes in the US life table over the last century and show that this "uncertainty effect" of declining mortality would have more than outweighed the "horizon effect" by which rising life expectancy would have led to later retirement. One of our key results is that continuous changes in mortality can lead to discontinuous changes in retirement behavior.

### Kamin, Steven B.

**TI** Preventing Deflation: Lessons from Japan's Experience in the 1990s. **AU** Ahearne, Alan; Gagnon, Joseph E.; Haltmaier, Jane; Kamin, Steven B.; Erceg, Christopher; Faust, Jon; Guerrieri, Luca; Hemphill, Carter; Kole, Linda; Roush, Jennifer; Rogers, John; Sheets, Nathan; Wright, Jonathan.

**TI** Preventing Deflation: Lessons from Japan's Experience in the 1990s. **AU** Ahearne, Alan; Gagnon, Joseph E.; Haltmaier, Jane; Kamin, Steven B.; Erceg, Christopher; Faust, Jon; Guerrieri, Luca; Hemphill, Carter; Kole, Linda; Roush, Jennifer; Rogers, John; Sheets, Nathan; Wright, Jonathan.

**PD** September 2002. **TI** Identifying the Role of Moral Hazard in International Financial Markets. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 736; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 48. **PR** no charge. **JE** F33, F34, G15. **KW** Spreads. Capital Flows. Emerging Markets. Moral Hazard. International Financial Markets.

**AB** Considerable attention has been paid to the possibility that large-scale International Monetary Fund (IMF)-led financing packages may have distorted incentives in international financial markets. Yet, prior attempts to identify such distortions have yielded mixed evidence, at best. This paper makes three contributions to our ability to assess the empirical importance of moral hazard in international financial

markets. First, it is argued that because large international "bailouts" did not commence until the 1995 Mexican crisis, financial indicators prior to that time could not have reflected a significant degree of this type of moral hazard. Second, the paper argues that because private investors expect large-scale IMF-led packages to be extended primarily to economically or geo-politically important countries, moral hazard, if it exists, should lead these countries to have easier terms of access to credit than smaller, non-systemically important countries. Finally, in addition to looking at bond spreads, the focus of earlier empirical analyses of moral hazard, the paper also examines trends in capital flows to gauge the access of emerging market countries to external finance. The paper concludes that there is little support for the view that moral hazard is significantly distorting international capital markets at the present time.

**TI** Are Depreciations as Contractionary as Devaluations? A Comparison of Selected Emerging and Industrial Economies. **AU** Ahmed, Shaghil; Gust, Christopher J.; Kamin, Steven B.; Huntley, Jonathan.

### Kanagasabapathy, K.

**TI** Yield Spread as a Leading Indicator of Real Economic Activity: An Empirical Exercise on the Indian Economy. **AU** Goyal, Rajan; Kanagasabapathy, K.

### Kanbur, Ravi

**PD** July 2001. **TI** Fifty Years of Regional Inequality in China: A Journey Through Revolution, Reform and Openness. **AU** Kanbur, Ravi; Zhang, Xiabo. **AA** Kanbur: Cornell University and CEPR. **SR** CEPR Discussion Paper: 2887; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D63, N95, O18, P27, R11. **KW** Chinese Economy. Decentralization. Industrialization. Inequality. Openness. Regional Inequality.

**AB** This paper constructs and analyzes a long run time series for regional inequality in China from the Communist Revolution to the present. There have been three peaks of inequality in the last fifty years, coinciding with the Great Famine of the late 1950s, the Cultural Revolution of the late 1960s and the 1970s, and finally the period of openness and global integration in the late 1990s. Regional inequality in China in 1999 exceeds the level experienced at its peak in the Cultural Revolution, and is near the peak level of inequality experienced during the Great Famine. Econometric analysis establishes that regional inequality is explained in the different phases by three key variables -- the ratio of heavy industry to gross output value, the degree of centralization, and the degree of openness. Inequality has increased alongside spectacular performance in growth and poverty reduction. As China enters the World Trade Organization, pro-active measures encouraging liberalization and investment in the inland regions may be required to promote more equitable growth in the future.

**PD** January 2002. **TI** Civil War, Public Goods and the Social Wealth of Nations. **AU** Kanbur, Ravi; Pottebaum, David. **AA** Kanbur: Cornell University and CEPR. Pottebaum: Cornell University. **SR** CEPR Discussion Paper: 3124; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United

Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE H41, H56, O10. KW Civil War. Post-Conflict. Public Goods. Social Indicators. Social Wealth.

AB This paper establishes and explores the implications of a somewhat surprising empirical finding. Although civil war adversely affects the performance of social indicators in general, poorer countries lose less, in absolute and relative terms, than richer countries. It is argued that the explanation may lie in the extent to which richer countries have better social indicators because of more public goods, and adaptation of economic and social mechanisms to the greater abundance of public goods such as physical infrastructure. Civil war destroys public goods, and therefore damages disproportionately the countries most dependent on them. A further implication of this framework is that the post-conflict rebound in social indicators should be relatively stronger in poorer countries. The data bear out this prediction. Our results should not of course be read as implying that poorer countries need less support to avoid civil war and to cope with its aftermath. Although their losses are less, they start from a lower base; so even small declines severely impact human well being. Properly understood, our results highlight the central role that public goods play in underpinning the social wealth of nations.

#### Kandel, Eugene

TI Limit Order Book as a Market for Liquidity. AU Foucault, Thierry; Kadan, Ohad; Kandel, Eugene.

#### Kaplan, Todd R.

TI Worker Discretion and Misallocation of Talent within Firms. AU Hvide, Hans K.; Kaplan, Todd R.

PD December 2001. TI All-Pay Auctions with Variable Rewards. AU Kaplan, Todd R.; Luski, Israel; Sela, Aner; Wettstein, David. AA Kaplan: University of Exeter. Luski, Sela, and Wettstein: Ben-Gurion University. SR University of Exeter, Department of Economics Discussion Paper: 01/09; Editor, Discussion Papers in Economics, Department of Economics, School of Business and Economics, University of Exeter, Streatham Court, Rennes Drive, Exeter EX4 4PU, UK. Website: [www.ex.ac.uk/sobe](http://www.ex.ac.uk/sobe). PG 13. PR no charge. JE D44, O31, O32. KW All-Pay Auctions. Contests. Research and Development. Rent-Seeking.

AB We study all-pay auctions with variable rewards under incomplete information. In standard models, a reward depends on a bidder's privately known type; however, in our model it is also a function of his bid. We show that in such models there is a potential for paradoxical behavior where a reduction in the rewards or an increase in costs may increase the expected sum of bids or alternatively the expected highest bid.

PD December 2001. TI A Note on Revenue Effects of Asymmetry in Private-Value Auctions. AU Kaplan, Todd R.; Zamir, Shmuel. AA Kaplan: University of Exeter. Zamir: Universite Paris and Hebrew University. SR University of Exeter, Department of Economics Discussion Paper: 01/10; Editor, Discussion Papers in Economics, Department of Economics, School of Business and Economics, University of Exeter, Streatham Court, Rennes Drive, Exeter EX4 4PU, UK. Website: [www.ex.ac.uk/sobe](http://www.ex.ac.uk/sobe). PG 13. PR no charge. JE C72, D44, D82. KW Asymmetric Auctions. Asymmetric Beliefs. Affiliation. Linkage Principle.

AB We formulate a way to study whether the asymmetry of

buyers (in the sense of having different prior probability distributions of valuations) is helpful to the seller in private-value auctions (asked first by Cantillon (2001)). In our proposed formulation, this question corresponds to two important questions previously asked: Does a first-price auction have higher revenue than a second-price auction when buyers have asymmetric distributions (asked by Maskin and Riley (2000))? And does a seller enhance revenue by releasing information (asked by Milgrom and Weber (1982))? This is shown by constructing two Harsanyi games of incomplete information each having the same ex-ante distribution of valuations but in one, beliefs are symmetric while in the other beliefs are sometimes asymmetric. Our main result is that answers to all three questions coincide when values are independent and are related when values are affiliated.

#### Kaplin, Andrew

TI An Evaluation of Multi-Factor CIR Models Using LIBOR, Swap Rates, and Cap and Swaption Prices. AU Jagannathan, Ravi; Kaplin, Andrew; Sun, Steve Guoqiang.

#### Kaplow, Louis

PD December 2001. TI Moral Rules and the Moral Sentiments: Toward a Theory of an Optimal Moral System. AU Kaplow, Louis; Shavell, Steven. AA Harvard Law School and NBER. SR National Bureau of Economic Research Working Paper: 8688; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 47. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE A13, D11, D62, H00, K00. KW Moral Rules. Moral Sentiments. Guilt. Virtue.

AB We examine how moral sanctions and rewards, notably the moral sentiments involving feelings of guilt and virtue, would be employed to govern individuals' behavior if the objective were to maximize social welfare. In our model, we analyze how the optimal use of guilt and virtue is influenced by the nature of the behavior under consideration, the costs of inculcating moral rules, constraints on the capacity to experience guilt and virtue, the fact that guilt and virtue often must be applied to groups of acts rather than be tailored to every conceivable type of act, and the direct effect of feelings of guilt and virtue on individuals' utility. We also consider a number of ways that the model could be extended, discuss the extent to which our analysis is consistent with the observed use of guilt and virtue, and relate our conclusions to longstanding philosophical debates about morality.

#### Keen, Michael J.

PD February 2002. TI Tax Competition in Federations and the Welfare Consequences of Decentralization. AU Keen, Michael J.; Kotsogiannis, Christos. AA Keen: IMF. Kotsogiannis: University of Exeter. SR University of Exeter, Department of Economics Discussion Paper: 02/01; Editor, Discussion Papers in Economics, Department of Economics, School of Business and Economics, University of Exeter, Streatham Court, Rennes Drive, Exeter EX4 4PU, UK. Website: [www.ex.ac.uk/sobe](http://www.ex.ac.uk/sobe). PG 6. PR no charge. JE D62, H23. KW Tax Competition. Federal Systems. Horizontal Externalities. Vertical Externalities.

AB This paper explores the impact of intensified tax competition within federal systems characterized by the

presence of both horizontal tax externalities between the states and vertical tax externalities between states and federal government. It shows that although these point in opposite directions (horizontal towards state taxes that are too low, vertical towards state taxes that are too high), leaving the net outcome unclear, intensified tax competition always worsens their combined effect. That is, intensified lower-level tax competition -- in the form of an increase in the number of lower-level jurisdictions -- is sure to reduce welfare, but this is not because, as usually supposed, it makes excessively low state taxes even lower; rather, it is welfare-reducing either for that reason or because it makes excessively high state taxes even higher.

### **Kehoe, Patrick J.**

**TI** The Transition to a New Economy After the Second Industrial Revolution. **AU** Atkeson, Andrew; Kehoe, Patrick J.

**TI** The Advantage of Transparent Instruments of Monetary Policy. **AU** Atkeson, Andrew; Kehoe, Patrick J.

**TI** Measuring Organization Capital. **AU** Atkeson, Andrew; Kehoe, Patrick J.

### **Keller, Wolfgang**

**PD** January 2002. **TI** International Technology Diffusion. **AA** University of Texas and CEPR. **SR** CEPR Discussion Paper: 3133; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F00, F10, F21, O30. **KW** Divergence. Embodied Technology. Foreign Direct Investment. Technology Diffusion. **AB** This paper discusses the concept and empirical importance of international technology diffusion from the point of view of recent work on endogenous technological change. In this literature, technology is viewed as technological knowledge. This paper first reviews major concepts and discusses the relation of international technology diffusion with other mechanisms of economic growth in open economies. The main section of the paper provides a review of recent empirical results on: (i) basic results in international technology diffusion; (ii) the importance of specific channels of diffusion, in particular trade and foreign direct investment; (iii) the spatial distribution of technological knowledge; and (iv) other issues.

### **Kempf, Hubert**

**TI** Monetary Policy and the Financial Accelerator in a Monetary Union. **AU** Gilchrist, Simon; Hairault, Jean-Olivier; Kempf, Hubert.

### **Kenny, Geoff**

**TI** The Rationality of Consumers' Inflation Expectations: Survey-Based Evidence for the Euro Area. **AU** Forsells, Magnus; Kenny, Geoff.

### **Kessler, Daniel**

**TI** Is More Information Better? The Effects of "Report Cards" on Health Care Providers. **AU** Dranove, David; McClellan, Mark; Kessler, Daniel; Satterthwaite, Mark.

### **Khan, Mahmood Hasan**

**PD** May 2002. **TI** When is Economic Growth Pro-Poor?

Experiences in Malaysia and Pakistan. **AA** Simon Fraser University. **SR** International Monetary Fund Working Paper: WP/02/85; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 33. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** I30, O20, O40, O57. **KW** Economic Growth. Poverty. Malaysia. Pakistan.

**AB** This paper focuses on two central issues related to the contrasting experiences of Malaysia and Pakistan regarding poverty reduction. First, it examines the structure of economic growth and its proximate determinants in the two countries, including the initial conditions, institutional changes, and macroeconomic policies. Second, it analyzes the links between economic growth and poverty reduction, particularly focusing on public policy mechanisms to reduce poverty and inequality. Malaysia, unlike Pakistan, was able to sustain rapid economic growth with equally impressive reduction in poverty because the governments included the poverty reduction goal in national development plans and pursued policies consistent with the twin goals.

### **Kilian, Lutz**

**TI** Do We Really Know that Oil Caused the Great Stagflation? A Monetary Alternative. **AU** Barsky, Robert B.; Kilian, Lutz.

### **Klein, Michael W.**

**PD** August 2000. **TI** Troubled Banks, Impaired Foreign Direct Investment: The Role of Relative Access to Credit. **AU** Klein, Michael W.; Peek, Joe; Rosengren, Eric S. **AA** Klein: Tufts University. Peek: Gattan College of Business and Economics. Rosengren: Federal Reserve Bank of Boston. **SR** Federal Reserve Bank of Boston Working Paper: 00/04; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: [www.bos.frb.org/economic/wp/index.htm](http://www.bos.frb.org/economic/wp/index.htm). **PG** 37. **PR** no charge; available only online. **JE** F21, G21. **KW** Foreign Direct Investment. Credit. Japanese. Relative Wealth Hypothesis.

**AB** The relative wealth hypothesis of Froot and Stein (1991), motivated by the aggregate correlation between real exchange rates and foreign direct investment (FDI) observed in the 1980s, cannot explain one of the major shifts in FDI in the 1990s: the continued decline in Japanese FDI during a period of stable stock prices and a rapidly appreciating yen. However, when the relative wealth hypothesis is supplemented with the relative access to credit hypothesis proposed in this study, we are able to show that unequal access to credit by Japanese firms can explain the FDI puzzle in the 1990s.

### **Kleiner, Morris M.**

**PD** January 2002. **TI** Do Industrial Relations Institutions Impact Economic Outcomes?: International and U.S. State-Level Evidence. **AU** Kleiner, Morris M.; Ham, Hwiwon. **AA** Kleiner: University of Minnesota and NBER. Ham: University of Minnesota. **SR** National Bureau of Economic Research Working Paper: 8729; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 22. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F21, J58. **KW** Labor Market Institutions. Foreign Direct Investment. Collective Bargaining. Growth.

**AB** The impact of government social and labor market

institutions on economic outcomes have generated a great deal of attention by economists and policymakers in the U.S. and in other nations. The theoretical model suggests that there are trade offs of higher levels of economic outcomes with more equity-producing labor market institutions. This study examines the impact of national levels of unionization, strike levels, public policies toward labor, and the structure of collective bargaining within a nation on a country's foreign direct investment (FDI). As an additional test of the relationship of labor market institutions and state labor market policies and economic outcomes, we examine the empirical relationship with the economic growth of U.S. states. Examining 20 Organization for Economic Co-operation and Development (OECD) nations from 1985 through 1995 and all U.S. states from 1990 to 1999, our statistical analysis shows that higher levels of industrial relations institutions are usually associated with lower levels of FDI and slower economic growth for U.S. states. However, within the context of the model the results do not necessarily suggest that a nation or state would be better off trading social equity through fewer restrictive industrial relations institutions for higher levels of economic growth.

#### **Klenow, Peter J.**

**TI** The Variety and Quality of a Nation's Trade.  
**AU** Hummels, David; Klenow, Peter J.

#### **Klingebiel, Daniela**

**TI** Financial Restructuring in Banking and Corporate Sector Crises: What Policies to Pursue? **AU** Claessens, Stijn; Klingebiel, Daniela; Laeven, Luc.

#### **Knarvik, Karen-Helene Midelfart**

**TI** Economies of Scale in European Manufacturing Revisited. **AU** Henriksen, Espen; Knarvik, Karen-Helene Midelfart; Steen, Frode.

#### **Kneip, Alois**

**TI** Aggregation Under Structural Stability: The Change in Consumption of a Heterogeneous Population.  
**AU** Hildenbrand, Werner; Kneip, Alois.

#### **Knobl, Adalbert**

**PD** May 2002. **TI** The Estonian Currency Board: Its Introduction and Role in the Early Success of Estonia's Transition to a Market Economy. **AU** Knobl, Adalbert; Sutt, Andres; Zavoico, Basil. **AA** Knobl and Zavoico: IMF. Sutt: Bank of Estonia. **SR** International Monetary Fund Working Paper: WP/02/96; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 21. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E63, E65, P21. **KW** Currency Reform. Exchange Arrangements. Currency Board. Transition Economy. Estonia.

**AB** This paper reviews the history of the introduction of the Estonian kroon under a currency board arrangement. On June 20, 1992, Estonia became the first country from the former Soviet Union to abandon the Russian ruble and introduce its own currency. The paper looks at the factors behind this decision and discusses the implementation of the currency reform. It then assesses the economic impact of the reform and also compares Estonia's experience with that of its Baltic

neighbors. It concludes that although the currency board arrangement made an important contribution to the early success of Estonia's economic stabilization and reform program, the underlying financial and structural policies were crucial for that success.

#### **Kocenda, Evzen**

**PD** January 2002. **TI** Development of Ownership Structure and its Effect on Performance: Czech Firms from Mass Privatization. **AA** CERGE-EI and CEPR. **SR** CEPR Discussion Paper: 3139; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C23, D21, G32, L20. **KW** Firm Performance. Ownership Structure. Panel Data. Type of Owner. Voucher Privatization.

**AB** This paper works with a broad data sample of Czech voucher-privatized firms during 1996-99. It analyses the development of ownership structure and consequently its effect on a firm's performance. Ownership concentration had been quite high in 1996 and steadily increased. The single largest owner was found to be a decisive shareholder. Industrial companies have been the most stable shareholder and recorded the largest ownership gains. Ownership concentration alone does not explain a change in a firm's performance and no industry sector was found to have a specific effect on it. We found evidence that several types of owners have an effect on certain performance measures. There does not exist support that type of owner has an effect on a firm's performance in general, however.

#### **Koch, Alexander K.**

**PD** November 2001. **TI** Clustering of Trading Activity in the DAX Index Options Market. **AU** Koch, Alexander K.; Lazarov, Zdravetz. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 30/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 26. **PR** no charge. **JE** C24, G13. **KW** Clustering. Incidental Truncation. Index Options. Trading Volume. Options.

**AB** Trades in DAX index options with identical maturities cluster around particular classes of strike prices. For example, options with strikes ending on 50 are less traded than options with strikes ending on 00. Clustering is higher when options with close strike prices are good substitutes. The degree of substitution between options with neighboring strikes depends on the strike price grid and options' characteristics. Using regression analysis we analyze the relation between clustering, grid size, and the options' characteristics. To our knowledge this paper is the first to explore how the grid size of strike prices affects options' trading volume.

#### **Koedijk, Kees**

**TI** Increased Correlation in Bear Markets: A Downside Risk Perspective. **AU** Campbell, Rachel; Koedijk, Kees; Kofman, Paul.

**TI** Stock Market Quality in the Presence of a Traded Option.  
**AU** de Jong, Cyriel; Koedijk, Kees; Schnitzlein, Charles.

**Koeniger, Winfried**

**TI** Dealer Pricing of Consumer Credit. **AU** Bertola, Giuseppe; Hochguertel, Stefan; Koeniger, Winfried.

**Kofman, Paul**

**TI** Increased Correlation in Bear Markets: A Downside Risk Perspective. **AU** Campbell, Rachel; Koedijk, Kees; Kofman, Paul.

**Koop, Gary**

**PD** March 2003. **TI** Forecasting in Large Macroeconomic Panels Using Bayesian Model Averaging. **AU** Koop, Gary; Potter, Simon. **AA** Koop: University of Glasgow. Potter: Federal Reserve Bank of New York. **SR** Federal Reserve Bank of New York Staff Report: 163; Research and Market Analysis Group, Federal Reserve Bank of New York, 33 Liberty Street, 3rd Floor, New York, NY 10045-0001. Website: [www.newyorkfed.org/rmaghome](http://www.newyorkfed.org/rmaghome). **PG** 32. **PR** no charge; available only online. **JE** C11, C53, E37. **KW** Bayesian. Forecasting. Macroeconomic Panels.

**AB** This paper considers the problem of forecasting in large macroeconomic panels using Bayesian model averaging. Practical methods for implementing Bayesian model averaging with factor models are described. These methods involve algorithms that simulate from the space defined by all possible models. We explain how these simulation algorithms can also be used to select the model with the highest marginal likelihood (or highest value of an information criterion) in an efficient manner. We apply these methods to the problem of forecasting gross domestic product (GDP) and inflation using quarterly U.S. data on 162 time series. Our analysis indicates that models containing factors do outperform autoregressive models in forecasting both GDP and inflation, but only narrowly and at short horizons. We attribute these findings to the presence of structural instability and the fact that lags of the dependent variable seem to contain most of the information relevant for forecasting.

**Kopcke, Richard W.**

**PD** June 2000. **TI** Deposit Insurance, Capital Requirements, and Financial Stability. **AA** Federal Reserve Bank of Boston. **SR** Federal Reserve Bank of Boston Working Paper: 00/03; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: [www.bos.frb.org/economic/wp/index.htm](http://www.bos.frb.org/economic/wp/index.htm). **PG** 44. **PR** no charge; available only online. **JE** E22, E53. **KW** Insurance. Investments. Financial Crises. Capital Requirements.

**AB** This paper assesses the effects of insurance and capital requirements on assets' equilibrium returns in a capital-asset-pricing model in which intermediaries possess better information than the public about the yields on a set of assets. Equilibrium returns depend on two risk premiums that intermediaries incur on their liabilities: an explicit premium that reflects the public's view of the risks inherent in intermediaries' assets and an implicit premium that reflects intermediaries' risk of losing a share of their rent by leveraging their capital. Insurance reduces intermediaries' cost of funds, thereby reducing risk premiums on assets and stabilizing equilibrium returns when the public's assessment of yields changes.

**Kotsogiannis, Christos**

**PD** December 2001. **TI** Political Uncertainty and Policy Innovation. **AU** Kotsogiannis, Christos; Schwager, Robert. **AA** Kotsogiannis: University of Exeter. Schwager: ZEW. **SR** University of Exeter, Department of Economics Discussion Paper: 01/11; Editor, Discussion Papers in Economics, Department of Economics, School of Business and Economics, University of Exeter, Streatham Court, Rennes Drive, Exeter EX4 4PU, UK. Website: [www.ex.ac.uk/sobe](http://www.ex.ac.uk/sobe). **PG** 21. **PR** no charge. **JE** D72, H11. **KW** Policy Uncertainty. Political Uncertainty. Fiscal Federalism. Policy Innovation. Experimentation.

**AB** This paper provides an analysis of the interaction between policy experimentation and political incentives. In particular we ask: how well does a political system with elections work in separating selfish from benevolent politicians and providing innovative policies? And, how does the interaction between the democratic system and the incentives to innovate change as the information context becomes richer? Two contrasting forces in shaping political outcomes are identified, on the one hand the availability of external information improves the working of the political system but on the other hand it reduces the incentives to innovate. It is shown that, contrary to conventional wisdom, an increase in external information may reduce welfare.

**TI** Tax Competition in Federations and the Welfare Consequences of Decentralization. **AU** Keen, Michael J.; Kotsogiannis, Christos.

**Kovanen, Arto**

**PD** April 2002. **TI** Reserve Requirements on Foreign Currency Deposits in Sub-Saharan Africa -- Main Features and Policy Implications. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/65; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 16. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E50, F31. **KW** Reserve Requirements. Foreign Currency Deposits. Liquidity Management. Sub-Saharan Africa.

**AB** This paper reviews the reserve requirement arrangements of sub-Saharan Africa, focusing on the differences between reserve requirements on domestic- and foreign-currency deposits. The reserve requirement systems in sub-Saharan Africa are relatively simple and transparent, but in some countries high unremunerated reserve ratios impose a significant implicit tax on the banks. The currency denomination of the foreign currency reserve deposits raises concern in countries undergoing large macroeconomic changes or experiencing exchange rate volatility.

**Kraekel, Matthias**

**PD** November 2001. **TI** Risk Taking in Asymmetric Tournaments. **AU** Kraekel, Matthias; Sliwka, Dirk. **AA** Kraekel: University of Bonn. Sliwka: not available. **SR** Bonn Econ Discussion Paper: 33/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 10. **PR** no charge. **JE** D23, D81, J33, M12. **KW** Effort. Likelihood Effect. Risk Taking. Tournaments.

**AB** In an asymmetric tournament model with endogenous risk choice by the agents it is shown that equilibrium efforts

decrease (increase) with risk if abilities are sufficiently similar (different). Risk also affects winning probabilities. The interaction of both effects is analyzed.

**PD** November 2001. **TI** U-Type Versus J-Type Tournaments. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 34/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. **Website:** [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 27. **PR** no charge. **JE** J31, J33, M12. **KW** Collusion. Human Capital. Relative Deprivation. Tournaments.

**AB** In practice, two types of tournaments can be distinguished -- U-type and J-type tournaments. In U-type tournaments, workers receive prizes that have been fixed in advance. In J-type tournaments, the employer fixes an aggregate wage bill in advance, which is then shared among the workers according to their relative performance. The results of the paper show that the outcomes of the two tournament types substantially differ. An employer will prefer J-type to U-type tournaments if the number of workers is large, whereas the opposite holds for small numbers of workers.

**PD** January 2002. **TI** Strategic Delegation and Mergers in Oligopolistic Contests. **AU** Kraekel, Matthias; Sliwka, Dirk. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 02/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. **Website:** [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 46. **PR** no charge. **JE** L13, L19, M21. **KW** Delegation. Contests. Mergers. Oligopoly.

**AB** In this paper, we combine the strategic delegation approach of Fershtman-Judd-Sklivas with contests. The results show that besides a symmetric equilibrium there also exist asymmetric equilibria in which one owner induces pure sales maximization to his manager so that all the other firms drop out of the market. If merging is allowed on an initial stage, the resulting merged subgame perfect equilibria show that there is strictly more merging under contest than under Cournot competition. We also compare our findings with the previous results on contest models with delegation and find that the outcomes for the Fershtman-Judd-Sklivas incentive scheme clearly differ. In particular, in our model we have a prisoner's-dilemma-like situation where delegation is individually rational for each owner, but all owners are worse off compared to non-delegation.

**PD** January 2002. **TI** U-Type versus J-Type Tournaments as Alternative Solutions to the Unverifiability Problem. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 03/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. **Website:** [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 45. **PR** no charge. **JE** J31, J33, M12. **KW** Incentives. Personnel Policy. Tournaments. Unverifiability. Labor Contracts.

**AB** This paper discusses the properties of stylized U.S. ("U-type") and Japanese ("J-type") tournaments, which can both solve the unverifiability problem of labor contracts. Under a zero-profit condition, both tournament types will yield first-best efforts if workers are homogeneous and risk neutral. This result will no longer hold for J-type tournaments if the employer has all the bargaining power. However, if workers are risk averse or one worker has a lead a J-type tournament may dominate a U-type tournament.

### Krogstrup, Signe

**PD** August 2002. **TI** Public Debt Asymmetries: The Effect on Taxes and Spending in the European Union. **AA** UN ESCWA. **SR** European Central Bank Working Paper: 162; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. **Website:** [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 56. **PR** no charge. **JE** H23, H63, H73, H87. **KW** Public Debt. Public Finance. European Union. Asymmetric. Tax Competition.

**AB** The aim of this paper is two-fold: First, assuming public debts are pre-determined and in their steady state in European Union (EU) countries, the paper investigates the effect of asymmetric debt service obligations on taxes, primary spending and the tax mix in EU countries. Second, it investigates how increased tax competition may change these effects. The impact of debt service on taxes, primary spending and the tax mix is derived in a simple model of tax competition, and the hypotheses derived from the model are tested empirically for a panel of EU countries. Cross-country differences in public debts are found to lead to asymmetries in taxes and primary expenditures across EU countries, with high debt countries having lower expenditures and higher taxes than low debt countries. Capital mobility is found to increase these asymmetries, and trigger cross-country asymmetries in the tax mix of EU countries.

### Kroszner, Randall S.

**PD** December 2001. **TI** Throwing Good Money After Bad? Board Connections and Conflicts in Bank Lending. **AU** Kroszner, Randall S.; Strahan, Philip E. **AA** Kroszner: University of Chicago and NBER. Strahan: Boston College. **SR** National Bureau of Economic Research Working Paper: 8694; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** [www.nber.org](http://www.nber.org). **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** G21, G34. **KW** Banks. Lending and Borrowing. Corporate Governance. Board Linkages. Information Costs.

**AB** This paper investigates the frequency of connections between banks and non-financial firms through board linkages and whether those connections affect lending and borrowing behavior. Although a board linkage may reduce the costs of information flows between the lender and borrower, a board linkage may generate pressure for special treatment of a borrower not normally justifiable on economic grounds. To address this issue, we first document that banks are heavily involved in the corporate governance network through frequent board linkages. We then show that low-information cost firms -- large firms with a high proportion of tangible assets and relatively stable stock returns -- are most likely to have board connections to banks. These same low-information cost firms are also more likely to borrow from their connected bank, and when they do so the terms of the loan appear similar to loans to unconnected firms. In contrast to studies of Mexico, Russia and Asia where connections have been misused, our results suggest that avoidance of potential conflicts of interest explains both the allocation and behavior of bankers in the U.S. corporate governance system.

### Krueger, Alan B.

**PD** March 2001. **TI** Would Smaller Classes Help Close the Black-White Achievement Gap? **AU** Krueger, Alan B.; Whitmore, Diane M. **AA** Krueger: Princeton University and

NBER. Whitmore: Princeton University. **SR** Princeton University, Industrial Relations Section Working Paper: 451; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. Website: [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). **PG** 32. **PR** no charge for single copies. **JE** 120, J15. **KW** Achievement. Class Size. Race.

**AB** We examine the effect of smaller classes on student outcomes, with particular attention to differential effects by race. We present new results from Tennessee's Project STAR -- an experiment that randomly assigned 11,600 elementary school students and their teachers to a small or normal-size class from kindergarten through third grade. We analyze the effect of past attendance in a small class on test scores through the eighth grade, on whether students took a college entrance exam, performance on the exam, criminal conviction rates, and teen childbearing. We find that African-American students tend to benefit more than white students from small-class attendance. For example, being assigned to a small class reduces the black/white gap in college test-taking rates by 60 percent.

**TI** Another Look at Whether a Rising Tide Lifts All Boats. **AU** Hines, James R., Jr.; Hoynes, Hilary; Krueger, Alan B.

**TI** Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments. **AU** Angrist, Joshua D.; Krueger, Alan B.

**TI** Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments. **AU** Angrist, Joshua D.; Krueger, Alan B.

**PD** January 2002. **TI** Strikes, Scabs and Tread Separations: Labor Strife and the Production of Defective Bridgestone/Firestone Tires. **AU** Krueger, Alan B.; Mas, Alexandre. **AA** Krueger: Princeton University and NBER. Mas: Princeton University. **SR** Princeton University, Industrial Relations Section Working Paper: 461; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. Website: [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). **PG** 33. **PR** no charge for single copies. **JE** J52, J53, L60. **KW** Strikes. Product Quality. Manufacturing. Labor Market.

**AB** This paper studies the effect of labor relations on product quality. We consider whether a long, contentious strike and the hiring of permanent replacement workers by Bridgestone/Firestone in the mid-1990s contributed to the production of an excess number of defective tires. Using several independent data sources we find that labor strife in the Decatur plant closely coincided with lower product quality. Count data regression models based on two data sets of tire failures by plant, year and age show significantly higher failure rates for tires produced in Decatur during the labor dispute than before or after the dispute, or than at other plants. Also, an analysis of internal Firestone engineering tests indicates that P235 tires from Decatur performed less well if they were manufactured during the labor dispute compared with those produced after the dispute, or compared with those from other, non-striking plants. Monthly data suggest that the production of defective tires was particularly high around the time wage concessions were demanded by Firestone in early 1994 and when large numbers of replacement workers and permanent workers worked side by side in 1996.

### Kuijs, Louis

**PD** May 2002. **TI** Monetary Policy Transmission Mechanisms and Inflation in the Slovak Republic. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/80; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 19. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** C32, C51, E31, E52. **KW** Monetary Policy. Inflation. Transmission Mechanisms. Transition. Slovak Republic.

**AB** This paper presents the results of an empirical analysis into monetary policy transmission mechanisms and inflation in the Slovak Republic. The estimated vector auto regression (VAR) model suggests that inflation is determined by changes in foreign prices, the exchange rate, and wage costs, with a modest effect of aggregate demand, in line with theory for small, open economies. Monetary policy is shown to affect inflation via these channels. Changes in money supply seem to have a modest but rapid impact on prices. The measured effect of interest rate changes is modest and gradual, although it appears to have become more important in recent years.

### Kumar, Alok

**TI** Equity Portfolio Diversification. **AU** Goetzmann, William N.; Kumar, Alok.

### Kupiec, Paul

**PD** June 2002. **TI** Calibrating Your Intuition: Capital Allocation for Market and Credit Risk. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/99; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 20. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** G13, G21, G28, G31. **KW** Value at Risk. Market Risk. Credit Risk. Capital Allocation.

**AB** Value-at-risk (VaR) models often are used to estimate the equity investment that is required to limit the default rate on funding debt. Typical VaR "buffer stock" capital calculations produce biased estimates. To ensure accuracy, VaR must be modified by (1) measuring loss relative to initial market value, and (2) augmenting VaR to account for the interest income required by investors. While this issue has been identified in the market risk setting, it has yet to be recognized in the credit risk literature. Credit VaR techniques, as typically described, are not an appropriate basis for setting equity capital allocations.

### La Ferrara, Eliana

**TI** Preferences for Redistribution in the Land of Opportunities. **AU** Alesina, Alberto F.; La Ferrara, Eliana.

### Lach, Saul

**PD** January 2002. **TI** Existence and Persistence of Price Dispersion: An Empirical Analysis. **AA** Hebrew University and NBER. **SR** National Bureau of Economic Research Working Paper: 8737; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 14. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C81, L11. **KW** Israel. Price Dispersion. Persistence.

**AB** Using a unique data set on store-level monthly prices of four homogenous products sold in Israel, this paper studies the

existence and characteristics of the dispersion of prices across stores, as well as its persistence overtime. The paper finds that price dispersion prevails even after controlling for observed and unobserved product heterogeneity. Moreover, intra-distribution mobility is significant: stores move up and down the cross-sectional price distribution. Thus, consumers cannot learn about stores that consistently post low prices. As a consequence, price dispersion does not disappear and persists over time as predicted by Varian's (1980) model of sales.

#### Lachance, Marie-Eve

**PD** January 2002. **TI** Guaranteeing Defined Contribution Pensions: The Option to Buy-Back a Defined Benefit Promise. **AU** Lachance, Marie-Eve; Mitchell, Olivia S. **AA** Lachance: University of Pennsylvania. Mitchell: University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 8731; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 20. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G23, G28. **KW** Option Design. Defined Contribution. Defined Benefit. Buy-Back Option. Public Pension. **AB** After a long commitment to defined benefit (DB) pension plans for US public sector employees, many state legislatures have introduced defined contribution (DC) plans for their public employees. In this process, investment risk which was previously borne by state DB plans has now devolved to employees covered by the new DC plans. In light of this trend, some states have introduced a guarantee mechanism to help protect DC plan participants. One such guarantee takes the form of an option permitting DC plan participants to buy back their DB benefit for a price. This paper develops a theoretical framework to analyze the option design and illustrate how employee characteristics influence the option's cost. We illustrate the potential magnitude of a buy-back option value enacted recently by the State of Florida for its public employees. If employees were to exercise the buy-back option optimally, the market value of this option could represent up to 100 percent of the DC contributions over the worklife.

#### Lack, Caesar P.

**TI** Giving Up the Swiss Franc: Some Consideration on Seigniorage Flows Under EMU. **AU** Fischer, Andreas M.; Jordan, Thomas; Lack, Caesar P.

#### Laeven, Luc

**TI** Financial Restructuring in Banking and Corporate Sector Crises: What Policies to Pursue? **AU** Claessens, Stijn; Klingebiel, Daniela; Laeven, Luc.

#### Lafourcade, Miren

**TI** Transport Cost Decline and Regional Inequalities: Evidence from France. **AU** Combes, Pierre-Philippe; Lafourcade, Miren.

#### Lai, Edwin L. C.

**TI** International Protection of Intellectual Property. **AU** Grossman, Gene; Lai, Edwin L. C.

**TI** International Protection of Intellectual Property. **AU** Grossman, Gene; Lai, Edwin L. C.

#### Lamo, Ana

**TI** Short-Term Monitoring of Fiscal Policy Discipline. **AU** Camba-Mendez, Gonzalo; Lamo, Ana.

#### Lane, Philip R.

**PD** July 2001. **TI** Long-Term Capital Movements. **AU** Lane, Philip R.; Milesi-Ferretti, Gian Maria. **AA** Lane: Trinity College, Dublin. Milesi-Ferretti: International Monetary Fund. **SR** National Bureau of Economic Research Working Paper: 8366; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F21, F34. **KW** Net Foreign Assets. Foreign Assets. Trade Balance. Long-Term Capital Movements. Capital Movements.

**AB** International financial integration allows countries to become net creditors or net debtors with respect to the rest of the world. In this paper, we show that a small set of fundamentals -- shifts in relative output levels, the stock of public debt, and demographic factors -- can do much to explain the evolution of net foreign asset positions. In addition, we highlight that "external wealth" plays a critical role in determining the behavior of the trade balance, both through shifts in the desired net foreign asset position and the investment returns generated on the outstanding stock of net foreign assets. Finally, we provide some evidence that a portfolio balance effect exists: real interest rate differentials are inversely related to net foreign asset positions.

**PD** January 2002. **TI** External Wealth, the Trade Balance and the Real Exchange Rate. **AU** Lane, Philip R.; Milesi-Ferretti, Gian Maria. **AA** Lane: Trinity College, Dublin and CEPR. Milesi-Ferretti: IMF. **SR** CEPR Discussion Paper: 3153; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F21, F31, F41. **KW** Net Foreign Assets. Trade Balance. Real Exchange Rate.

**AB** We examine the link between the net foreign asset position, the trade balance and the real exchange rate. In particular, we decompose the impact of a country's net foreign asset position ("external wealth") on its long-run real exchange rate into two mechanisms: the relation between external wealth and the trade balance; and, holding fixed other determinants, a negative relation between the trade balance and the real exchange rate. We also provide additional evidence that the relative price of nontradables is an important channel linking the trade balance and the real exchange rate.

#### Lane, Timothy

**PD** October 2002. **TI** Capital Flows to Transition Economies: Master or Servant? **AU** Lane, Timothy; Mourmouras, Alex; Lipschitz, Leslie. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/11R; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 23. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E40, F30, F32, P20. **KW** Central and Eastern Europe. Capital Flows. Convergence. Macroeconomic Policy.

**AB** This paper discusses the forces driving capital flows in the transition countries of Central and Eastern Europe (CEE). It



argues that various influences -- specifically, the real exchange rate history and trend and the factor intensity of production -- can combine to motivate very large capital inflows. These inflows can either undermine attempts at monetary restraint or force excessive appreciations. They can also render the economy highly vulnerable to shifts in market sentiment. The policy implications of the analysis are awkward: exposure to global capital markets sets up difficult dilemmas for policy and leads to vulnerabilities that can be reduced but not eliminated.

### Lazarov, Zdravetz

**TI** Clustering of Trading Activity in the DAX Index Options Market. **AU** Koch, Alexander K.; Lazarov, Zdravetz.

### Le Borgne, Eric

**PD** May 2002. **TI** Candidate Entry, Screening, and the Political Budget Cycle. **AU** Le Borgne, Eric; Lockwood, Ben. **AA** Borgne: IMF. Lockwood: University of Warwick. **SR** International Monetary Fund Working Paper: WP/02/48R; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 30. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** D72, D78, D82, E62, H60. **KW** Asymmetric Information. Citizen-Candidate. Representative Democracy. Signaling Games. Political Budget Cycles.

**AB** We investigate whether private information about citizens' competence in political office can be revealed by their entry and campaign expenditure decisions. We find that this depends on whether voters and candidates have common or conflicting interests; only in the former case can entry be revealing. We apply these results to Rogoff's (1990) political budget cycle model: as interests are common, low-ability candidates are screened out at the entry stage, and so there is no signaling via fiscal policy. In a variant of Rogoff's model where citizens differ in honesty, interests are conflicting, so the political budget cycle can persist.

### Leahy, John

**TI** Retirement Consumption: Insights from a Survey. **AU** Ameriks, John; Caplin, Andrew; Leahy, John.

### Leamer, Edward E.

**PD** August 2001. **TI** The Economic Geography of the Internet Age. **AU** Leamer, Edward E.; Storper, Michael. **AA** Leamer: UCLA and NBER. Storper: UCLA. **SR** National Bureau of Economic Research Working Paper: 8450; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 25. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F15, L86, R11, R12. **KW** Internet. Location of Economic Activity. Agglomeration. **AB** This paper combines the perspective of an international economist with that of an economic geographer to reflect on how and to what extent the Internet will affect the location of economic activity. Even after the very substantial transportation and communication improvements during the 20th Century, most exchanges of physical goods continue to take place within geographically-limited "neighborhoods." Previous rounds of infrastructure improvement always have had a double effect, permitting dispersion of certain routine activities but also increasing the complexity and time-

dependence of productive activity, and thus making agglomeration more important. We argue that the Internet will produce more of the same -- forces for deagglomeration, but offsetting and possibly stronger tendencies toward agglomeration. Increasingly the economy is dependent on the transmission of complex uncodifiable messages, which require understanding and trust that historically have come from face-to-face contact. This is not likely to be affected by the Internet, which allows long distance "conversations" but not "handshakes."

### Lee, David S.

**PD** August 2001. **TI** The Electoral Advantage to Incumbency and Voters' Valuation of Politicians' Experience: A Regression Discontinuity Analysis of Elections to the U.S. House. **AA** UC Berkeley and NBER. **SR** National Bureau of Economic Research Working Paper: 8441; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 30. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D70, D72, J00. **KW** Elections. Political Incumbency. Experience. Voting Behavior.

**AB** Using data on elections to the United States House of Representatives (1946-1998), this paper exploits a quasi-experiment generated by the electoral system in order to determine if political incumbency provides an electoral advantage -- an implicit first-order prediction of principal-agent theories of politician and voter behavior. Candidates who just barely won an election (barely became the incumbent) are likely to be ex ante comparable in all other ways to candidates who barely lost, and so their differential electoral outcomes in the next election should represent a true incumbency advantage. The regression discontinuity analysis provides striking evidence that incumbency has a significant causal effect of raising the probability of subsequent electoral success -- by about 0.40 to 0.45. Simulations -- using estimates from a structural model of individual voting behavior -- imply that about two-thirds of the apparent electoral success of incumbents can be attributed to voters' valuation of politicians' experience. The quasi-experimental analysis also suggest that heuristic "fixed effects" and "instrumental variable" modeling approaches would have led to misleading inferences in this context.

### Lee, Jong-Wha

**TI** Recovery and Sustainability in East Asia. **AU** Park, Yung Chul; Lee, Jong-Wha.

### Leon, Hyginus

**TI** Dread of Depreciation: Measuring Real Exchange Rate Interventions. **AU** Dutta, Jayasri; Leon, Hyginus.

### Levin, Andrew T.

**TI** Recent U.S. Macroeconomic Stability: Good Policies, Good Practices, or Good Luck? **AU** Ahmed, Shaghil; Levin, Andrew T.; Wilson, Beth Anne.

**TI** Optimal Monetary Policy with Durable and Non-Durable Goods. **AU** Erceg, Christopher J.; Levin, Andrew T.

### Levine, David K.

**TI** Learning to Play Bayesian Games. **AU** Dekel, Eddie; Fudenberg, Drew; Levine, David K.

**Levy Yeyati, Eduardo**

TI Endogenous Deposit Dollarization. AU Broda, Christian; Levy Yeyati, Eduardo.

**Levy, Horacio**

TI Indicators for Social Inclusion in the European Union: How Responsive Are They to Macro-Level Changes? AU Feres, Patricio; Immervoll, Herwig; Lietz, Christine; Levy, Horacio; Mantovani, Daniela; Sutherland, Holly.

TI Indicators for Social Inclusion in the European Union: How Responsive Are They to Macro-Level Changes? AU Feres, Patricio; Immervoll, Herwig; Lietz, Christine; Levy, Horacio; Mantovani, Daniela; Sutherland, Holly.

**Lewis, Mark**

TI An Intern Assessment of Ukrainian Output Developments, 2000-01. AU Berengaut, Julian; De Vrijer, Erik; Elborgh-Woytek, Katrin; Lewis, Mark; Lissovlik, Bogdan.

TI An Intern Assessment of Ukrainian Output Developments, 2000-01. AU Berengaut, Julian; De Vrijer, Erik; Elborgh-Woytek, Katrin; Lewis, Mark; Lissovlik, Bogdan.

**Ley, Eduardo**

PD April 2002. TI Statistical Inference as a Bargaining Game. AA IMF. SR International Monetary Fund Working Paper: WP/02/81; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). PG 10. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE C11, C70. KW Social Welfare Function. Social Information Function. Nash Bargaining Solution. Bayesian Inference. Posterior Mode. AB This paper extends the analogy, previously established by Leamer (1978a), between a Bayesian inference problem and an economic allocation problem to show that posterior modes can be interpreted as optimal outcomes of a bargaining game. This bargaining game, over a parameter value, is played between two players: the researcher (with preferences represented by the prior) and the data (with preferences represented by the likelihood).

**Lichtenberg, Frank R.**

PD December 2001. TI The Effect of New Drugs on Mortality from Rare Diseases and HIV. AA Columbia University and NBER. SR National Bureau of Economic Research Working Paper: 8677; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 15. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE I10, I12, L65, O31. KW Mortality. HIV. New Drugs. Rare Diseases.

AB This paper investigates the effect of large increases in the number of drugs available to treat rare diseases and HIV on mortality associated with them. Mortality from both diseases declined dramatically following increases in drug approvals. Before the Orphan Drug Act went into effect, mortality from rare diseases grew at the same rate as mortality from other diseases. In contrast, during the next five years, mortality from rare diseases grew more slowly than mortality from other diseases. This paper estimates that one additional orphan drug

approval in year  $t$  prevents 211 deaths in year  $t+1$  and ultimately prevents 499 deaths, and that about 108000 deaths from rare diseases will ultimately be prevented by all of the 216 orphan drugs that have been approved since 1983. Deaths are more closely related to the number of orphan product designations than they are to the number of approvals. This paper finds that new drugs played a key role in the post-1995 decline in HIV mortality. HIV mortality depends on both the quality and the quantity of medications consumed, and new drug approvals have a sizeable impact on drug consumption.

**Liebman, Jeffrey B.**

TI Social Security. AU Feldstein, Martin; Liebman, Jeffrey B.

**Lietz, Christine**

TI Indicators for Social Inclusion in the European Union: How Responsive Are They to Macro-Level Changes? AU Feres, Patricio; Immervoll, Herwig; Lietz, Christine; Levy, Horacio; Mantovani, Daniela; Sutherland, Holly.

**Lins, Karl V.**

TI The Effect of Capital Structure When Expected Agency Costs are Extreme. AU Harvey, Campbell R.; Lins, Karl V.; Roper, Andrew H.

**Linsenmeier, David M.**

PD November 2001. TI Financial Aid Packages and College Enrollment Decisions: An Econometric Case Study. AU Linsenmeier, David M.; Rosen, Harvey S.; Rouse, Cecilia Elena. AA Linsenmeier: Princeton University. Rosen and Rouse: Princeton University and NBER. SR Princeton University, Industrial Relations Section Working Paper: 459; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. Website: [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). PG 23. PR no charge for single copies. JE I21, I22. KW Financial Aid. Grants. Loans. Jobs.

AB We study the effects of a change in financial aid policy introduced by a Northeastern university in 1998. Prior to that time, the university's financial aid packages for low-income students consisted of grants, loans, and campus jobs. After the change, the entire loan portion of the package for low-income students was replaced with grants. We find the program increased the likelihood of matriculation by low-income students by about 3 percentage points, although the effect is not statistically significant. The effect among low-income minority students was about twice that size and statistically significant at the 10 percent level.

**Lippi, Marco**

TI Do Financial Variables Help Forecasting Inflation and Real Activity in the Euro Area? AU Forni, Mario; Hallin, Marc; Lippi, Marco; Reichlin, Lucrezia.

**Lipschitz, Leslie**

TI Capital Flows to Transition Economies: Master or Servant? AU Lane, Timothy; Mourmouras, Alex; Lipschitz, Leslie.

**Lockwood, Ben**

TI Candidate Entry, Screening, and the Political Budget

Cycle. AU Le Borgne, Eric; Lockwood, Ben.

### Loko, Boileau

TI The Choice Between External and Domestic Debt in Financing Budget Deficits: The Case of Central and West African Countries. AU Beaugrand, Philippe; Loko, Boileau; Mlachila, Montfort.

### Lopez-Salido, J. David

TI A New Phillips Curve for Spain. AU Gali, Jordi; Lopez-Salido, J. David.

TI Accounting for Spanish Productivity Growth Using Sectoral Data: New Evidence. AU Estrada, Angel; Lopez-Salido, J. David.

TI Sectoral and Aggregate Technology Growth in Spain. AU Estrada, Angel; Lopez-Salido, J. David.

TI Money in an Estimated Business Cycle Model of the Euro Area. AU Andres, Javier; Lopez-Salido, J. David; Valles, Javier.

TI Markups, Gaps, and the Welfare Costs of Business Fluctuations. AU Gali, Jordi; Gertler, Mark; Lopez-Salido, J. David.

TI Understanding Spanish Dual Inflation. AU Estrada, Angel; Lopez-Salido, J. David.

TI Inflation Persistence and Optimal Monetary Policy in the Euro Area. AU Benigno, Pierpaolo; Lopez-Salido, J. David.

TI Inflation Persistence and Optimal Monetary Policy in the Euro Area. AU Benigno, Pierpaolo; Lopez-Salido, J. David.

### Louri, Helen

TI Corporate Growth and FDI: Are Multinationals Stimulating Local Industrial Development? AU Fotopoulos, Georgios; Louri, Helen.

### Lubotsky, Darren

TI Mortality, Inequality and Race in American Cities and States. AU Deaton, Angus; Lubotsky, Darren.

PD September 2001. TI Interpretation of Regressions with Multiple Proxies. AU Lubotsky, Darren; Wittenberg, Martin. AA Lubotsky: Princeton University. Wittenberg: University of the Witwatersrand. SR Princeton University, Industrial Relations Section Working Paper: 457; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. Website: [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). PG 22. PR no charge for single copies. JE C10, C31. KW Proxy Variables. Measurement Error. Index Construction. AB We consider the situation in which there are multiple proxies for one unobserved explanatory variable in a linear regression and provide a procedure by which the coefficient of interest can be extracted "post hoc" from a multiple regression in which all the proxies are used simultaneously. This post hoc estimator is strictly superior in large samples to coefficients derived using any index or linear combination of the proxies that is created prior to the regression. To use an index created from the proxies that extracts the largest possible signal from them requires knowledge of information that is not available to the researcher. Using the proxies simultaneously in a multiple regression delivers this information, and the researcher then

simply combines the coefficients in a known way to obtain the estimate of the effect of the unobserved factor. This procedure is also much more robust than ad hoc index construction to departures from the assumption of an underlying common factor. We provide some Monte Carlo simulations and applications to existing empirical problems to show that the reduction in attenuation bias can be non-negligible, even in finite samples.

PD September 2001. TI The Effect of Changes in the U.S. Wage Structure on Recent Immigrants' Earnings. AA Princeton University. SR Princeton University, Industrial Relations Section Working Paper: 458; Industrial Relations Section A-18H, Firestone Library, Princeton University, Princeton, New Jersey 80544-2098. Website: [www.irs.princeton.edu/pubs/working\\_papers.html](http://www.irs.princeton.edu/pubs/working_papers.html). PG 20. PR no charge for single copies. JE C24, F22, J31, J61. KW Immigrants. Wages. Skills.

AB Since recent immigrants tend to earn less than natives, their relative labor market status has been adversely impacted by an increase in the return to labor market skills and widening wage inequality over the past two decades. To evaluate the magnitude of this effect, this study uses Social Security earnings records matched to recent cross-sections of the SIPP and CPS to estimate the change in the return to skills among native-born workers. This is then used to adjust the earnings gap between immigrants and natives in order to estimate what the gap would have been if the return to skills had remained at its 1980 level. The results suggest that the return to skills rose by 40 percent between 1980 and 1997, leading to a 10 to 15 percentage point decrease in the relative earnings of recent immigrants. Thus examining solely the earnings of recent immigrants may lead to an overly pessimistic picture of their actual labor market skills.

### Lulfesmann, Christoph

PD July 2001. TI Limited Liability and Option Contracts in Models with Sequential Investments. AA University of Bonn. SR Bonn Econ Discussion Paper: 27/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). PG 19. PR no charge. JE D23, H57, L51. KW Option Contracts. Sequential Investments. Double Moral Hazard. Corporate Finance. Renegotiation.

AB The paper investigates a model where two parties A and B invest sequentially in a joint project (an asset). Investments and the asset value are nonverifiable, and A is wealth constrained so that an initial outlay must be financed by either agent B or an external investor C (a bank). We show that an option contract in combination with a loan arrangement facilitates first best investments and any arbitrary distribution of surplus if renegotiation is infeasible. Moreover, the optimal strike price of the option is shown to differ across financing modes. If renegotiation is admitted, the first best can still be attained if A's bargaining position is not too strong. In addition, either B-financing or C-financing may be strictly preferable, and a combination of multiple lenders may be optimal.

TI Holdups, Quality Choice, and the Achilles' Heel in Government Contracting Sequential Investments. AU Boes, Dieter; Lulfesmann, Christoph.

**Lumen, Julie**

**TI** The Impact of Tax-Benefit Systems on Low-Income Households in the Benelux Countries: A Simulation Approach Using Synthetic Datasets. **AU** Berger, Frederic; Borsenberger, Monique; Immervoll, Herwig; Lumen, Julie; Scholtus, Bertrand; De Vos, Klaas.

**TI** The Impact of Tax-Benefit Systems on Low-Income Households in the Benelux Countries: A Simulation Approach Using Synthetic Datasets. **AU** Berger, Frederic; Borsenberger, Monique; Immervoll, Herwig; Lumen, Julie; Scholtus, Bertrand; De Vos, Klaas.

**Luski, Israel**

**TI** All-Pay Auctions with Variable Rewards. **AU** Kaplan, Todd R.; Luski, Israel; Sela, Aner; Wettstein, David.

**Ma, Shiguang**

**TI** The Behavior of China's Stock Prices in Response to the Proposal and Approval of Bonus Issues. **AU** Barnes, Michelle L.; Ma, Shiguang.

**MacDonald, Glenn**

**PD** September 2001. **TI** The Economics of Has-Beens. **AU** MacDonald, Glenn; Weisbach, Michael. **AA** MacDonald: Washington University. Weisbach: University of Illinois and NBER. **SR** National Bureau of Economic Research Working Paper: 8464; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 27. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** D20, G30, J24, L20, O30. **KW** Technology. Human Capital. Overlapping Generations Model.

**AB** Evolution of technology causes human capital to become obsolete. We study this phenomenon in an overlapping generations setting, assuming it is hard to predict how technology will evolve, and that older workers find updating uneconomic. Among our results is the proposition that (under certain conditions) a more rapid pace of technological advance is especially unfavorable to the old in the sense that the implied within-industry division of output or income between young and old becomes much more skewed, i.e., a smaller number of young earn comparatively more. We apply our results to architecture, an occupation in which the has-beens phenomenon has had a particularly acute impact.

**Machado, Matilde P.**

**TI** Measuring the Relative Performance of Providers of a Health Service. **AU** Ackerberg, Daniel A.; Machado, Matilde P.; Riordan, Michael H.

**Magendzo, I. Igal**

**TI** Dollarization, Inflation and Growth. **AU** Edwards, Sebastian; Magendzo, I. Igal.

**Mahfouz, Selma**

**TI** Fiscal Policy and Economic Activity During Recessions in Advanced Economies. **AU** Hemming, Richard; Mahfouz, Selma; Schimmelpfennig, Axel.

**Mancall, Peter C.**

**PD** July 2001. **TI** Agricultural Labor Productivity in the

Lower South, 1720-1800. **AU** Mancall, Peter C.; Rosenbloom, Joshua L.; Weiss, Thomas. **AA** Mancall: University of Kansas. Rosenbloom and Weiss: University of Kansas and NBER. **SR** National Bureau of Economic Research Working Paper: 8375; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 30. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** N11, N51. **KW** British American History. Agricultural History. Productivity History. American Economic History. Slave Labor.

**AB** Agriculture dominated the economy of eighteenth-century British America, and the pace of agricultural productivity advance was the primary determinant of the rate of economic growth. In this paper we offer new measures of agricultural productivity advance in the Lower South between 1720 and 1800. Past efforts at quantification have focused exclusively on the region's export performance. In addition to extending and refining measures of regional exports, we develop two new series based on the value of slave labor and on measurements of total agricultural production in the region. Despite differences in their short-term behavior, all of the indices show that long-run productivity improvements were modest at best, and may have been negative. Surprisingly, taking account of production for domestic consumption yields the most favorable long-term performance.

**Manski, Charles F.**

**TI** Social Security Expectations and Retirement Savings Decisions. **AU** Dominitz, Jeff; Heinz, Jordan; Manski, Charles F.

**Mansoor, Ali**

**TI** Macroeconomic Management and the Devolution of Fiscal Powers. **AU** Drummond, Paulo; Mansoor, Ali.

**Manzano, Osmel**

**PD** July 2001. **TI** Resource Curse or Debt Overhang? **AU** Manzano, Osmel; Rigobon, Roberto. **AA** Corporacion Andina de Fomento and Universidad Catolica Andres Bello. Rigobon: MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8390; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** not available. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** O13, O41, O47. **KW** Debt Overhang. Growth. Natural Resources.

**AB** It has been widely believed that resource-abundant economies grow less than other economies. In a very influential paper, Sachs and Warner (1997) point out that there is a negative relationship between resource abundance and growth. Two important econometric problems are present in the traditional empirical literature: First, the result might depend on factors that are correlated with primary exports but that have been excluded from the regression. Second, total gross domestic product includes the production in the resource sector that has been declining the last 30 years. We correct for those issues. Our results indicate that the so-called "Natural Resource Curse" might be related to a debt overhang. In the 70's when commodities' prices were high, natural-resource-abundant countries used them as collateral for debt. The 80's witnessed an important fall in the prices that drove these countries to debt crises. When we estimate the model taking these into account, we found that the effect of resource abundance disappears.

**Maravall, Agustin**

**PD** May 2001. **TI** Time Aggregation and the Hodrick-Prescott Filter. **AU** Maravall, Agustin; del Rio, Ana. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0108; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 30. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** C22, C43, E30, E32. **KW** Time Series. Business Cycles. Temporal Aggregation. Trend Filters. ARIMA Models.

**AB** The time aggregation properties of the Hodrick-Prescott (HP) filter to decompose a time series into trend and cycle are analyzed for the case of annual, quarterly, and monthly data. It is seen that aggregation of the disaggregate component estimators cannot be obtained as the exact result from applying an HP filter to the aggregate series (and vice versa). Nevertheless, using several criteria, one can find HP decompositions for different levels of aggregation that provide similar results. The approximation works better for the case of temporal aggregation than for systematic sampling. The criterion finally proposed to find "close to equivalent" HP filters for different frequencies of observations is trivial to apply, and does not depend on the particular series at hand, nor on the series model.

**TI** Program TSW Reference Manual. **AU** Caporello, Gianluca; Maravall, Agustin; Sanchez, Fernando J.

**PD** June 2002. **TI** An Application of TRAMO-SEATS: Automatic Procedure and Sectoral Aggregation: The Japanese Foreign Trade Series. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0207; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 22. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** C22, C43, C53, C87. **KW** Time Series. ARIMA Models. Seasonal Adjustment. Trend-Cycle Estimation. Aggregation.

**AB** Programs TRAMO and SEATS, that contain an ARIMA-model based methodology, are applied for seasonal adjustment and trend-cycle estimation of the exports, imports, and balance of trade Japanese series. The programs are used in an automatic mode, and the results are found satisfactory. It is shown how the SEATS output can be used to discriminate among competing models. Finally, using the balance of trade series, direct and indirect estimation are analyzed and discussed.

**TI** A Complete Model-Based Interpretation of the Hodrick-Prescott Filter: Spuriousness Reconsidered. **AU** Kaiser, Regina; Maravall, Agustin.

**Marazzi, Mario**

**PD** August 2002. **TI** On the Fragility of Gains from Trade Under Continuously Differentiated Bertrand Competition. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 735; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp/](http://www.federalreserve.gov/pubs/ifdp/). **PG** 35. **PR** no charge. **JE** D42, F12. **KW** Gains from Trade. Imperfectly Competitive International Markets. Spatial Price Competition.

**AB** One of the most widely accepted principles of economics is the existence of gains from trade for every nation under certain conditions including perfect competition. In the last twenty years, trade economists have revolutionized the field by firmly establishing the possibility of modeling imperfectly competitive international markets. Despite this development, most still agree there are good reasons to believe that gains from trade are still present. However, we show that in the absence of international redistributions the presence of a positive profit sector in a general equilibrium model can lead to a situation in which some nations may lose from the reduction of international trade barriers.

**Marcellino, Massimiliano**

**TI** Factor Forecasts for the UK. **AU** Artis, Michael J.; Banerjee, Anindya; Marcellino, Massimiliano.

**Marin Uribe, Pedro L.**

**PD** January 2002. **TI** Innovation and Market Structure: An Empirical Evaluation of the "Bounds Approach" in the Chemical Industry. **AU** Marin Uribe, Pedro L.; Siotis, Georges. **AA** Marin Uribe: Universidad Carlos III de Madrid and CEPR. Siotis: Universidad Carlos III de Madrid. **SR** CEPR Discussion Paper: 3162; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** L11, L65, O31. **KW** Bounds Approach. Market Structure. Innovation. Chemical Industry.

**AB** This paper empirically tests the "bounds approach" to industry structure proposed by Sutton ((1991), (1998)). To carry out this task, we focus on the chemical industry. Part of the novelty in this exercise is that we work on the finest possible level of disaggregation. Also, we identify demand substitutability from direct industry sources. This allows us to carefully define markets, and identify research and development (R&D) intensity for each of them. Our empirical specification allows us to simultaneously test the predictions of Sutton (1991) and Sutton (1998). Our results provide strong support to Sutton's theoretical framework.

**Marin, Carmen**

**TI** Model Uncertainty and the Equilibrium Value of the Real Effective Euro Exchange Rate. **AU** Detken, Carsten; Dieppe, Alistair; Henry, Jerome; Marin, Carmen; Smets, Frank.

**TI** Model Uncertainty and the Equilibrium Value of the Real Effective Euro Exchange Rate. **AU** Detken, Carsten; Dieppe, Alistair; Henry, Jerome; Marin, Carmen; Smets, Frank.

**Marion, Nancy**

**TI** Holding International Reserves in an Era of High Capital Mobility. **AU** Flood, Robert P.; Marion, Nancy.

**Marquez, Jaime**

**PD** November 2002. **TI** Productivity, Investment, and Current Accounts: Reassessing the Evidence. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 742; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website:

[www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 26. **PR** no charge. **JE** C52, E22, L60, O41. **KW** Group of Seven. Maximum Likelihood. Endogenous Growth. Current Accounts. Private Investment.

**AB** The most widely accepted explanation for the inverse association between private investments and current accounts (Glick and Rogoff, 1995) rests on data for manufactures through 1990. Is this consensus robust to revisions to the national accounts and the expansion of information technologies since 1990? To address this question this paper replicates their results and finds that post 1990 developments eliminate the support for such a conclusion. The paper also implements alternative formulations and find, again, a lack of empirical support for their findings. Thus, the paper examines the role of measurement errors and focus on the treatment of the manufacturing sector as representative of the whole economy and the exclusion of the contribution of capital when measuring productivity. Correcting these two measurement errors restores to Glick and Rogoff's conclusion its original strength.

#### Marschke, Gerald

**TI** An Empirical Investigation of Gaming Responses to Explicit Performance Incentives. **AU** Courty, Pascal; Marschke, Gerald.

#### Martin, Vance

**TI** International Contagion Effects from the Russian Crisis and the LTCM Near-Collapse. **AU** Dungey, Mardi; Fry, Renee; Gonzalez-Hermosillo, Brenda; Martin, Vance.

#### Martinez Pages, Jorge

**TI** Is There a Bank Lending Channel of Monetary Policy in Spain? **AU** Hernando, Ignacio; Martinez Pages, Jorge.

**TI** Financial Systems and the Role of Banks in Monetary Policy Transmission in the Euro Area. **AU** Ehrmann, Michael; Gambacorta, Leonardo; Martinez Pages, Jorge; Sevestre, Patrick; Worms, Andreas.

**TI** Financial Systems and the Role of Banks in Monetary Policy Transmission in the Euro Area. **AU** Ehrmann, Michael; Gambacorta, Leonardo; Martinez Pages, Jorge; Sevestre, Patrick; Worms, Andreas.

#### Martinez Resano, Jose Ramon

**PD** September 2002. **TI** Futuros sobre acciones: demanda e implicaciones sobre los mercados de renta variable (Futures on Stocks: Demand and Implications for Equity Markets). **AU** Martinez Resano, Jose Ramon; Toledo Falcon, Liliana. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0218; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcalá, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 29. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** G13, G18, G24, L50. **KW** Futures on Stocks. Securities Regulation. Industrial Organization. Leverage. Constraints.

**AB** The paper analyses futures on stocks with a focus on the implication of their introduction on equity markets organization. The paper draws conclusions from the success of futures on stocks in Spain with a view to anticipate its performance in the US. The different advantages contained in

this financial innovation are discussed. The exam of futures on stocks success in Spain reveals that it has been due mainly to the fact that they allow Spanish mutual funds to circumvent a binding restriction they face. However, it is also argued that futures on stocks introduction will significantly impact competition between markets and between regulators. The authorization of futures on stocks in the US amounts to an overlap between the SEC and CFTC traditionally separated domains. A first step to a normalized markets regulation in the US has thus been taken. This paper is available in Spanish.

#### Mas, Alexandre

**TI** Strikes, Scabs and Tread Separations: Labor Strife and the Production of Defective Bridgestone/Firestone Tires. **AU** Krueger, Alan B.; Mas, Alexandre.

#### Mathieson, Donald J.

**TI** Extreme Contagion in Equity Markets. **AU** Chan-Lau, Jorge A.; Mathieson, Donald J.; Yao, James Y.

#### Matovu, John M.

**TI** Composition of Government Expenditures and Demand for Education in Developing Countries. **AU** Dabla-Norris, Era; Matovu, John M.

#### Matsuyama, Kiminori

**PD** September 2001. **TI** On the Rise and Fall of Class Societies. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1326; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: [www.kellogg.nwu.edu/research/math/](http://www.kellogg.nwu.edu/research/math/). **PG** 34. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** D31, O11. **KW** Imperfect Credit Markets. Distribution of Wealth. Class Societies. Endogenous Inequality.

**AB** This paper develops a theoretical framework to investigate potential forces behind the rise and fall of class societies. Due to the nonconvexity of investment and credit market imperfections, only those who inherited relatively large wealth can set up firms and become employers. The equilibrium dynamics is described by the joint evolution of the wage rate, the vertical division of labor between employers and workers, and the distribution of household wealth. For some parameter values, the model predicts the rise of class societies, where the households are permanently separated into the two classes in any steady state. The rich bourgeoisie maintain a high level of wealth due to the presence of the poor proletariat. For other parameter values, the model predicts the fall of class societies, where job creation by the rich employers pushes up the wage rate so much that the workers will escape from the poverty and eventually catch up with the rich. Thus, the wealth created by the rich trickles down to the poor, and, in the steady state, the inequality disappears. The effects of self-employment are also discussed using this framework.

#### Mauro, Paolo

**TI** Long-Run Determinants of Exchange Rate Regimes: A Simple Sensitivity Analysis. **AU** Juhn, Grace; Mauro, Paolo.

**Maw, James**

**TI** Mass Privatisation and Partial State Ownership of Firms in Transition Economics. **AU** Bennett, John; Estrin, Saul; Maw, James.

**Mayda, Anna Maria**

**PD** September 2001. **TI** Why Are Some People (and Countries) More Protectionist Than Others? **AU** Mayda, Anna Maria; Rodrik, Dani. **AA** Mayda: Harvard University. Rodrik: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8461; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** F10, F13, F14. **KW** Protection. Human Capital. Trade Exposure. Patriotism. **AB** We analyze a rich cross-country data set that contains information on attitudes toward trade as well as a broad range of socio-demographic and other indicators. We find that pro-trade preferences are significantly and robustly correlated with an individual's level of human capital, in the manner predicted by the factor endowments model. Preferences over trade are also correlated with the trade exposure of the sector in which an individual is employed: individuals in non-traded sectors tend to be the most pro-trade, while individuals in sectors with a revealed comparative disadvantage are the most protectionist. Third, an individual's relative economic status, measured in terms of either relative income within each country or self-expressed social status, has a very strong positive association with pro-trade attitudes. Finally, non-economic determinants, in the form of values, identities, and attachments, play an important role in explaining the variation in preferences over trade. High degrees of neighborhood attachment and nationalism/patriotism are associated with protectionist tendencies, while cosmopolitanism is correlated with pro-trade attitudes. Our framework does a reasonable job of explaining differences across individuals and a fairly good job of explaining differences across countries.

**Mayer, Christopher**

**PD** January 2002. **TI** Network Effects, Congestion Externalities, and Air Traffic Delays: Or Why All Delays Are Not Evil. **AU** Mayer, Christopher; Sinai, Todd. **AA** Mayer: University of Pennsylvania. Sinai: University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 8701; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 37. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** D62, L21, L93. **KW** Air Traffic Delays. Network Effects. Congestion Externalities. Hubbing. **AB** We examine two factors that might explain the extent of air traffic delays in the United States; network benefits due to hubbing and congestion externalities. Delays are the equilibrium outcome of a hub airline equating high marginal benefits from hubbing with the marginal cost of delays. Congestion externalities are created when airlines do not consider that adding flights may lead to increased delays for other air carriers. In this case, delays represent a market failure. Using data on all domestic flights by major US carriers from 1988-2000, we find that delays are increasing in hubbing activity at an airport and decreasing in market concentration but the hubbing effect dominates empirically. In addition, most

delays due to hubbing actually accrue to the hub carrier. Non hub flights at hub airports operate with minimal additional travel time by avoiding the congested peak connecting times of the hub carrier. These results suggest that an optimal congestion tax would have a relatively small impact on air traffic delays since hub carriers already internalize most of the costs of hubbing and a tax that did not take the network benefits of hubbing into account could reduce social welfare.

**Mayer, Colin**

**TI** Ownership and Control of German Corporations. **AU** Franks, Julian R.; Mayer, Colin.

**Mayer, Wolfgang**

**PD** April 2002. **TI** Vested Interests in a Positive Theory of IFI Conditionality. **AU** Mayer, Wolfgang; Mourmouras, Alex. **AA** Mayer: University of Cincinnati. Mourmouras: IMF. **SR** International Monetary Fund Working Paper: WP/02/73; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 25. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E61, F33, F34. **KW** Conditionality. Ownership. Common Agency. Political Economy. IMF. **AB** Understanding of the domestic political environment is key to building broad country ownership and the successful implementation of reform programs supported by international financial institutions (IFIs). But recipient countries are not unitary actors: policymakers are influenced by special interest groups (SIGs) opposing reforms, leading to distorted policies. Using a new model of the financial relations between a benevolent IFI and a sovereign borrower subject to influence by SIGs, we analyze the determinants and welfare impacts of conditional and unconditional assistance. While conditionality may raise IFI welfare, economize on the amount of assistance, and lower domestic distortions, it may not always raise recipient country welfare. Recipient governments are always better off if assistance is provided unconditionally.

**McClellan, Mark**

**TI** Is More Information Better? The Effects of "Report Cards" on Health Care Providers. **AU** Dranove, David; McClellan, Mark; Kessler, Daniel; Satterthwaite, Mark.

**Mead, Charles Ian**

**PD** May 2001. **TI** State User Costs of Capital. **AA** Federal Reserve Bank of Boston. **SR** Federal Reserve Bank of Boston Working Paper: 01/03; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: [www.bos.frb.org/economic/wp/index.htm](http://www.bos.frb.org/economic/wp/index.htm). **PG** 44. **PR** no charge; available only online. **JE** E22, H25, H73, K34. **KW** Capital. Taxation. Law. Tax Burden. **AB** This paper extends the theoretical model of Hall and Jorgenson (1967) in order to examine major changes in state and local tax laws and their effects on the variation in tax burdens across states. A user cost of capital series that accounts for the major provisions of federal and state tax laws is calculated for representative firms in all forty-eight contiguous U.S. states at five-year intervals during the period 1963 to 1997.

**Meier, Iwan**

**TI** Do We Need CAPM for Capital Budgeting?

AU Jagannathan, Ravi; Meier, Iwan.

### Mendis, Chandima

PD June 2002. TI Caribbean Offshore Financial Centers: Past, Present, and Possibilities for the Future. AU Mendis, Chandima; Suss, Esther C.; Williams, Oral H. AA IMF. SR International Monetary Fund Working Paper: WP/02/88; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 18. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE F30, G20. KW Offshore Financial Sectors. Money Laundering. Development Strategies.

AB The paper reviews the development of offshore financial activities in the English-speaking Caribbean islands and takes stock of the size and status of these sectors today. In view of the heightened concerns of the international community about money laundering, the costs and risks to countries of having or establishing offshore sectors have risen considerably.

### Mengistae, Taye

PD May 2002. TI Export Orientation and Productivity in Sub-Saharan Africa. AU Mengistae, Taye; Pattillo, Catherine. AA Mengistae: World Bank. Pattillo: IMF. SR International Monetary Fund Working Paper: WP/02/89; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 27. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE D21, D24, L60, O12. KW Exports. Productivity. Sub-Saharan Africa. Learning-By-Exporting. Technology Diffusion.

AB Analysis of firm-level panel data from three sub-Saharan African economies shows that exporting manufacturers have a total factor productivity premium of 11-28 percent. The data do not allow testing of whether these premiums are caused by selection of more efficient producers into exporting or by learning-by-exporting. By thinking about the mechanisms behind selectivity and learning, however, our finding of higher premiums for direct exporters and exporters to outside Africa could be interpreted as being consistent with learning-by-exporting effects. However, if learning-by-exporting is indeed present in the data, we cannot disentangle its effect on productivity from those of more traditionally recognized channels of international technology diffusion.

### Merlo, Antonio

TI Endogenous Lobbying. AU Felli, Leonardo; Merlo, Antonio.

### Metrick, Andrew

TI Corporate Governance and Equity Prices. AU Gompers, Paul A.; Ishii, Joy L.; Metrick, Andrew.

### Michalopoulos, Charles

TI The Limits to Wage Growth: Measuring the Growth Rate of Wages for Recent Welfare Leavers. AU Card, David; Michalopoulos, Charles; Robins, Philip K.

### Michelacci, Claudio

PD January 2002. TI Low Returns in R&D Due to Lack of Entrepreneurial Skills. AA Centre for Monetary and Financial Studies (CEMFI) and CEPR. SR CEPR Discussion

Paper: 3179; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE J24, O32, O41. KW Search. Endogenous Growth. Research and Development. Entrepreneurship.

AB This paper proposes a model of endogenous growth where innovating requires both researchers, who produce inventions, and entrepreneurs who implement them. As research and entrepreneurship compete in the allocation of aggregate resources, the relation between growth and research effort is hump-shaped. When entrepreneurs appropriate too little rents from innovation, too few resources are allocated to entrepreneurship and returns to research and development (R&D) are low because of this lack of entrepreneurial skills. When so, innovation should be promoted by encouraging entrepreneurship rather than research.

### Midelfart, Karen-Helene

TI Globalization, Industrial Policy and Clusters. AU Forslid, Rikard; Midelfart, Karen-Helene.

### Milesi-Ferretti, Gian Maria

TI Long-Term Capital Movements. AU Lane, Philip R.; Milesi-Ferretti, Gian Maria.

TI External Wealth, the Trade Balance and the Real Exchange Rate. AU Lane, Philip R.; Milesi-Ferretti, Gian Maria.

### Miravete, Eugenio J.

PD September 2001. TI Time-Consistent Protection with Learning by Doing. AA University of Pennsylvania and CEPR. SR CEPR Discussion Paper: 2937; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$8 or 8 euros. JE C73, F12, F13. KW Infant-Industry. Markov Perfect Equilibria. Differential Games. Tariffs.

AB Can a government induce efficiency gains in domestic industry by protecting it against foreign competition? Would such trade protection be time-consistent? The present paper builds a dynamic equilibrium model that accounts for learning-by-doing effects that link firms' strategies over time. The model shows that the existence of dynamic economies of scale suffices to overcome the traditional government's lack of commitment to its tariff policy. This paper compares the infinite horizon Markov Perfect Equilibria of this game with the dynamic equilibrium under commitment as well as the static Nash equilibrium. Equilibrium strategies are derived in closed form by solving a linear-quadratic differential game. Optimal trade policy involves higher tariff levels than in the static setup in order to account for future gains in efficiency.

### Mitchell, Olivia S.

TI Guaranteeing Defined Contribution Pensions: The Option to Buy-Back a Defined Benefit Promise. AU Lachance, Marie-Eve; Mitchell, Olivia S.

### Mitra, Manipushpak

PD November 2000. TI Achieving the First Best in Sequencing Problems. AA University of Bonn. SR Bonn Econ Discussion Paper: 11/2001; Bonn Graduate School of



Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). PG 22. PR no charge. JE C72, C78, D82. KW Sequencing Problems. Dominant Strategy Incentive Compatibility. Efficiency. Budget Balancedness.

AB In a sequencing problem with linear time cost, Suijs (1996) proved that it is possible to achieve first best. By first best we mean that one can find mechanisms that satisfy efficiency of decision, dominant strategy incentive compatibility, and budget balancedness. In this paper we show that among a more general and natural class of sequencing problems, sequencing problems with linear cost is the only class for which first best can be achieved.

PD March 2001. TI Incomplete Information and Multiple Machine Queuing Problems. AA University of Bonn. SR Bonn Econ Discussion Paper: 19/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). PG 23. PR no charge. JE C44, C72, C78, D82. KW Queuing Problems. First Best Implementability. Mechanism Design.

AB In mechanism design problems under incomplete information, it is generally difficult to find decision problems that are first best implementable. A decision problem under incomplete information is first best implementable if there exists a mechanism that extracts the private information and achieves efficiency with a transfer scheme that adds up to zero in every state. One such problem is the queuing problem with one machine. In this paper we identify the conditions on cost structure for which queuing problems with multiple machines are first best implementable.

TI Simple Sequencing Problems with Interdependent Costs. AU Hain, Roland; Mitra, Manipushpak.

TI Financing Infrastructure Under Budget Constraint. AU Gautier, Axel; Mitra, Manipushpak.

TI The Delegation Perspective on Representative Democracy. AU Hain, Roland; Mitra, Manipushpak.

### Mlachila, Montfort

TI The Choice Between External and Domestic Debt in Financing Budget Deficits: The Case of Central and West African Countries. AU Beaugrand, Philippe; Loko, Boileau; Mlachila, Montfort.

### Mody, Ashoka

PD April 2002. TI Growing Up with Capital Flows. AU Mody, Ashoka; Murshid, Antu Panini. AA Mody: IMF. Murshid: University of Wisconsin. SR International Monetary Fund Working Paper: WP/02/75; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). PG 25. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE F21, F30. KW Capital Inflows. Domestic Investment. Financial Integration.

AB In a sample of 60 developing countries, we find evidence of a strong -- almost one-to-one -- relationship between capital inflows and domestic investment. However, this relationship has evolved over time. While growing financial integration with the rest of the world has increased access to foreign

private capital, the relationship between foreign capital and domestic investment has weakened, reflecting changes in the composition of inflows, offsetting outflows, and increased foreign-currency reserve requirements. In contrast, better policies have not only brought in more capital but also, especially for foreign direct investment, have tended to strengthen the relationship between foreign capital and domestic investment.

### Moffitt, Robert

PD January 2002. TI Economic Effects of Means-Tested Transfers in the U.S. AA Johns Hopkins University and NBER. SR National Bureau of Economic Research Working Paper: 8730; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 43. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE H24, I38. KW Means-Tested Transfers. Welfare Programs. Tax Credit Program. Medicaid.

AB The system of means-tested transfers in the U.S. has evolved in important ways over the last decade, with significant expansions of Medicaid, the Earned Income Tax Credit (EITC), and the Supplemental Security Income (SSI) program, and with significant contraction in Aid to Families with Dependent Children (ADC), now titled the Temporary Assistance for Needy Families program (TANF). To determine where we are in our understanding of each of these programs, as well as the other major programs in the system of means-tested transfers, a volume is under preparation by the National Bureau of Economic Research that surveys the current structure and historical evolution of each of these programs and that synthesizes the results of the research that has been conducted on their economic effects. In addition to the ADC-TANF, Medicaid, EITC, and SSI programs, reviews have been conducted for the Food Stamp program and for housing, child care, job training, and child support programs. This paper summarizes the results of those reviews and highlights the large number of important findings from existing research.

### Mohr, Robert D.

TI Suggested Subsidies are Sub-Optimal Unless Combined with an Output Tax. AU Fullerton, Don; Mohr, Robert D.

### Mongelli, Francesco Paolo

PD April 2002. TI "New" Views on the Optimum Currency Area Theory: What is EMU Telling Us? AA European Central Bank. SR European Central Bank Working Paper: 138; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 54. PR no charge. JE E42, F15, F33, F41. KW Optimum Currency Area. Economic Integration. International Monetary Arrangements. EMU.

AB This paper surveys the optimum currency area (OCA) literature. It is organized into four phases: the "pioneering phase" which put forward the OCA theory and its properties, the "reconciliation phase" when its diverse facets were combined, the "reassessment phase" that led to the "new OCA theory", and the "empirical phase" during which the theory was subject to due empirical scrutiny. We make systematic reference to the European economic and monetary union (EMU) to which the OCA theory has been most frequently applied. All pioneering contributions are still relevant. Several

early weaknesses have now been amended. Meanwhile, the balance of judgements has shifted in favour of currency unions. They are now deemed to generate fewer costs in terms of the loss of autonomy of domestic macroeconomic policies, and there is greater emphasis on the benefits. Looking ahead we are confronted with two distinct paradigms -- specialization versus "endogeneity of OCA".

### Monnet, Cyril

PD July 2002. TI Optimal Public Money. AA European Central Bank. SR European Central Bank Working Paper: 159; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 32. PR no charge. JE E51, H41. KW Limited Commitment. Fiat Money. Matching Model.

AB In most countries, the supply of paper money is controlled by a state institution. This paper provides an explanation for why such an arrangement is typically chosen. The paper uses a deterministic matching model with a continuum of agents where enforcement is limited and where some agents produce public goods. Agents can also, at a cost, produce a distinguishable, intrinsically useless but perfectly durable good: notes. The paper defines a note public if it is printed by an agent who produces public goods. In this framework, the paper proves that the socially optimal allocation is only implemented by a pattern of trade in which exchanges are effected using public notes.

### Mora, Nada

TI What Moves Capital to Transition Economies? AU Garibaldi, Pietro; Mora, Nada; Sahay, Ratna; Zettelmeyer, Jeromin.

### Morsink, James

TI You Say You Want a Revolution: Information Technology and Growth. AU Haacker, Markus; Morsink, James.

### Mountford, Andrew

TI Why are a Third of People Indian and Chinese? Trade, Industrialization and Demographic Transition. AU Galor, Oded; Mountford, Andrew.

### Mourmouras, Alex

TI Is Policy Ownership an Operational Concept? AU Boughton, James M.; Mourmouras, Alex.

TI Vested Interests in a Positive Theory of IFI Conditionality. AU Mayer, Wolfgang; Mourmouras, Alex.

TI Capital Flows to Transition Economies: Master or Servant? AU Lane, Timothy; Mourmouras, Alex; Lipschitz, Leslie.

### Muehlheusser, Gerd

TI When Bidding More is Not Enough: All-Pay Auctions with Handicaps. AU Feess, Eberhard; Muehlheusser, Gerd; Walzl, Markus.

### Murshid, Antu Panini

TI Growing Up with Capital Flows. AU Mody, Ashoka; Murshid, Antu Panini.

### Nashashibi, Karim

PD April 2002. TI Fiscal Revenues in South Mediterranean Arab Countries: Vulnerabilities and Growth Potential. AA IMF. SR International Monetary Fund Working Paper: WP/02/67; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). PG 10. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE F36, H20, O23, O55. KW Southern Mediterranean Arab Countries. Tax Revenue. VAT. Petroleum Pricing. Exchange Rate.

AB This paper reviews the fiscal revenue performance of Southern Mediterranean Arab countries (SMCs) over the last decade and compares this performance with selected middle income and Organization for Economic Cooperation and Development (OECD) countries. These revenues have been declining over the past few years, and this trend is expected to continue because of a fall in mineral receipts and trade liberalization. Individual income tax yields are substantially lower than in other regions but the introduction of the value-added tax has proven to be highly successful. Higher trade protection than in other regions must be reduced, if SMCs are to be integrated into the global economy. Loss of non-tax and customs revenues can be offset by reforms in income tax systems, petroleum product pricing, and by ensuring, through flexible exchange rate policies, that competitiveness is maintained.

### Natalucci, Fabio M.

PD December 2002. TI The Road to Adopting the Euro: Monetary Policy and Exchange Rate Regimes in EU Candidate Countries. AU Natalucci, Fabio M.; Ravenna, Federico. AA Natalucci: Board of Governors of the Federal Reserve System. Ravenna: University of California, Santa Cruz. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 741; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). PG 44. PR no charge. JE E31, E52, F36, F41. KW Balassa-Samuelson Effect. European Monetary Union. Taylor Rule. Transition Economies. Monetary Policy.

AB This paper examines the choice of exchange rate regime in European Union candidate countries during the process of accession to the European Monetary Union (EMU). In the presence of real exchange rate appreciation due to the Balassa-Samuelson effect, candidate countries face a trade-off between trend appreciation of the nominal exchange rate and high inflation rates. In a general equilibrium model of an emerging market economy, we show that under a fixed or heavily managed exchange rate the Balassa-Samuelson effect might prevent compliance with the Maastricht inflation criterion, unless a contractionary policy is adopted. We then discuss how the real exchange rate appreciation shifts the output gap/inflation variance trade-off, increasing the cost of managing or fixing the exchange rate. As a consequence, the requirement of membership in the Exchange Rate Mechanism (ERM-II) and the Maastricht inflation criterion constrain the policy choice while providing no additional benefit to countries credibly committed to joining the Euro. Finally, we show that relaxing either the exchange rate requirement or the inflation criterion has sharply different business cycle implications for the accession countries.

**Nautz, Dieter**

**PD** February 2001. **TI** The Repo Auctions of the European Central Bank and the Vanishing Quota Puzzle. **AU** Nautz, Dieter; Oechssler, Joerg. **AA** Nautz: Goethe-University. Oechssler: University of Bonn. **SR** Bonn Econ Discussion Paper: 09/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 21. **PR** no charge. **JE** D44, E52, F33, G21. **KW** Monetary Policy Instruments. Auctions. Liquidity Management. European Central Bank. **AB** Weekly repo auctions are the European Central Bank's (ECB's) most important policy instrument. Provided that banks bid seriously, these auctions should determine the liquidity of the banking sector in an efficient and transparent way. However, under the fixed rate tender procedure used until June 2000, banks increasingly overbid which eventually forced the ECB to switch to the variable rate tender format. This paper investigates the overbidding phenomenon from a theoretical and an empirical point of view. Our empirical results confirm the weakness of the fixed rate tender format and indicate that the ECB's liquidity management has significantly improved since the switch to the variable rate system.

**Navaretti, Giorgio Barba**

**TI** Information Sharing, Research Co-Ordination and Membership of Research Joint Ventures. **AU** Bussoli, Patrizia; Navaretti, Giorgio Barba; Ulph, David; von Graevenitz, Georg.

**Neumark, David**

**TI** The Supplemental Security Income Program and Incentives to Take Up Social Security Early Retirement: Empirical Evidence from Matched SIPP and Social Security Administration files. **AU** Powers, Elizabeth; Neumark, David.

**Neves, Joao C.**

**TI** Distribution Costs and Real Exchange Rate Dynamics During Exchange-Rate-Based Stabilization. **AU** Burstein, Ariel Thomas; Neves, Joao C.; Rebelo, Sergio.

**Newbery, David M. G.**

**PD** January 2002. **TI** Estimating Urban Road Congestion Charges. **AU** Newbery, David M. G.; Santos, Georgina. **AA** Newbery: University of Cambridge, CESifo, and CEPR. Santos: University of Cambridge. **SR** CEPR Discussion Paper: 3176; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** H11, H51, R48. **KW** Traffic Congestion. Road Pricing. Efficient Charges. Toll Fees. **AB** Economists wishing to analyze road congestion and road pricing have usually relied on link-based speed-flow relationships. These may provide a poor description of urban congestion, which mainly arises from delays at intersections. Using the Simulation and Assignment of Traffic to Urban Road Networks (SATURN), we investigate the second-best proportional traffic reduction and find that linear speed-flow relations describe network flows quite well in eight English towns, though the predicted congestion costs and charges overstate those apparently required in our second best model.

We then confront the results with feasible optimal cordon charges, and find them reasonably correlated, but imperfect predictors.

**PD** January 2002. **TI** Economic Reform in Europe: Integrating and Liberalizing the Market for Services. **AA** University of Cambridge and CEPR. **SR** CEPR Discussion Paper: 3183; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** K23, L51, L94. **KW** Regulation. Competition. Risk. Contracts. Electricity. Gas. European Union.

**AB** The European Union (EU) faces challenges in reforming the Gas and Electricity Directives to implement the single market in electricity and gas. The paper argues that there is unfinished business in the areas of regulation, restructuring, encouraging proper risk management through contracting, and designing markets and regulation to ensure effective and sustainable competition in the services supplied over the networks. Regulators often lack critical information and appropriate power to act. Restructuring is problematic, requiring forceful competition authorities with a clear agenda to achieve desirable structural reforms. A key issue is striking the right balance between complete liberalization and ensuring adequate capacity and investment. Finally, proactive competition policies will be necessary to resist the powerful forces for vertical and horizontal integration visible in the Union.

**Nieto, Fernando**

**TI** Modelling the Daily Banknotes in Circulation in the Context of the Liquidity Management of the European Central Bank. **AU** Cabrero, Alberto; Camba-Mendez, Gonzalo; Hirsch, Astrid; Nieto, Fernando.

**TI** Modelling the Daily Banknotes in Circulation in the Context of the Liquidity Management of the European Central Bank. **AU** Cabrero, Alberto; Camba-Mendez, Gonzalo; Hirsch, Astrid; Nieto, Fernando.

**Nijman, Theo E.**

**TI** Evaluating Style Analysis. **AU** de Roon, Frans Adrianus; Nijman, Theo E.; ter Horst, Jenke.

**Noldeke, Georg**

**PD** September 2001. **TI** Strategic Choice Handicaps when Females Pay the Cost of the Handicap. **AU** Noldeke, Georg; Samuelson, Larry. **AA** Noldeke: University of Bonn. Samuelson: University of Wisconsin. **SR** Bonn Econ Discussion Paper: 22/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 7. **PR** no charge. **JE** A14, C72, D82. **KW** Signaling. Handicap Model. Mate Selection.

**AB** We examine a strategic-choice handicap model in which males send costly signals to advertise their quality to females. Females are concerned with the net viability of the male with whom they mate, where net viability is a function of the male's quality and signal. We identify circumstances in which a signaling equilibrium would require high-quality males to send signals so much larger than those of males in lower quality (to deter mimicry by the latter) as to yield lower net viabilities for

the former. This causes females to shun males who send large signals, ensuring that there is no signaling equilibrium.

### Norback, Pehr-Johan

**PD** January 2002. **TI** Investment Liberalization -- Who Benefits from Cross Border Mergers? **AU** Norback, Pehr-Johan; Persson, Lars. **AA** Research Institute for Industrial Economics (IUI). **SR** CEPR Discussion Paper: 3166; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F23, G34, L11, O16. **KW** Foreign Direct Investment. Mergers. Acquisitions. Restructuring. Multinational Enterprises.

**AB** Investment liberalizing countries are often concerned that cross-border mergers and acquisitions might have an adverse effect on domestic firms and benefit multinational enterprises (MNEs). Given that domestic assets are sufficiently scarce, we identify a preemption effect and an asset complementarity effect which imply that the acquisition price is substantially higher than the domestic seller's reservation price. The preemption effect also implies that the seller might capture some of the MNEs' initial rents. Moreover, other policies used in times of investment liberalization, such as restructuring, are explained through their effect on the value of the domestic assets.

### Norman, David

**TI** Globalization of the Worlds Wine Markets. **AU** Anderson, Kym; Norman, David; Wittwer, Glyn.

### Normann, Hans-Theo

**TI** Two are Few and Four are Many: Number Effects in Experimental Oligopolies. **AU** Huck, Steffen; Normann, Hans-Theo; Oechssler, Joerg.

**TI** Stability of the Cournot Process--Experimental Evidence. **AU** Huck, Steffen; Normann, Hans-Theo; Oechssler, Joerg.

### Nunez, Soledad

**PD** October 2001. **TI** El grado de concentracion en las ramas productivas de la economia Espanola. **AU** Nunez, Soledad; Perez, Miguel. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0113; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 12. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** D40, L11. **KW** Concentration. Economic Activity. Size Distribution. Spain.

**AB** This paper examines the concentration of economy activity for Spanish productive sectors (including services) for 1996-1999 period. With this end, several concentration indexes are calculated, in terms of employment, for all groups and divisions of NACE Rev1 (excluding financial sectors and public administration). The paper also offers a dynamic analysis of these indexes, decomposing this evolution in terms of the two factors that determine concentration degree: number of firms and size distribution. The main findings are that concentration is relatively low for most sectors analyzed. Nevertheless, a high degree of size heterogeneity is observed for a sizeable number of sectors, most of them within services.

Finally, concentration has decreased slightly during the analyzed period. This paper is available in Spanish.

**PD** January 2002. **TI** La contribucion de las ramas productoras de bienes y servicios TIC al crecimiento de la economia Espanola. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0201; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 11. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** D24, L63, O40, O52. **KW** ICT. Information and Communication Technology. Productivity. Economic Growth.

**AB** This paper estimates, for the Spanish economy, the impact of ICT producing sectors on economic growth. The main source of information used is the Central Balance Sheet of the Banco de Espana (CBBE), since the National Accounts information has significant limitations. The analysis shows that ICT sectors have followed a more favorable path than the overall economy. This higher growth of the ICT sector has meant that, although its share is still small (about 5.5% of total output), its contribution to total economy productivity growth has been significant. However, as yet, the use of ICT does not seem to have given rise to improvements in the degree of economic efficiency of the total economy through the induced effects on the total factor productivity growth of other sectors. From this perspective, the current level of development of ICT in Spain is not sufficient to support an increase in potential output. This paper is available in Spanish.

**TI** The Contribution of ICT to Economic Activity: A Growth Accounting Exercise with Spanish Firm-Level Data. **AU** Hernando, Ignacio; Nunez, Soledad.

### Nyborg, Kjell G.

**PD** July 2002. **TI** Bidding and Performance in Repo Auctions: Evidence From ECB Open Market Operations. **AU** Nyborg, Kjell G.; Bindseil, Ulrich; Strebulaev, Ilya A. **AA** Nyborg and Bindseil: London Business School. Strebulaev: European Central Bank. **SR** European Central Bank Working Paper: 157; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 56. **PR** no charge. **JE** D44, E43, E52, G21. **KW** Multiunit Auctions. Discriminatory Auctions. Money Markets. Bidder Behavior. Monetary Policy.

**AB** We study bidder behavior and performance in 53 main refinancing operations ("repo auctions") of the European Central Bank (ECB). We find that private information and the winner's curse are not important in these auctions. The minimum bid rate and the level of secondary market rates play a crucial role in bidder behavior and auction performance. We also document that large bidders do better than small bidders. From the two cases of underbidding covered by the sample period, it appears this was driven by particularly large cutbacks by large, rather than small, bidders.

### O'Donoghue, Cathal

**TI** Imputation of Gross Amounts from Net Incomes in Household Surveys: An Application Using EUROMOD. **AU** Immervoll, Herwig; O'Donoghue, Cathal.

**TI** Towards a Multi-Purpose Framework for Tax-Benefit Microsimulation. **AU** Immervoll, Herwig; O'Donoghue,

Cathal.

**TI** Welfare Benefits and Work Incentives: An Analysis of the Distribution of Net Replacement Rates in Europe Using EUROMOD, a Multi-Country Microsimulation Model. AU Immervoll, Herwig; O'Donoghue, Cathal.

**PD** August 2002. **TI** The Impact of Means Tested Assistance in Southern Europe. AU O'Donoghue, Cathal; Albuquerque, Jose Luis; Baldini, Massimo; Bargain, Olivier; Bosi, Paolo; Levy, Horacio; Mantovani, Daniela; Matsaganis, Manos; Mercader-Prats, Magda; Farinha Rodrigues, Carlos; Toso, Stefano; Terraz, Isabelle; Tsakoglou, Panos. AA O'Donoghue: National University of Ireland. Albuquerque: Ministry of Labour, Lisboa. Baldini and Toso: University of Bologna. Bargain and Terraz: DELTA. Bosi: University of Modena. Levy and Mercader-Prats: University of Barcelona. Mantovani: University of Cambridge. Matsaganis: University of Crete. Farinha Rodrigues: Instituto Superior de Economia e Gestao, Lisboa. Tsakoglou: Athens University of Economics and Business, IZA, and IMOP. **SR** University of Cambridge, EUROMOD Working Paper: EM2001/06; Microsimulation Unit, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: [www.econ.cam.ac.uk/dae/mu/emod3.htm](http://www.econ.cam.ac.uk/dae/mu/emod3.htm). **PG** 27. **PR** \$10 (5 pounds) STG/EURO 8; make checks payable to University of Cambridge. **JE** D31, I38. **KW** Social Assistance. Southern Europe. Microsimulation.

**AB** This paper aims to analyse the social assistance systems in five South European countries: France, Greece, Italy, Portugal and Spain. After reviewing the existing system of social assistance in each country, we apply a consistent methodology in order to estimate its impact on income distribution, poverty and target efficiency.

**O'Rourke, Kevin H.**

**TI** Commodity Market Integration 1500-2000. AU Findlay, Ronald; O'Rourke, Kevin H.

**O'Sullivan, Roisin**

**TI** Asset Prices in the Measurement of Inflation. AU Bryan, Michael F.; Cecchetti, Stephen G.; O'Sullivan, Roisin.

**Obstfeld, Maurice**

**PD** July 2001. **TI** International Macroeconomics: Beyond the Mundell-Fleming Model. AA University of California, Berkeley and NBER. **SR** National Bureau of Economic Research Working Paper: 8369; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F31, F33, F41. **KW** International Macroeconomics. Open Economy Macroeconomics. Nominal Rigidities.

**AB** This lecture presents a broad overview of postwar analytical thinking on international macroeconomics, culminating in a more detailed discussion of very recent progress. Along the way, it reviews important empirical evidence that has inspired alternative modeling approaches, as well as theoretical and policy considerations behind developments in the field. The most recent advances in model-building center on the "new open economy macroeconomics," which synthesizes Keynesian nominal rigidities, intertemporal

approaches to open economy dynamics, and the effects of market structure on international trade.

**Oechssler, Joerg**

**TI** The Repo Auctions of the European Central Bank and the Vanishing Quota Puzzle. AU Nautz, Dieter; Oechssler, Joerg.

**TI** Two are Few and Four are Many: Number Effects in Experimental Oligopolies. AU Huck, Steffen; Normann, Hans-Theo; Oechssler, Joerg.

**PD** December 2001. **TI** The Limited Liability Effect in Experimental Duopoly Markets. AU Oechssler, Joerg; Schuhmacher, Frank. AA Oechssler: University of Bonn. Schuhmacher: RWTH Aachen. **SR** Bonn Econ Discussion Paper: 36/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html).

**PG** 19. **PR** no charge. **JE** C92, D43, G32, G33, L13. **KW** Oligopoly. Bankruptcy. Debt-Equity Ratio.

**AB** Brander and Lewis (1986) argue in a seminal paper that a firm's debt-equity ratio should have important strategic effects on product market competition. We test their model in a duopoly experiment under both Bertrand and Cournot competition. We find that leverage has strategic effects, but those effects are much weaker than predicted by theory. Specifically, we find for price competition a general tendency towards collusion, which has the same overall consequences as -- but deviates from -- the subgame perfect equilibrium prediction. With quantity competition subjects choose much less debt than predicted by theory. It appears that subjects recognize the strategic effects of their own debt. However, they do not (want to) acknowledge possible strategic advantages of opponents' debt.

**TI** Stability of the Cournot Process--Experimental Evidence. AU Huck, Steffen; Normann, Hans-Theo; Oechssler, Joerg.

**TI** Herding and Contrarian Behavior in Financial Markets--An Internet Experiment. AU Drehmann, Mathias; Oechssler, Joerg; Roeder, Andreas.

**Okogu, Bright E.**

**PD** May 2002. **TI** Issues in Global Natural Gas: A Primer and Analysis. AA IMF. **SR** International Monetary Fund Working Paper: WP/02/40R; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 30. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** L22, L71, L95, Q32, Q41. **KW** Natural Gas. Gas Pricing. Economic Rent. Gas Contracts. Investment.

**AB** This paper discusses the rising profile of natural gas in global energy, factors constraining its further development, the gas contracting process, and the absence of a global market, which is analyzed in the context of the economic rent in the gas price and the opaque nature of gas contracts. A proposal for rationalizing the trade to ease these constraints is offered. Gas pricing, and factors driving demand are also analyzed using evidence from the literature. FDI can help to monetize some of the "stranded" gas reserves, but success would depend on an investor-friendly climate, including appropriate tariff regimes in the domestic markets.

**Olivier, Jacques**

**TI** Free Trade and Protection of Intellectual Property Rights: Can We Have One Without the Other? **AU** Goh, Ai Ting; Olivier, Jacques.

**Ortuno Ortin, Ignacio**

**TI** Rational Underdevelopment. **AU** Desmet, Klaus; Ortuno Ortin, Ignacio.

**Ostergaard, Charlotte**

**PD** September 2001. **TI** Consumption and Aggregate Constraints: Evidence from US States and Canadian Provinces. **AU** Ostergaard, Charlotte; Sorenson, Bent E.; Yosha, Oved. **AA** Ostergaard: Norwegian School of Management. Sorenson: Binghamton University. Yosha: Tel Aviv University. **SR** CEPR Discussion Paper: 2947; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** E21. **KW** Canadian Provinces. Consumption. Sensitivity. Excess Smoothness. Permanent Income.

**AB** State-level consumption exhibits excess sensitivity to lagged income to the same extent as US aggregate data, but state-specific (idiosyncratic) consumption exhibits substantially less sensitivity to lagged state-specific income -- a result that also holds for Canadian provinces. We propose the following interpretation: borrowing and lending in response to changes in consumer demand is easier for an individual US state than it is for the US as a whole. The PIH may thus be a good model for describing the reaction of consumption to idiosyncratic disposable income shocks even if it fails at the aggregate US level. Further analysis, centered on the persistence of income shocks and on the consumption/income ratio, is consistent with this interpretation but suggests that the PIH still requires qualification. We contrast our results with tests of full inter-state risk sharing.

**Ozyildirim, Ataman**

**PD** January 2002. **TI** Time Series Decomposition and Measurement of Business Cycles, Trends and Growth Cycles. **AU** Ozyildirim, Ataman; Zarnowitz, Victor. **AA** Ozyildirim: The Conference Board. Zarnowitz: The Conference Board and NBER. **SR** National Bureau of Economic Research Working Paper: 8736; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 32. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E32, N10, O47. **KW** Business Cycles. Growth Cycles. Phase Average Trend. Filtering Methods.

**AB** A study of business cycles defined as sequences of expansions and contractions in the level of general economic activity does not require trend estimation and elimination, but a study of growth cycles defined as sequences of high and low growth phases does. Major cyclical slowdowns and booms deserve to be analyzed along with classical recessions and expansions, but the needed time series decomposition presents difficult problems, mainly because trends and cycles influence each other. We compare cyclical movements in levels, deviations from trend, and smoothed growth rates of the principal measures of aggregate economic activity -- the quarterly real Gross Domestic Product (GDP) and the monthly U.S. Coincident Index -- using the phase average trend (PAT). Then we compare alternative trend estimates, deterministic and

stochastic, linear and nonlinear, and the corresponding estimates of "cyclical components," that is, series of deviations from these trends. We discuss how these measures differ in terms of the patterns, timing, amplitudes, and smoothness of the resulting estimates of U.S. growth cycles in the post-World War II period. The results of PAT show great similarity to the results obtained with the Hodrick-Prescott and band-pass filtering methods, but in matters of detail PAT is often superior.

**Paasche, Bernhard**

**PD** December 2001. **TI** Competition and Intervention in Sovereign Debt Markets. **AU** Paasche, Bernhard; Zin, Stanley E. **AA** Paasche: Carnegie Mellon University. Zin: Carnegie Mellon University and NBER. **SR** National Bureau of Economic Research Working Paper: 8679; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 32. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** E44, F33, F34, G15. **KW** Competition. Intervention. Sovereign Debt. Default.

**AB** We investigate markets for defaultable sovereign debt in which even though there are many identical lenders and symmetric information, perfect competition does not obtain. When a private lender allows a sovereign country to increase its level of indebtedness, that lender implicitly imposes a default externality on others who have lent to that sovereign. When a lender has no control over the actions of other lenders, they must anticipate this behavior and devise a lending strategy that is consistent with the strategies not only of the sovereign borrower, but also of other lenders. We develop a model of this strategic lending behavior in the presence of default, and show that even though there are many competing lenders, the perfectly competitive outcome does not necessarily obtain. Moreover, the equilibrium can result in monopoly-like outcomes in prices and quantities. We also study the consequences of intervention in these markets by a seemingly benevolent international financial institution, and find that these interventions, though well-intentioned, can in some cases be welfare reducing for sovereign countries and welfare improving for private lenders.

**Paba, Sergio**

**TI** Knowledge Spillovers and the Growth of Local Industries. **AU** Forni, Mario; Paba, Sergio.

**Pakes, Ariel**

**PD** January 2002. **TI** A Reconsideration of Hedonic Price Indices with an Application to PC's. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8715; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 49. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C43, C81, L63. **KW** Hedonic Price Indices. Hedonic Price Functions. Personal Computers.

**AB** This paper provides a justification for hedonic price indices and details the properties of hedonic price functions. The analysis is done in a market setting in which a finite number of goods, each defined by its characteristics, interact. We note that proper hedonic indices can be constructed from the same data currently used to construct matched model indices. Since the matched model index does not incorporate price changes for goods which exit, and the goods that exited

tend to be those goods whose prices fall, the matched model index has a selection problem which biases it upwards. The hedonic index does not have this problem. We illustrate with a new study of price indices for desktop computing machines. The hedonic index shows steep price declines in every year. On average, the matched model indices indicate no price fall at all and one commonly used matched model index is negatively correlated with the hedonic. We also construct and compare alternative price indices used either in research or by the federal statistical agencies. Of these the one that seems to work well is a Pasche style hedonic.

### Palacios, Ignacio

**TI** Favoritism Under Social Pressure. **AU** Garicano, Luis; Palacios, Ignacio; Prendergast, Canice J.

### Pangestu, Mari

**TI** The Boom, Bust, and Restructuring of Indonesian Banks. **AU** Habir, Manggi; Pangestu, Mari.

### Paolini, Dimitri

**TI** Delegation and Information Revelation. **AU** Gautier, Axel; Paolini, Dimitri.

### Papadopoulos, Fotis

**PD** June 2001. **TI** Indicators of Social Exclusion in EUROMOD. **AU** Papadopoulos, Fotis; Tsakloglou, Panos. **AA** Papadopoulos: Athens University of Economics and Business. Tsakloglou: Athens University of Economics and Business, IZA, IMOP. **SR** University of Cambridge, EUROMOD Working Paper: EM2001/08; Microsimulation Unit, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: [www.econ.cam.ac.uk/dae/mu/emod3.htm](http://www.econ.cam.ac.uk/dae/mu/emod3.htm). **PG** 19. **PR** \$10 (5 pounds) STG/EURO 8; make checks payable to University of Cambridge. **JE** C81, I32. **KW** European Union. Social Exclusion. Living Conditions. Labor Markets. Indicators. Tax-Benefit Model.

**AB** The paper outlined a methodology for incorporating indicators of social exclusion in the European tax-benefit model (EUROMOD) database. Four such static indicators were examined covering the fields of Living Conditions, Necessities of Life and Labor Market. In all cases, it was suggested to extract the relevant information using a common database (the ECHP) and then use matching techniques for transferring this information to the EUROMOD database. Simulations using the ECHP data showed that this operationalization is likely to be more effective in the case of indicators of exclusion in the fields of Living Conditions and Necessities of Life than in the case of some indicators of exclusion from the Labor Market. Once these indicators are constructed they can be used in order to examine the impact (positive or negative) of the policies simulated using the EUROMOD tax-benefit model on those identified as being at high risk of exclusion in the relevant areas.

### Park, Yung Chul

**PD** July 2001. **TI** Recovery and Sustainability in East Asia. **AU** Park, Yung Chul; Lee, Jong-Wha. **AA** Korea University. **SR** National Bureau of Economic Research Working Paper: 8373; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 37. **PR** \$10.00 per copy (plus \$10.00

per order for shipping outside U.S.). **JE** F31, F33, F43, O53, O57. **KW** East Asian Crisis. Currency Crises. Liquidity Crisis.

**AB** This paper analyzes the macroeconomic adjustment from the crisis in East Asia in a broad international perspective. The stylized pattern from the previous 160 currency crisis episodes over the period from 1970 to 1995 shows a V-type adjustment of real gross domestic product growth in the years prior to and following a crisis. The adjustment shows a much sharper V-type in the crisis episodes with the International Monetary Fund financial assistance program, compared to those without. Cross-country regressions show that depreciation of the real exchange rate, expansionary macroeconomic policies, and favorable global environments are critical for the speedy post-crisis recovery. In this sense, the East Asian process of adjustment is not much different from the stylized pattern from the previous currency crisis episodes. However, the degree of initial contraction and following recovery has been far greater in East Asia than what the cross-country evidence predicts. This paper argues that the sharper adjustment pattern in East Asia is attributed to the severe liquidity crisis that was triggered by investors' panic and then amplified by the weak corporate and bank balance sheet. We find no evidence for a direct impact of a currency crisis on long-run growth.

### Parrado, Eric

**PD** January 2002. **TI** Optimal Interest Rate Policy in a Small Open Economy. **AU** Parrado, Eric; Velasco, Andres. **AA** Parrado: IMF. Velasco: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8721; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 24. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E52, F41. **KW** Monetary Policy. Exchange Rates. Small Open Economy. Imperfect Competition. Price Rigidity.

**AB** Using an optimizing model we derive the optimal monetary and exchange rate policy for a small stochastic open economy with imperfect competition and short run price rigidity. The optimal monetary policy has an exact closed-form solution and is obtained using the utility function of the representative home agent as welfare criterion. The optimal policy depends on the source of stochastic disturbances affecting the economy, much as in the literature pioneered by Poole (1970). Optimal monetary policy reacts to domestic and foreign disturbances. If the intertemporal elasticity of substitution in consumption is less than one, as is likely to be the case empirically, the optimal exchange rate policy implies a dirty float: interest rate shocks from abroad are met partially by adjusting home interest rates, and partially by allowing the exchange rate to move. This optimal pattern may help rationalize the observed fear of floating.

### Pastine, Ivan

**PD** July 2001. **TI** Speculation and the Decision to Abandon a Fixed Exchange Rate Regime. **AA** Bilkent University and CEPR. **SR** CEPR Discussion Paper: 2893; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** E58, F31. **KW** Nominal Anchor. Balance Of Payments Crises. Speculative Attacks. Exchange Rates.

**AB** This paper demonstrates that the implications of first-generation speculative attack models do not hold if there is a rational, forward-looking policy maker. The policy maker will be able to avoid predictable speculative attacks by introducing uncertainty into the decisions of speculators. This changes the sudden attack into a prolonged period of increasing speculation and uncertainty. In addition, the model provides useful insights into the viability of temporary nominal anchor policies, and a theoretical foundation for a useful empirical methodology.

#### **Pastor, Lubos**

**PD** September 2001. **TI** Liquidity Risk and Expected Stock Returns. **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: 8462; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 22. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** G12. **KW** Liquidity. Stock Returns. Asset Pricing.

**AB** This study investigates whether market-wide liquidity is a state variable important for asset pricing. We find that expected stock returns are related cross-sectionally to the sensitivities of returns to fluctuations in aggregate liquidity. Our monthly liquidity measure, an average of individual-stock measures estimated with daily data, relies on the principle that order flow induces greater return reversals when liquidity is lower. Over a 34-year period, the average return on stocks with high sensitivities to liquidity exceeds that for stocks with low sensitivities by 7.5% annually, adjusted for exposures to the market return as well as size, value, and momentum factors.

#### **Pattillo, Catherine**

**PD** April 2002. **TI** External Debt and Growth. **AU** Pattillo, Catherine; Poirson, Helene; Ricci, Luca. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/69; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 20. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** F21, F34, F43, O10, O40. **KW** Growth. External Debt. Debt Relief. HIPC Initiative.

**AB** This paper assesses the non-linear impact of external debt on growth using a large panel data set of 93 developing countries over 1969-98. Results are generally robust across different econometric methodologies, regression specifications, and different debt indicators. For a country with average indebtedness, doubling the debt ratio would reduce annual per capita growth by between half and a full percentage point. The differential in per capita growth between countries with external indebtedness (in net present value) below 100 percent of exports and above 300 percent of exports seems to be in excess of 2 percent per annum. For countries that are to benefit from debt reduction under the current HIPC initiative, per capita growth might increase by 1 percentage point, unless constrained by other macroeconomic and structural economic distortions. Our findings also suggest that the average impact of debt becomes negative at about 160-170 percent of exports or 35-40 percent of GDP. The marginal impact of debt starts being negative at about half of these values. High debt appears to reduce growth mainly by lowering the efficiency of investment rather than its volume.

**TI** Export Orientation and Productivity in Sub-Saharan

Africa. **AU** Mengistae, Taye; Pattillo, Catherine.

#### **Pauly, Mark V.**

**PD** September 2001. **TI** Tax Credits, the Distribution of Subsidized Health Insurance Premiums, and the Uninsured. **AU** Pauly, Mark V.; Herring, Bradley; Song, David. **AA** Pauly: University of Pennsylvania and NBER. Herring: Yale University. Song: University of Pennsylvania. **SR** National Bureau of Economic Research Working Paper: 8457; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 19. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I11, I18. **KW** Tax Credits. Health Insurance.

**AB** This paper investigates the impact of a \$1000 refundable tax credit for self only coverage on net premiums and insurance purchases for a representative sample of potential buyers in the individual insurance market. Two methods are used to estimate the distribution of premiums: predicted premiums based on a sample of actual purchasers, and premium quotations drawn from an e-insurance web site. In most of the simulations, the net premiums for half or more of the prospective buyers are reduced to zero or low levels. The number of uninsured is reduced by between 21 percent and 85 percent depending on the size of the deductible in the benchmark plan. However, the results are sensitive to assumptions about insurer underwriting practices.

#### **Pechacek, Terry F.**

**TI** The Impact of Tobacco Control Program Expenditures on Aggregate Cigarette Sales: 1981-1998. **AU** Farrelly, Matthew C.; Chaloupka, Frank J.; Pechacek, Terry F.

#### **Peek, Joe**

**PD** April 2000. **TI** Identifying the Macroeconomic Effect of Loan Supply Shocks. **AU** Peek, Joe; Rosengren, Eric S.; Tootell, Geoffrey M. B. **AA** Peek: Boston College. Rosengren and Tootell: Federal Reserve Bank of Boston. **SR** Federal Reserve Bank of Boston Working Paper: 00/02; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: [www.bos.frb.org/economic/wp/index.htm](http://www.bos.frb.org/economic/wp/index.htm). **PG** 23. **PR** no charge; available only online. **JE** E41, E51. **KW** Loan Supply. Monetary Policy. Inventory Movements. Shocks.

**AB** Evidence of an operative credit channel has been inconclusive. The inability to clearly distinguish the effects of shocks to loan supply from those to loan demand has made it difficult to quantify the importance of this transmission mechanism to the economy. This paper provides an innovative approach to identifying loan supply shocks that enables us to show that such disturbances have had economically important effects on the U.S. economy over the past two decades. We provide three different pieces of evidence that confirm that loan supply shocks have been successfully isolated from shifts in loan demand: Our measure is particularly important for explaining inventory movements, the component of gross domestic product most likely to be sensitive to shifts in bank loan supply; the effect is present even during periods of strong loan demand; and the effect does not dissipate quickly, as would be the case for demand shocks.

**TI** Troubled Banks, Impaired Foreign Direct Investment: The Role of Relative Access to Credit. **AU** Klein, Michael W.; Peek, Joe; Rosengren, Eric S.



**Peersman, Gert**

**PD** August 2002. **TI** The Industry Effects of Monetary Policy in the Euro Area. **AU** Peersman, Gert; Smets, Frank. **AA** Peersman: Bank of England and Ghent University. Smets: European Central Bank. **SR** European Central Bank Working Paper: 165; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 38. **PR** no charge. **JE** E42, E52. **KW** Monetary Transmission Mechanism. Euro Area. Financial Accelerator. Monetary Policy. **AB** We first estimate the effects of a euro area-wide monetary policy change on output growth in eleven industries of seven euro area countries over the period 1980-1998. On average the negative effect of an interest rate tightening on output is significantly greater in recessions than in booms. There is, however, considerable cross-industry heterogeneity in both the overall policy effects and the degree of asymmetry across the two business cycle phases. We then explore which industry characteristics can account for this cross-industry heterogeneity. Differences in the overall policy effects can mainly be explained by the durability of the goods produced in the sector. In contrast, differences in the degree of asymmetry of policy effects seem to be related to differences in financial structure, in particular the maturity structure of debt, the coverage ratio, financial leverage and firm size.

**Pereira, Sonia C.**

**TI** Does Inward Foreign Direct Investment Boost the Productivity of Domestic Firms? **AU** Haskel, Jonathan E.; Pereira, Sonia C.; Slaughter, Matthew J.

**Perez, Javier J.**

**PD** July 2002. **TI** Identifying Endogenous Fiscal Policy Rules for Macroeconomic Models. **AU** Perez, Javier J.; Hiebert, Paul. **AA** Perez: Centra and Universidad Pablo de Olavide. Hiebert: European Central Bank. **SR** European Central Bank Working Paper: 156; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 30. **PR** no charge. **JE** C51, C62, E62. **KW** Macroeconomic Models. Closure Rules. Fiscal Policy. Stability Analysis. **AB** In this paper, we present a model-based method for identifying fiscal closure rules in stochastic macroeconomic models. The methodology is based on the stability analysis of the model at hand, with an endogenous derivation of a reaction on the part of the fiscal authority to state variables in the model. The rule achieves the dual aim of imposing solvency on the fiscal sector and generating a state-contingent dynamic adjustment in a framework consistent with the properties of the model. Up to now, fiscal rules in leading large-scale macroeconomic forecasting models have been imposed exogenously, and in this sense are necessarily compatible with the formulation of other sectors of these models. An example of the derivation procedure, including some illustrative results, is provided using a small calibrated macro model.

**Perez, Miguel**

**TI** El grado de concentracion en las ramas productivas de la economia Espanola. **AU** Nunez, Soledad; Perez, Miguel.

**Persson, Lars**

**TI** Investment Liberalization -- Who Benefits from Cross Border Mergers? **AU** Norback, Pehr-Johan; Persson, Lars.

**Petri, Martin**

**PD** March 2002. **TI** Energy Sector Quasi-Fiscal Activities in the Countries of the Former Soviet Union. **AU** Petri, Martin; Taube, Gunther; Tsyvinski, Aleh. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/60; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 34. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E62, H11, L94, L95, P20. **KW** Transition Countries. Quasi-Fiscal Activities. Energy Sector. Energy Prices. Subsidies. **AB** A decade into the transition, many of the successor states of the former Soviet Union (FSU) continue to use energy sector quasi-fiscal activities (QFAs), especially low energy prices and the toleration of payment arrears, to provide large implicit and untargeted subsidies. These activities disguise the overall size of the government, cause over-consumption and waste, and contribute to macroeconomic imbalances. This paper analyses such activities in FSU countries, with particular emphasis on two case studies (Azerbaijan and Ukraine). The paper's policy conclusions point to the need to increase energy prices, combined with a strengthening of safety nets to protect the poor, better enforcement of payment discipline, and more efforts to achieve fiscal transparency.

**Pezanis-Christou, Paul**

**TI** An Experimental Test of Design Alternatives for the British 3G/UMTS Auction. **AU** Abbink, Klaus; Irlenbusch, Bernd; Pezanis-Christou, Paul; Rockenbach, Bettina; Sadrieh, Abdolkarim; Selten, Reinhard.

**TI** An Experimental Test of Design Alternatives for the British 3G/UMTS Auction. **AU** Abbink, Klaus; Irlenbusch, Bernd; Pezanis-Christou, Paul; Rockenbach, Bettina; Sadrieh, Abdolkarim; Selten, Reinhard.

**Pinkowitz, Lee**

**PD** December 2001. **TI** Corporate Governance and the Home Bias. **AU** Pinkowitz, Lee; Stulz, Rene M.; Williamson, Rohan. **AA** Pinkowitz and Williamson: Georgetown University. Stulz: Ohio State University and NBER. **SR** National Bureau of Economic Research Working Paper: 8680; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 25. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** G11, G12, G15, G32, G34. **KW** Corporate Governance. Home Bias. Portfolio Holdings.

**AB** In most countries, many of the largest corporations are controlled by large shareholders. We show that, under reasonable assumptions, this stylized fact implies that portfolio holdings of U.S. investors should exhibit a home bias in equilibrium. We construct an estimate of the world portfolio of shares available to investors who are not controlling shareholders. This available world portfolio differs sharply from the world market portfolio. In regressions explaining the portfolio weights of U.S. investors, the world portfolio of available shares has a positive significant coefficient but the world market portfolio has not additional explanatory power. This result holds when we control for country characteristics.

**Pistoresi, Barbara**

**PD** September 2001. **TI** Rent Sharing in Wage Determination: Evidence from Italy. **AU** Pistoresi, Barbara; Strozzi, Chiara. **AA** Pistoresi: Universita di Modena. **SR** CEPR Discussion Paper: 2939; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** C10, J30, J50. **KW** Dynamic Correlation Analysis. Dynamic Factor Model. Rent Sharing. Two-Stage Bargaining.

**AB** This paper presents a two-stage bargaining framework which reproduces the key features of the Italian bargaining system, where wage negotiations occur first at the industry and then at the firm level. The framework we propose takes into account the presence of different degrees of union bargaining power at the two levels of wage negotiations, thus generating a potential distinction between the extent of rent sharing in centralized and in decentralized collective agreements. On the basis of this distinction, the paper focuses on the study of rent sharing in the Italian basic metal industry by analyzing separately what occurs at each of the two bargaining stages. In particular, by estimating a dynamic factor model and by measuring the dynamic correlation between wage and labor productivity, we evaluate how, through the bargaining process, aggregate and idiosyncratic productivity shocks influence respectively centralized and decentralized wage negotiations. It turns out that while centralized agreements generate rent sharing, at the decentralized bargaining level union power is absent.

**Plesko, George A.**

**PD** December 2001. **TI** Measuring the Incentive Effects of State Tax Policies Toward Capital Investment. **AU** Plesko, George A.; Tannenwald, Robert. **AA** Plesko: MIT. Tannenwald: Federal Reserve Bank of Boston. **SR** Federal Reserve Bank of Boston Working Paper: 01/04; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: [www.bos.frb.org/economic/wp/index.htm](http://www.bos.frb.org/economic/wp/index.htm). **PG** 31. **PR** no charge; available only online. **JE** H24, H25, H32, H73. **KW** Taxation. Corporations. Tax Burden. Capital Investment.

**AB** Empirical research on the effects of differential business taxation across jurisdictions relies on the appropriate measurement of the burden of tax in each location. While numerous summary measures have been proposed and used in various contexts to make such comparisons, most fail to account for the full effects of each state's tax system and the interactions of state tax systems with both local and federal taxes. This paper addresses these issues and employs an approach used in recent state tax reform studies to measure tax burdens. The advantages of this "representative firm" approach over traditional measures are discussed, and its empirical significance is tested.

**Poirson, Helene**

**TI** External Debt and Growth. **AU** Pattillo, Catherine; Poirson, Helene; Ricci, Luca.

**Pome, Alessandra**

**TI** Science versus Profit in Research: Lessons from the Human Genome Project. **AU** Carraro, Carlo; Pome, Alessandra; Siniscalco, Domenico.

**TI** International Risk-Sharing and the Exchange Rate: Re-evaluating the Case for Flexible Exchange Rates. **AU** Devereux, Michael B.; Pome, Alessandra; Siniscalco, Domenico.

**Popp, David**

**TI** Forced Out of the Closet: The Impact of the American Inventors Protection Act on the Timing of Patent Disclosure. **AU** Johnson, Daniel K. N.; Popp, David.

**Pottebaum, David**

**TI** Civil War, Public Goods and the Social Wealth of Nations. **AU** Kanbur, Ravi; Pottebaum, David.

**Potter, Simon**

**TI** Forecasting in Large Macroeconomic Panels Using Bayesian Model Averaging. **AU** Koop, Gary; Potter, Simon.

**Powers, Elizabeth**

**PD** December 2001. **TI** The Supplemental Security Income Program and Incentives to Take Up Social Security Early Retirement: Empirical Evidence from Matched SIPP and Social Security Administration files. **AU** Powers, Elizabeth; Neumark, David. **AA** Powers: Institute of Government and Public Affairs. Neumark: Michigan State University and NBER. **SR** National Bureau of Economic Research Working Paper: 8670; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 32. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** H55, J14, J18. **KW** Supplemental Security Income Program. Social Security Retirement System.

**AB** Features of the Supplemental Security Income (SSI) program and the social security retirement system may interact in a manner that creates incentives for prospective SSI recipients to take social security early retirement (SSER). This paper takes a first close look at this issue. The work disincentives posed by SSI rules and the potential interactions between the SSI and SSER programs are outlined in a basic theoretical framework. We first present evidence supporting the hypothesis that SSI rules induce prospective SSI recipients to substantially reduce work activity prior to age 65. We then present two types of evidence on SSI-SSER interactions. We do not find a simple correspondence between generous SSI benefits and SSER use, which might be an expected indirect SSI-SSER interaction. However, estimates for some specifications for SSER receipt, derived directly from the theoretical interaction between SSER and SSI rules through the household budget constraint, provide evidence of a direct interaction between SSER and SSI, with SSI inducing use of SSER for those individuals for whom the SSI-SSER interaction eliminates the reduction in benefits associated with early receipt of social security benefits.

**Prat, Andrea**

**TI** Handcuffs for the Grabbing Hand? Media Capture and Government Accountability. **AU** Besley, Timothy; Prat, Andrea.

**Prendergast, Canice J.**

**TI** Favoritism Under Social Pressure. **AU** Garicano, Luis; Palacios, Ignacio; Prendergast, Canice J.

**PD** August 2001. **TI** Consumers and Agency Problems. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8445; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 20. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D80. **KW** Agency Problems. Efficient Behavior. Consumers.

**AB** Consumers solve many agency problems, by pointing out when they believe that agents have made mistakes. This paper considers the role that consumers play in inducing efficient behavior by agents. The paper distinguishes between two cases: those where consumers have similar preferences to the principal, and those where consumer preferences diverge from those of the principal. In the former case, allowing consumer feedback improves allocations, and increasing consumer information is unambiguously beneficial. In the case where consumers disagree with principals over desired outcomes, which characterizes many benefits given by the public sector, consumer feedback about the performance of agents can reduce welfare. This may result in efficiently restricting the ability of consumers to complain about agent performance.

#### **Prusa, Thomas J.**

**TI** Political Market Structure. **AU** Anderson, James E.; Prusa, Thomas J.

#### **Puhani, Patrick A.**

**TI** Immigration and Heterogeneous Labour in Western Germany: A Labour Market Classification Based on Nonparametric Estimation. **AU** Froelich, Markus; Puhani, Patrick A.

#### **Ramcharan, Rodney**

**PD** May 2002. **TI** Money, Meat, and Inflation: Using Price Data to Understand an Export Shock in Sudan. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/84; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. **PG** 20. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E31, E52, F13, F31, Q17. **KW** Sudan. Inflation. Exchange Rate. Livestock. Export Ban.

**AB** Sudanese inflation dramatically fell in 2000. But just prior to the sharp decline, an export ban was placed on Sudanese livestock. Motivated by this clue, and in the absence of any reliable income or employment data, this paper systematically develops simultaneous models of the consumer price index (CPI) and the exchange rate to assess the economic impact of the export ban. It finds that livestock exports play a large economic role as an important source of income and as a store of value. In the long run, livestock exports are positively associated with non-food inflation. In the short run, food price movements are negatively associated with livestock exports: to help smooth income, lower food prices generate increased livestock exports. Therefore, unable to export livestock, farmers may have flooded the local market with meat, lowering food prices. Moreover, the loss of income and the decline in wealth lowered aggregate demand, leading to the decline in non-food prices.

#### **Ramey, Garey**

**TI** Shocks and Institutions in a Job Matching Model.

**AU** Den Haan, Wouter J.; Haefke, Christian; Ramey, Garey.

#### **Ramey, Valerie A.**

**TI** Is the Technology-Driven Real Business Cycle Hypothesis Dead? **AU** Francis, Neville; Ramey, Valerie A.

#### **Rauch, James E.**

**PD** January 2002. **TI** Entrepreneurship in International Trade. **AU** Rauch, James E.; Watson, Joel. **AA** Rauch: UCSD and NBER. Watson: UCSD. **SR** National Bureau of Economic Research Working Paper: 8708; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 22. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F23, J41. **KW** Entrepreneurship. Networks Intermediation. International Trade.

**AB** Motivated by evidence on the importance of incomplete information and networks in international trade, we investigate the supply of "network intermediation." We hypothesize that the agents who become international trade intermediaries first accumulate networks of foreign contacts while working as employees in production or sales, then become entrepreneurs who sell access to and use of the networks they accumulated. We report supportive results regarding this hypothesis from a pilot survey of international trade intermediaries. We then build a simple general-equilibrium model of this type of entrepreneurship, and use it for comparative statics and welfare analysis. One welfare conclusion is that intermediaries may have inadequate incentives to maintain or expand their networks, suggesting a rationale for the policies followed by some countries to encourage large-scale trading companies that imitate the Japanese *sogo shosha*.

#### **Ravenna, Federico**

**TI** The Road to Adopting the Euro: Monetary Policy and Exchange Rate Regimes in EU Candidate Countries. **AU** Natalucci, Fabio M.; Ravenna, Federico.

#### **Ravn, Morten**

**PD** September 2001. **TI** Consumption Dynamics and Real Exchange Rate. **AA** London Business School and CEPR. **SR** CEPR Discussion Paper: 2940; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** E21, E32, E41. **KW** Habit Persistence. Non-Separabilities. Real Exchange Rates. Risk Sharing.

**AB** The paper investigates the role of the real exchange rate in relationships between consumption growth rates across countries when financial markets are integrated. The real exchange rate introduces a wedge between real marginal utilities of consumption in different countries and this wedge plays a prominent role in a number of new theories of international fluctuations. Yet, the role of the real exchange rate has been ignored in many previous studies of risk sharing and financial market integration. We find a limited role for the real exchange rate in these relationships. Special attention is also paid to the analysis of non-separabilities in the utility function including effects of money balances, leisure, government spending, and habit persistence. The results are also shown to be robust to decomposing consumption. The evidence may question the empirical plausibility of recent theories of international business cycles that associate a crucial role to the

real exchange rate in breaking the direct link between consumption in different countries.

### Razin, Assaf

**PD** April 2002. **TI** The Aging of the Population and the Size of the Welfare State. **AU** Razin, Assaf; Sadka, Efraim; Swagel, Phillip. **AA** Razin and Sadka: Tel-Aviv University. **Swagel**: IMF. **SR** International Monetary Fund Working Paper: WP/02/68; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. **Website**: www.imf.org. **PG** 18. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** H11, H24, J11. **KW** Aging. Dependency Ratio. Political Economy. Labor Tax.

**AB** Data for the United States and countries in Western Europe indicate a negative correlation between the dependency ratio and both labor tax rates and the generosity of social transfers, after controlling for other factors that influence the size of the welfare state. This is the case despite the increased political clout of the dependent population implied by the aging of the population. This paper develops a model of intra- and inter-generational transfers and human capital formation, which addresses this seeming puzzle. We show that with democratic voting, a higher dependency ratio can lead to lower taxes or less generous social transfers.

### Rebelo, Sergio

**TI** Distribution Costs and Real Exchange Rate Dynamics During Exchange-Rate-Based Stabilization. **AU** Burstein, Ariel Thomas; Neves, Joao C.; Rebelo, Sergio.

**TI** Why Are Rates of Inflation So Low After Large Devaluations? **AU** Burstein, Ariel Thomas; Eichenbaum, Martin; Rebelo, Sergio.

### Rebucci, Alessandro

**TI** The Transmission Mechanism of European Monetary Policy: Is there Heterogeneity? Is It Changing Over Time? **AU** Ciccarelli, Matteo; Rebucci, Alessandro.

### Reeve, Trevor A.

**PD** July 2002. **TI** Factor Endowments and Industrial Structure. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 731; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. **Website**: www.federalreserve.gov/pubs/ifdp. **PG** 41. **PR** no charge. **JE** D24, F11, F14. **KW** Factor Proportions. Endowments. Production. Industrial Structure. International Trade. Heckscher-Ohlin.

**AB** What determines industrial structure? Do sector-specific characteristics such as unionization, regulation, and trade policy dominate production patterns? One is inclined to believe so based on countless industry-level studies and the many political battles that are continually fought over trade and industrial policy. In contrast, standard neoclassical trade theory suggests that industrial structure is primarily driven by relative factor supplies. This paper demonstrates that aggregate factor endowments explain much of the structure of production -- independent of industry idiosyncrasies -- and quantifies the extent to which shifts in industrial structure in a cross section of countries are driven by the broad forces of factor accumulation.

This result has important implications for policy. In particular, investment in physical capital and education may have as great an impact on the pattern of production as sector-specific trade and industrial policies. Thus, general equilibrium effects should not be ignored in efforts either to understand industrial structure or to form policies that attempt to alter it. These conclusions are reached through an empirical application of the factor proportions model of production.

### Reichlin, Lucrezia

**TI** Do Financial Variables Help Forecasting Inflation and Real Activity in the Euro Area? **AU** Forni, Mario; Hallin, Marc; Lippi, Marco; Reichlin, Lucrezia.

### Reinhart, Carmen M.

**PD** January 2002. **TI** Default, Currency Crises and Sovereign Credit Ratings. **AA** IMF and NBER. **SR** National Bureau of Economic Research Working Paper: 8738; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website**: www.nber.org. **PG** 22. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F31, F34. **KW** Sovereign Credit Ratings. Currency Crisis. Default.

**AB** Sovereign credit ratings play an important role in determining the terms and the extent to which countries have access to international capital markets. In principle, there is no reason why changes in sovereign credit ratings should be expected to systematically predict a currency crisis. In practice, however, in developing countries there is a strong link between currency crises and default. About 85 percent of all the defaults in the sample are linked with currency crises. The results presented here suggest that sovereign credit ratings systematically fail to anticipate currency crises -- but do considerably better predicting defaults. Downgrades usually follow the currency crisis -- possibly highlighting how currency instability increases default risk.

### Reiss, Peter C.

**PD** December 2001. **TI** Household Electricity Demand, Revisited. **AU** Reiss, Peter C.; White, Matthew W. **AA** Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 8687; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website**: www.nber.org. **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** C40, L51, L52, L94. **KW** Electricity. Deregulation. Demand Analyses.

**AB** Recent efforts to restructure and partially deregulate electricity markets have renewed interest in understanding how consumers respond to price changes. Several interrelated problems complicate demand analyses of these markets, including nonlinear pricing, heterogeneity in households' price sensitivities, and data aggregation. This paper formulates a model of household electricity demand that addresses these difficulties. We estimate the model using data for a representative sample of California households, and summarize how electricity demand elasticities vary in that state. We then use the model to analyze the electricity consumption and expenditure effects of recent tariff structure changes in California.

### Ricci, Luca

**TI** External Debt and Growth. **AU** Pattillo, Catherine;

Poirson, Helene; Ricci, Luca.

### Rich, Robert

**TI** Tracking the New Economy: Using Growth Theory to Detect Changes in Trend Productivity. **AU** Kahn, James A.; Rich, Robert.

**PD** February 2003. **TI** Modeling Uncertainty: Predictive Accuracy as a Proxy for Predictive Confidence. **AU** Rich, Robert; Tracy, Joseph. **AA** Federal Reserve Bank of New York. **SR** Federal Reserve Bank of New York Staff Report: 161; Research and Market Analysis Group, Federal Reserve Bank of New York, 33 Liberty Street, 3rd Floor, New York, NY 10045-0001. Website: [www.newyorkfed.org/rmaghome](http://www.newyorkfed.org/rmaghome). **PG** 30. **PR** no charge; available only online. **JE** C12, C22, E37. **KW** Uncertainty. Conditional Heteroskedasticity. Disagreement. Forecast Behavior.

**AB** This paper evaluates current strategies for the empirical modeling of forecast behavior. In particular, we focus on the reliability of using proxies from time series models of heteroskedasticity to describe changes in predictive confidence. We address this issue by examining the relationship between ex post forecast errors and ex ante measures of forecast uncertainty from data on inflation forecasts from the Survey of Professional Forecasters. The results provide little evidence of a strong link between observed heteroskedasticity in the consensus forecast errors and forecast uncertainty. Instead, the findings indicate a significant link between observed heteroskedasticity in the consensus forecast errors and forecast dispersion. We conclude that conventional model-based measures of uncertainty may be capturing not the degree of confidence that individuals attach to their forecasts but rather the degree of disagreement across individuals in their forecasts.

### Rigobon, Roberto

**TI** Resource Curse or Debt Overhang? **AU** Manzano, Osmel; Rigobon, Roberto.

**PD** January 2002. **TI** Disinflation and Fiscal Reform: A Neoclassical Perspective. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8706; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 23. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** E31, F31, F32. **KW** Disinflation Programs. Fiscal Reforms. Exchange Rate Policy.

**AB** During the last two decades, many Latin American countries engaged in disinflation programs based on both exchange rate management and fiscal reforms. However, in most instances, part of the fiscal reform was delayed or not implemented completely, so the fiscal deficit increased and the program had to be abandoned. The aftermath of these programs is not encouraging, since most of these policies turned out to be failure, lowering reserves and causing higher inflation rates. Given this record, it is worth asking why governments start a disinflation program even though the fiscal equilibrium is not guaranteed. In this paper we show that, if the reform process is uncertain and inflation has welfare costs, the optimal exchange rate policy implies the initiation of a disinflation program at the announcement of the fiscal reform. Additionally, we show that even if there exists a possibility of a balance of payments crisis, it is still optimal to initiate a disinflation program. This means that, in this set up, avoiding the crisis with probability one is

suboptimal. Finally, we show that it is optimal to engage in a sequence of stabilization programs until one of them is successful.

### Riordan, Michael H.

**TI** Measuring the Relative Performance of Providers of a Health Service. **AU** Ackerberg, Daniel A.; Machado, Matilde P.; Riordan, Michael H.

### Riphahn, Regina

**PD** August 2001. **TI** Dissimilation? The Educational Attainment of Second Generation Immigrants. **AA** University of Basel and CEPR. **SR** CEPR Discussion Paper: 2903; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** I21, J24, J61. **KW** Assimilation. Cohort Effects. Educational Attainment. Immigrants. Germany.

**AB** The educational attainment of second generation immigrants is of crucial importance for their subsequent labor market success in Germany. While the schooling outcomes of natives improved in recent decades, German-born children of immigrants did not partake in this development. The paper applies representative data from the Mikrozensus and the German Socioeconomic Panel (GSOEP) to investigate the development and determinants of educational attainment of immigrant youth. Even after controlling for covariate effects, the time trends in the educational attainment of natives and second generation immigrants deviate. This evidence for "dissimilation" calls for responses by educational policy and further research attention. An additional outcome of the study is that the analysis of immigrant educational attainment ought to distinguish first and second generation immigrants as these groups differ in statistically significant ways.

### Rivkin, Steven G.

**TI** New Evidence about Brown v. Board of Education: The Complex Effects of School Racial Composition on Achievement. **AU** Hanushek, Eric A.; Kain, John F.; Rivkin, Steven G.

### Robins, Philip K.

**TI** The Limits to Wage Growth: Measuring the Growth Rate of Wages for Recent Welfare Leavers. **AU** Card, David; Michalopoulos, Charles; Robins, Philip K.

### Robinson, James A.

**TI** Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution. **AU** Acemoglu, Daron; Robinson, James A.; Johnson, Simon.

### Rodriguez, Jesus Lopez

**TI** The Regional Policy of the European Union and the Enlargement Process to Central and Eastern European Countries. **AU** Faina, J. Andres; Rodriguez, Jesus Lopez.

### Rodriguez-Palenzuela, Diego

**TI** Youth Unemployment in the OECD: Demographic Shifts, Labour Market Institutions, and Macroeconomic Shocks. **AU** Jimeno, Juan F.; Rodriguez-Palenzuela, Diego.

**Rodrik, Dani**

**TI** Why Are Some People (and Countries) More Protectionist Than Others? **AU** Mayda, Anna Maria; Rodrik, Dani.

**Rogers, John H.**

**TI** Identifying the Effects of Monetary Policy Shocks on Exchange Rates Using High Frequency Data. **AU** Faust, Jon; Rogers, John H.; Swanson, Eric; Wright, Jonathan H.

**PD** October 2002. **TI** Monetary Union, Price Level Convergence, and Inflation: How Close is Europe to the United States? **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 740; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 49. **PR** no charge. **JE** E31, F36, F41. **KW** Economic Integration. Prices. Exchange Rates. Euro.

**AB** In light of 50 years of economic policies designed to integrate Europe, it is of interest to assess how far European integration has come in practice. Using a unique data set, this paper documents the pattern of price dispersion across European and U.S. cities from 1990 to 2001. The paper finds a striking decline in dispersion for traded goods prices in Europe, most of which took place between 1991 and 1994. The level of traded goods price dispersion in the euro area is now quite close to that of the United States. A decline in dispersion of non-tradeables prices in Europe has also taken place, but to a smaller extent. For U.S. cities, there is no evidence of a decline in price dispersion, even for tradeables. The paper examines several possible explanations for the decline in European price dispersion, including harmonization of tax rates, convergence of incomes and labor costs, liberalization of trade and factor markets, and increased coherence of monetary policy. The paper also investigates how much of the variation in national inflation rates in Europe can be explained by price level convergence. Finally, the paper discusses the potential inflationary consequences of accession into monetary union for Eastern Europe.

**Roider, Andreas**

**PD** May 2002. **TI** Asset Ownership and Contractability of Interaction. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 12/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 40. **PR** no charge. **JE** D23, D82, L14, L22. **KW** Property Rights. Incomplete Contracts. Investment Incentives. Contracts. Organizational Form.

**AB** In a property-rights framework, we study how the organizational form and quantity contracts interact in generating investment incentives. Our model nests standard property-rights and hold-up models as special cases. We admit general message-dependent contracts but provide conditions under which non-contingent contracts are optimal. This allows us to fully characterize optimal contracts. First, we contribute to the foundation of the property-rights theory by characterizing under which circumstances its predictions are correct even when trade is contractible. Second, we study how the two incentive instruments interact in our symmetric information framework depending on the environment, which

is in the spirit of the multitasking literature. Finally, our model has implications for future empirical tests of the property-rights theory.

**TI** Herding and Contrarian Behavior in Financial Markets-An Internet Experiment. **AU** Drehmann, Mathias; Oechssler, Joerg; Roider, Andreas.

**Roland, Gerard**

**TI** Banking Passivity and Regulatory Failure in Emerging Markets: Theory and Evidence from the Czech Republic. **AU** Hanousek, Jan; Roland, Gerard.

**Roper, Andrew H.**

**TI** The Effect of Capital Structure When Expected Agency Costs are Extreme. **AU** Harvey, Campbell R.; Lins, Karl V.; Roper, Andrew H.

**Rose, Andrew K.**

**TI** Does a Currency Union Affect Trade? The Time Series Evidence. **AU** Glick, Reuven; Rose, Andrew K.

**TI** Uncovered Interest Parity in Crisis: The Interest Rate Defense in the 1990s. **AU** Flood, Robert P.; Rose, Andrew K.

**PD** January 2002. **TI** One Reason Countries Pay Their Debts: Renegotiation and International Trade. **AA** University of California, Berkeley and CEPR. **SR** CEPR Discussion Paper: 3157; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C23, F34. **KW** Empirical. Sovereign. Default. Bilateral. Panel. Gravity. Paris Club. Rescheduling.

**AB** This paper estimates the effect of sovereign debt renegotiation on international trade. Sovereign default may be associated with a subsequent decline in international trade either because creditors want to deter default by debtors, or because trade finance dries up after default. To estimate the effect, this paper uses an empirical gravity model of bilateral trade and a large panel data set covering fifty years and over 200 trading partners. The model controls for a host of factors that influence bilateral trade flows, including the incidence of International Monetary Fund programs. Using the dates of sovereign debt renegotiations conducted through the Paris Club as a proxy measure for sovereign default, this paper finds that renegotiation is associated with an economically and statistically significant decline in bilateral trade between a debtor and its creditors. The decline in bilateral trade is approximately eight percent a year and persists for around fifteen years.

**Rosen, Asa**

**PD** January 2002. **TI** Higher Education Levels, Firm's Outside Options and the Wage Structure. **AU** Rosen, Asa; Wasmer, Etienne. **AA** Rosen: Stockholm University. Wasmer: ECARES and Universite Libre de Bruxelles. **SR** CEPR Discussion Paper: 3186; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J22, J31. **KW** Wage Inequality. Matching. Creation Costs. Firing Costs. Real Wage.

**AB** We analyze the consequences of an increase in the supply

of highly educated workers on relative and real wages in a search model where wages are set by Nash-bargaining. The key insight is that an increase in the supply of highly educated workers improves the firms' outside option. As a consequence, the real wage of all workers decreases in the short-run. Since this decline is more pronounced for less educated workers, wage inequality increases. In the long-run a better educated work force induces firms to invest more in physical capital. Wage inequality and real wages of highly educated workers increase while real wages of less educated workers may decrease. These results are consistent with the US experience in the 70s and 80s. Based upon differences in legal employment protection we also provide an explanation for the diverging evolution of real and relative wages in Continental Europe.

### Rosen, Harvey S.

TI Financial Aid Packages and College Enrollment Decisions: An Econometric Case Study. AU Linsenmeier, David M.; Rosen, Harvey S.; Rouse, Cecilia Elena.

### Rosenberg, Joshua V.

PD March 2003. TI Nonparametric Pricing of Multivariate Contingent Claims. AA Federal Reserve Bank of New York. SR Federal Reserve Bank of New York Staff Report: 162; Research and Market Analysis Group, Federal Reserve Bank of New York, 33 Liberty Street, 3rd Floor, New York, NY 10045-0001. Website: [www.newyorkfed.org/rmaghome](http://www.newyorkfed.org/rmaghome). PG 15. PR no charge; available only online. JE C13, G13, G14. KW Nonparametric. Derivatives. Multivariate. Contingent Claim Pricing.

AB This paper derives and implements a nonparametric, arbitrage-free technique for multivariate contingent claim (MVCC) pricing. Using results from the method of copulas, this paper shows that the multivariate risk-neutral density can be written as a product of marginal risk-neutral densities and a risk-neutral dependence function. This paper then develops a pricing technique using nonparametrically estimated marginal risk-neutral densities (based on options data) and a nonparametric dependence function (based on historical return data). By using nonparametric estimation, the paper avoids the pricing biases that result from incorrect parametric assumptions such as lognormality. The paper then applies this technique to estimate the joint risk-neutral density of euro-dollar and yen-dollar returns. It compares the nonparametric risk-neutral density with density based on a lognormal dependence function and nonparametric marginals. The nonparametric euro-yen risk-neutral density has greater volatility, skewness, and kurtosis than the density based on a lognormal dependence function. In a comparison of pricing accuracy for euro-yen futures options, the paper finds that the nonparametric model is superior to the lognormal model.

### Rosenbloom, Joshua L.

TI Agricultural Labor Productivity in the Lower South, 1720-1800. AU Mancall, Peter C.; Rosenbloom, Joshua L.; Weiss, Thomas.

### Rosengren, Eric S.

TI Identifying the Macroeconomic Effect of Loan Supply Shocks. AU Peek, Joe; Rosengren, Eric S.; Tootell, Geoffrey M. B.

TI Troubled Banks, Impaired Foreign Direct Investment:

The Role of Relative Access to Credit. AU Klein, Michael W.; Peek, Joe; Rosengren, Eric S.

### Rouse, Cecilia Elena

TI Financial Aid Packages and College Enrollment Decisions: An Econometric Case Study. AU Linsenmeier, David M.; Rosen, Harvey S.; Rouse, Cecilia Elena.

### Rousseau, Peter L.

TI The Q-Theory of Mergers. AU Jovanovic, Boyan; Rousseau, Peter L.

### Routledge, Bryan R.

PD December 2001. TI Model Uncertainty and Liquidity. AU Routledge, Bryan R.; Zin, Stanley E. AA Routledge: Carnegie Mellon University. Zin: Carnegie Mellon University and NBER. SR National Bureau of Economic Research Working Paper: 8683; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 48. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE C50, D80, G10, G13, G20. KW Model Uncertainty. Liquidity. Trade. Uncertainty Aversion. Derivative Markets.

AB Extreme market outcomes are often followed by a lack of liquidity and a lack of trade. This market collapse seems particularly acute for markets where traders rely heavily on a specific empirical model such as in derivative markets. Asset pricing and trading, in these cases, are intrinsically model-dependent. Moreover, the observed behavior of traders and institutions that place a large emphasis on "worse-case scenarios" through the use of "stress testing" and "value-at-risk" seems different than Savage rationality would suggest. In this paper we capture model-uncertainty explicitly using an Epstein-Wang (1994) uncertainty-averse utility function with an ambiguous underlying asset-returns distribution. To explore the connection of uncertainty with liquidity, we specify a simple market where a monopolist financial intermediary makes a market for a propriety derivative security. The market-maker chooses bid and ask prices for the derivative, then, conditional on trade in this market, chooses an optimal portfolio and consumption. We explore how uncertainty can increase the bid-ask spread and, hence, reduce liquidity. Our infinite-horizon example produces short, dramatic decreases in liquidity even though the underlying environment is stationary.

### Rudebusch, Glenn D.

TI Estimating the Euler Equation for Output. AU Fuhrer, Jeffrey C.; Rudebusch, Glenn D.

### Ruhm, Christopher J.

PD August 2001. TI Economic Expansions are Unhealthy: Evidence from Microdata. AA UNCG and NBER. SR National Bureau of Economic Research Working Paper: 8447; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 22. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E32, I12. KW Health. Economic Expansions. Medical Care.

AB This study uses microdata from the 1972-1981 National Health Interview Surveys to examine how health status and medical care utilization fluctuate with state macroeconomic conditions, after controlling for personal characteristics, location fixed-effects, general time effects and (usually) state-

specific time trends. The major finding is that there is a countercyclical variation in physical health that is especially pronounced for individuals of prime-working age, employed persons, and males. The negative health effects of economic expansions accumulate over several years, are larger for acute than chronic ailments, and occur despite increased use of medical care. Finally, there is some evidence that mental health is procyclical, in sharp contrast to physical well-being.

### S.G. Cuentas Nacionales

**PD** July 2002. **TI** Ajuste estacional y extraccion de senales en la Contabilidad Nacional Trimestral (Seasonal Adjustment and Signal Extraction in the Quarterly National Accounts). **AA** National Statistics Institute. **SR** Banco de Espana, Documentos de Trabajo: 0210; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 18. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** C00, C22, C51, E20. **KW** National Accounts. Seasonal Adjustment. Signal Extraction. ARIMA Models.

**AB** This paper describes the main elements of the process of seasonal adjustment and signal extraction employed in the Quarterly National Accounts. First, it specifies the underlying component structure used and then goes on to describe the technical aspects of its estimation. These aspects include the calculation of the calendar effects, the determination of the stochastic components and the final decomposition. Details are also given of the process of signal extraction applied to Gross Domestic Product and, finally, the multivariate balancing and reconciliation method employed. From a technical viewpoint, the methodology used combines decomposition of time series based on ARIMA models with time disaggregation procedures, which extend the Chow-Lin procedure to the multivariate case. This paper is only available in Spanish.

### Sa, Sapanha

**TI** Macroeconomic Adjustment in a Highly Dollarized Economy: The Case of Cambodia. **AU** de Zamaroczy, Mario; Sa, Sapanha.

### Sacco, Pier Luigi

**TI** Economic Growth and Social Poverty: The Evolution of Social Participation. **AU** Antoci, Angelo; Sacco, Pier Luigi; Vanin, Paolo.

### Sadka, Efraim

**TI** The Aging of the Population and the Size of the Welfare State. **AU** Razin, Assaf; Sadka, Efraim; Swagel, Phillip.

### Saffer, Henry

**PD** January 2002. **TI** Mental Illness and the Demand for Alcohol, Cocaine and Cigarettes. **AU** Saffer, Henry; Dave, Dhaval. **AA** Saffer: NBER. Dave: City University of New York and NBER. **SR** National Bureau of Economic Research Working Paper: 8699; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 18. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** D12, I12. **KW** Mental Illness. Addictive Goods. Cocaine. Alcohol. Cigarettes.

**AB** The purpose of this paper is to estimate the effect that

mental illness has on the demand for addictive goods. Mental illness could affect the level of consumption of addictive goods and could affect the price elasticities of addictive goods. Demand theory suggests that mental illness would affect consumption if mental illness affected marginal utility. In addition, mental illness would affect the price elasticity if mental illness affected the rate at which marginal utility diminishes. The empirical models allow for endogeneity between mental illness and addictive consumption since prior research suggests such a relationship. The results show that individuals with a history of mental illness are 25 percent more likely to consume alcohol, 69 percent more likely to consume cocaine and 94 percent more likely to consume cigarettes. Individuals with a history of mental illness are responsive to price although the price elasticities differ somewhat from those without mental illness. These results provide an added justification for higher taxes and other supply reduction activities since they show that these policies are effective with this high participation group. The results also suggest that an additional method of reducing the consumption of addictive goods is to subsidize the treatment of mental illness.

### Sahay, Ratna

**TI** What Moves Capital to Transition Economies? **AU** Garibaldi, Pietro; Mora, Nada; Sahay, Ratna; Zettelmeyer, Jeromin.

### Saint-Paul, Gilles

**PD** January 2002. **TI** Some Evolutionary Foundations for Price Level Rigidity. **AA** Universite des Sciences Sociales de Toulouse and CEPR. **SR** CEPR Discussion Paper: 3150; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D83, D84, E31. **KW** Adaptive Learning. Aggregate Demand. Bounded Rationality. Evolution. Experimentation.

**AB** This paper shows that price rigidity evolves in an economy populated by imperfectly rational agents who experiment with alternative rules of thumb. In the model, firms must set their prices in the face of aggregate shocks. The payoff depends on the level of aggregate demand, as well as on their on price and their "neighbor's" price. The latter assumption captures local interactions. Despite the fact that the rational expectations equilibrium (REE) is characterized by a simple pricing rule that firms can easily adopt, the economy does not converge to the REE for highly correlated aggregate demand shocks and a high level of local interaction. Instead, the aggregate price level exhibits rigidity, in that it does not fully react to contemporaneous aggregate demand shocks. We show that local interactions and serial correlation of aggregate demand shocks play a key role in generating those results.

### Sakellaris, Plutarchos

**PD** July 2002. **TI** Quantifying Embodied Technological Change. **AU** Sakellaris, Plutarchos; Wilson, Daniel J. **AA** Sakellaris: European Central Bank. Wilson: Federal Reserve Bank of San Francisco. **SR** European Central Bank Working Paper: 158; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 50. **PR** no charge. **JE** D24, L60, O33. **KW** Productivity Growth. Technological Change. Equipment Investment. Plant-Level



Data.

**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.

### Sallstrom, Torbjorn

**TI** An Evaluation of International Asset Pricing Models.  
**AU** Dahlquist, Magnus; Sallstrom, Torbjorn.

### Samuelson, Larry

**TI** Strategic Choice Handicaps when Females Pay the Cost of the Handicap. **AU** Noldeke, Georg; Samuelson, Larry.

### Sancak, Cemile

**PD** June 2002. **TI** Financial Liberalization and Real Investment: Evidence from Turkish Firms. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/100; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: [www.imf.org](http://www.imf.org). **PG** 22. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E22, E44, G20, O16. **KW** Investment. Capital Market Imperfections. Financial Liberalization. Turkey.

**AB** There is increasing emphasis on the importance of efficient financial markets for sustained real investment and economic growth, yet limited empirical research on the effects of the deregulation of financial markets on the firm's investment decisions. To test the ability of the 1980 financial reforms to relax the borrowing constraints faced by Turkish firms, this paper builds a dynamic investment model, where financial variables and real investment are linked through the net present value of the firm. A dynamic panel data methodology is used on a panel data set of 1,036 Turkish firms over the 1983-86 period. In addition, time-series analysis is employed on Turkish aggregate data over the 1971-91 period.

### Sanchez, Fernando J.

**TI** Program TSW Reference Manual. **AU** Caporello, Gianluca; Maravall, Agustin; Sanchez, Fernando J.

### Sanna-Randaccio, Francesca

**PD** January 2002. **TI** Multinational Knowledge Spillovers with Centralized versus Decentralized R&D: A Game Theoretic Approach. **AU** Sanna-Randaccio, Francesca; Veugelers, Reinhilde. **AA** Sanna-Randaccio: Universita degli Studi di Roma 'la Sapienza'. Veugelers: Katholieke Universiteit Leuven. **SR** CEPR Discussion Paper: 3151; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling.

**JE** D21, F23, L16, O23. **KW** Multinational Enterprise. R&D. Decentralization. Technological Spillovers.

**AB** This paper provides a theoretical model on the trade-offs Multinational Enterprises (MNE) face when assigning subsidiaries an active role in innovation and organizing its research and development (R&D). R&D decentralization avoids having to adapt centrally developed innovations to local markets. In addition R&D subsidiaries can be used to source locally available external know-how. But the MNE has to organize the transfer of local know-how internally so as to be able to benefit from this location specific know-how throughout the organization. At the same time, decentralization of R&D to the subsidiary level intensifies the challenge of effectively appropriating core technology know-how located in the foreign markets. R&D decentralization emerges as a possible equilibrium outcome from the resulting strategic interaction between the foreign subsidiary and local competition. The proposed model treats both internal and external spillovers in a game-theoretic context. The analysis suggests that a strong local know-how base is not a univocally positive factor for locating R&D abroad and indicates the critical complementary role of managing internal and external spillovers to capitalize on the benefits from R&D decentralization. It also shows that the intensity of product market competition in the host country is important, especially in determining the outgoing spillover costs.

### Santillan, Javier

**TI** Latin American Financial Development in Perspective. **AU** Garcia Herrero, Alicia; Santillan, Javier; Gallego, Sonsoles; Cuadro, Lucia; Egea, Carlos.

### Santos, Georgina

**TI** Estimating Urban Road Congestion Charges. **AU** Newbery, David M. G.; Santos, Georgina.

### Santos, Tano

**TI** Referrals. **AU** Garicano, Luis; Santos, Tano.

### Sapienza, Paola

**PD** January 2002. **TI** What Do State-Owned Firms Maximize? Evidence from the Italian Banks. **AA** Northwestern University and CEPR. **SR** CEPR Discussion Paper: 3168; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G21, H11, L32. **KW** Government. Ownership. State-Owned Banks. Loan Contracts. Italy.

**AB** This paper studies the objective function of state-owned banks. Using information on individual loan contracts, this paper compares the interest rate charged to two sets of companies with identical characteristics borrowing respectively from state-owned and privately owned banks. State-owned banks charge lower interest rates than do privately owned banks to similar or identical firms, even if the company is able to borrow more from privately owned banks. State-owned banks mostly favor firms located in depressed areas and large firms. The lending behavior of state-owned banks is affected by the electoral results of the party affiliated with the bank: the stronger the political party in the area where the firm is borrowing, the lower the interest rates charged. This result is robust to including bank and firm fixed effects.

**Sarkar, Asani**

**TI** Fifteen Minutes of Fame? The Market Impact of Internet Stock Picks. **AU** Antunovich, Peter; Sarkar, Asani.

**TI** An Empirical Analysis of Stock and Bond Market Liquidity. **AU** Chordia, Tarun; Sarkar, Asani; Subrahmanyam, Avaniidhar.

**Satterthwaite, Mark**

**TI** Is More Information Better? The Effects of "Report Cards" on Health Care Providers. **AU** Dranove, David; McClellan, Mark; Kessler, Daniel; Satterthwaite, Mark.

**Saurina, Jesus**

**TI** The Asian and European Banking Systems: The Case of Spain in the Quest for Development and Stability. **AU** Gallego, Sonsoles; Garcia Herrero, Alicia; Saurina, Jesus.

**Savaskan, R. Canan**

**PD** September 2001. **TI** Contracting and Coordination in Closed-Loop Supply Chains. **AU** Savaskan, R. Canan; Corbett, Charles J. **AA** Savaskan: Northwestern University. Corbett: UCLA. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1327; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: [www.kellogg.nwu.edu/research/math/](http://www.kellogg.nwu.edu/research/math/). **PG** 23. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** Not available. **KW** Not available.

**AB** Abstract not available.

**PD** September 2001. **TI** Channel Choice and Coordination in a Remanufacturing Environment. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1328; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: [www.kellogg.nwu.edu/research/math/](http://www.kellogg.nwu.edu/research/math/). **PG** 33. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** L60. **KW** Remanufacturing. Recollection. Channel Structure.

**AB** The importance of the reuse of components and materials from post-consumer products has been widely recognized in the literature and in practice. In this paper, we address the problem of choosing the appropriate channel structure for the recollection of post-consumer products from customers. Specifically, we consider a manufacturer who has three options for collecting such products: (a) she can undertake the recollection effort herself, (b) she can provide suitable incentives to an existing retailer (who already has a distribution channel) to undertake the recollection effort, and (c) she can subcontract the recollection effort to a third party. Based on our observations in the industry, we model the three options described above as decentralized decision-making systems with the manufacturer being the Stackelberg leader. When considering decentralized channels, we find that *ceteris paribus*, agencies that are closer to the customer, e.g. retailers, are the most effective undertakers of the recollection effort for the manufacturer. Coordination mechanisms are then characterized

which enable the different players to achieve profits that are equivalent to the profits in a coordinated channel.

**PD** September 2001. **TI** The Strategic Decentralization of Reverse Channels and Price Discrimination Through Buyback Payments. **AU** Savaskan, R. Canan; Van Wassenhove, Luk N. **AA** Savaskan: Northwestern University. Van Wassenhove: INSEAD. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1329; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: [www.kellogg.nwu.edu/research/math/](http://www.kellogg.nwu.edu/research/math/). **PG** 37. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** L11, L60. **KW** Price Discrimination. Remanufacturing. Channel Choice. Retailing.

**AB** The economical and the environmental benefits of product remanufacturing have been widely recognized in the literature and in practice. We focus on the interaction between a manufacturer's reverse channel choice to collect post-consumer goods and the strategic product pricing decisions in the forward channel when retailing is competitive. To this end, we model a centralized product collection system, where the manufacturer collects used products directly from the consumers and a decentralized product collection system, where the retailers act as product return points. The paper first examines how the allocation of product collection to retail outlets impacts their strategic behavior, and discusses the implication of this on the economic trade-offs that the manufacturer balances while choosing a centralized as opposed to a decentralized product collection system. When a centralized collection system is used, it is shown that the channel profits are driven by the cost efficiency in collection whereas, in decentralized reverse channels the profits result from more intense competition in the product market. Secondly, we examine how the manufacturer can use the reverse channel for coordinating pricing decisions to retail markets with different profitability.

**Schaechter, Andrea**

**TI** Establishing Initial Conditions in Support of Inflation Targeting. **AU** Carare, Alina; Schaechter, Andrea; Stone, Mark; Zelmer, Mark.

**Schils, Ruediger**

**TI** Capital Redistribution and the Market Allocation of Firm-Ownership. **AU** Gruener, Hans Peter; Schils, Ruediger.

**Schimmelpfennig, Axel**

**TI** Fiscal Policy and Economic Activity During Recessions in Advanced Economies. **AU** Hemming, Richard; Mahfouz, Selma; Schimmelpfennig, Axel.

**Schlag, Karl H.**

**TI** On the Evolutionary Selection of Nash Equilibrium Components. **AU** Balkenborg, Dieter; Schlag, Karl H.

**Schloegl, Lutz**

**TI** An Examination of the Effects of Parameter Misspecification. **AU** Dudenhausen, Antje; Schloegl, Lutz.

**Schmalenbach, Anke**

**TI** An Exploratory Analysis of the Effect of Current Income

on the Relative Change in Aggregate Consumption: A Heterogeneous Household Approach. **AU** Chakrabarty, Manisha; Schmalenbach, Anke.

**TI** The Representative Agent Hypothesis: An Empirical Test. **AU** Chakrabarty, Manisha; Schmalenbach, Anke.

### Schmitt-Grohe, Stephanie

**PD** September 2001. **TI** Optimal Fiscal and Monetary Policy Under Sticky Prices. **AU** Schmitt-Grohe, Stephanie; Uribe, Martin. **AA** Schmitt-Grohe: Rutgers University and CEPR. **SR** CEPR Discussion Paper: 2942; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** E52, E61, E63. **KW** Optimal Policy. Optimal Inflation Volatility. Sticky Prices. Tax Smoothing.

**AB** This paper studies optimal fiscal and monetary policy under sticky product prices. The theoretical framework is a stochastic production economy without capital. The government finances an exogenous stream of purchases by levying distortionary income taxes, printing money, and issuing one-period nominally risk-free bonds. The main findings of the paper are: First, for a miniscule degree of price stickiness (i.e., many times below available empirical estimates) the optimal volatility of inflation is near zero. This result stands in stark contrast with the high volatility of inflation implied by the Ramsey allocation when prices are flexible. The finding is in line with a recent body of work on optimal monetary policy under nominal rigidities that ignores the role of optimal fiscal policy. Second, even small deviations from full price flexibility induce near random walk behavior in government debt and tax rates, as in economies with real non-state-contingent debt only. Finally, sluggish price adjustment raises the average nominal interest rate above the one called for by the Friedman rule.

**TI** Avoiding Liquidity Traps. **AU** Benhabib, Jess; Schmitt-Grohe, Stephanie; Uribe, Martin.

### Schnedler, Wendelin

**PD** June 2001. **TI** The Virtue of Being Underestimated: A Note on Discriminatory Contracts in Hidden Information Models. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 18/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 6. **PR** no charge. **JE** D82, J71. **KW** Adverse Selection. Statistical Discrimination. Stochastic Order Relation.

**AB** A standard hidden information model is considered to study the influence of the a priori productivity distribution on the optimal contract. A priori more productive (hazard rate dominant) agents work less, enjoy lower rents, but generate a higher expected surplus.

### Schnitzlein, Charles

**TI** Stock Market Quality in the Presence of a Traded Option. **AU** de Jong, Cyriel; Koedijk, Kees; Schnitzlein, Charles.

### Schonbucher, Philipp J.

**PD** December 2000. **TI** A Libor Market Model with Default Risk. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 15/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113

Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 24. **PR** no charge. **JE** G13. **KW** Default Risk. Libor Market Model. Credit Derivatives. Default Swap. Asset Swap. Default Swaption.

**AB** In this paper a new credit risk model for credit derivatives is presented. The model is based upon the "Libor market" modeling framework for default-free interest rates. We model effective default-free forward rates and effective forward credit spreads as lognormal diffusion processes, and recovery is modeled as a fraction of the par value of the defaulted claim. The newly introduced survival-based pricing measures are a valuable tool in the pricing of defaultable payoffs and allow a straightforward derivation of the no-arbitrage dynamics of forward rates and forward credit spreads. The model can be calibrated to the prices of defaultable coupon bonds, asset swap rates, and default swap rates for which closed-form solutions are given. For options on default swaps and caps on credit spreads, approximate solutions of high accuracy exist. This pricing formula for options on default swaps is made exact in a modified modeling framework using an analogy to the swap measure, the default swap measure.

**PD** December 2000. **TI** Factor Models for Portfolio Credit Risk. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 16/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 19. **PR** no charge. **JE** G11, G13. **KW** Default Risk. Portfolio Models. Factor Models. Credit Risk.

**AB** This paper gives a simple introduction to portfolio credit risk models of the factor model type. In factor models, the dependence between the individual defaults is driven by a small number of systematic factors. When conditioning on the realization of these factors the defaults become independent. This allows us to combine a large degree of analytical tractability in the model with a realistic dependency structure.

**PD** June 1999. **TI** A Tree Implementation of a Credit Spread Model for Credit Derivatives. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 17/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 34. **PR** no charge. **JE** G13. **KW** Credit Derivatives. Credit Risk. Tree Model. Hull-White Model.

**AB** In this paper we present a tree model for defaultable bond prices that can be used for the pricing of credit derivatives. The model is based upon the two-factor Hull-White (1994) model for default-free interest rates, where one of the factors is taken to be the credit spread of the defaultable bond prices. As opposed to the tree model of Jarrow and Turnbull (1992), the dynamics of default-free interest rates and credit spreads in this model can have any desired degree of correlation, and the model can be fitted to any given term structures of default-free and defaultable bond prices, and to the term structures of the respective volatilities. Furthermore the model can accommodate several alternative models of default recovery, including the fractional recovery model of Duffie and Singleton (1994) and recovery in terms of equivalent default-free bonds (see e.g. Lando (1998)). Although based on a Gaussian setup, the approach can easily be extended to non-Gaussian processes that avoid negative interest-rates or credit spreads.

**Schuerger, Klaus**

**PD** May 2002. **TI** Maximal Arbitrage. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 09/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 15. **PR** no charge. **JE** D49, G11, G12, G13. **KW** Arbitrage. Martingale Measures.

**AB** Let  $S=(S_t)$ ,  $t=0,1,\dots,T$  ( $T$  being finite), be an adapted  $R^d$ -valued process. Each component process of  $S$  might be interpreted as the price process of a certain security. A trading strategy  $H=(H_t)$ ,  $t=1,\dots,T$ , is a predictable  $R^d$ -valued process. A strategy  $H$  is called extreme if it represents a maximal arbitrage opportunity. By this we mean that  $H$  generates at time  $T$  a nonnegative portfolio value which is positive with maximal probability. Let  $F^e$  denote the set of all states of the world at which the portfolio value at time  $T$ , generated by an extreme strategy (which is shown to exist), is equal to zero. We characterize those subsets of  $F^e$ , on which no arbitrage opportunities exist.

**PD** May 2002. **TI** Laplace Transforms and Suprema of Stochastic Processes. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 10/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 12. **PR** no charge. **JE** C19, G12. **KW** Laplace Transform. Bessel Processes. Levy Process.

**AB** It is shown that moments of negative order as well as positive non-integral order of a nonnegative random variable  $X$  can be expressed by the Laplace transform of  $X$ . Applying these results of certain first passage times gives explicit formulae for moments of suprema of Bessel processes as well as strictly stable Levy processes having no positive jumps.

**TI** On the Fundamental Theorem of Asset Pricing: Random Constraints and Bang-Bang No-Arbitrage Criteria. **AU** Evstigneev, Igor V.; Schuerger, Klaus; Taksar, Michael I.

**Schuhmacher, Frank**

**TI** The Limited Liability Effect in Experimental Duopoly Markets. **AU** Oechssler, Joerg; Schuhmacher, Frank.

**Schuknecht, Ludger**

**TI** Asset Prices and Fiscal Balances. **AU** Eschenbach, Felix; Schuknecht, Ludger.

**Schwager, Robert**

**TI** Political Uncertainty and Policy Innovation. **AU** Kotsogiannis, Christos; Schwager, Robert.

**Schwartz, Anna J.**

**TI** Charles Goodhart's Contributions to the History of Monetary Institutions. **AU** Bordo, Michael D.; Schwartz, Anna J.

**Sela, Aner**

**TI** All-Pay Auctions with Variable Rewards. **AU** Kaplan, Todd R.; Luski, Israel; Sela, Aner; Wettstein, David.

**Selten, Reinhard**

**TI** Learning Direction Theory and the Winner's Curse. **AU** Abbink, Klaus; Cox, Ricarda; Selten, Reinhard.

**PD** August 2002. **TI** Experimentally Observed Imitation and Cooperation in Price Competition on the Circle. **AU** Selten, Reinhard; Apesteguia, Jose. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 19/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 28. **PR** no charge. **JE** C72, C92, L13, R32. **KW** Imitation. Cooperation. Location Game. Experiments.

**AB** This paper reports an experiment on a location game, the so-called "Price-Competition on the Circle." There are  $n$  symmetric firms equidistantly located on a circle. Consumers are uniformly distributed. Each consumer buys one and only one unit from that firm whose price, including the cost of transportation, is the lowest, provided such a price is below a maximum willingness to pay. Experiments, extended over 200 periods, were run with 3, 4, and 5 participants. Subjects did not receive any information about the relationship between prices and profits, but they received feedback on prices and profits of two neighbors after each period. The evaluation compares predictions derived from imitation equilibrium (Selten and Ostmann 2001) and Cournot equilibrium, as well as symmetric joint-profit maximization. The results qualitatively favor imitation equilibrium, as long as no cooperation is observed.

**Sevilla, Jaypee**

**TI** Economic Growth and the Demographic Transition. **AU** Bloom, David E.; Canning, David; Sevilla, Jaypee.

**TI** Technological Diffusion, Conditional Convergence, and Economic Growth. **AU** Bloom, David E.; Canning, David; Sevilla, Jaypee.

**TI** The Wealth of Nations: Fundamental Forces Versus Poverty Traps. **AU** Bloom, David E.; Canning, David; Sevilla, Jaypee.

**Shadbegian, Ronald J.**

**TI** When Do Firms Shift Production Across States to Avoid Environmental Regulation? **AU** Gray, Wayne B.; Shadbegian, Ronald J.

**Shapiro, Jesse M.**

**TI** Cities and Warfare: The Impact of Terrorism on Urban Form. **AU** Glaeser, Edward L.; Shapiro, Jesse M.

**Shapiro, Matthew D.**

**PD** December 2001. **TI** Consumer Response to Tax Rebates. **AU** Shapiro, Matthew D.; Slemrod, Joel. **AA** University of Michigan and NBER. **SR** National Bureau of Economic Research Working Paper: 8672; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 34. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** C42, E21, E65, H20. **KW** Tax Rebates. Aggregate Demand.

**AB** Many households received income tax rebates in 2001 of \$300 or \$600. These rebates represented advance payments of the tax cut from the new 10 percent tax bracket. Based on a survey of a representative sample of households, this paper finds that only 22 percent of households receiving the rebate would spend it. Instead, they would either save it or use it to pay off debt. This very low rate of spending represents a striking break with past behavior, which would have suggested

a much higher rate of spending. The low spending rate implies that the tax rebate provided a very limited stimulus to aggregate demand.

### Shavell, Steven

**TI** Moral Rules and the Moral Sentiments: Toward a Theory of an Optimal Moral System. **AU** Kaplow, Louis; Shavell, Steven.

### Shmaya, Eran

**PD** July 2001. **TI** An Application of Ramsey Theorem to Stopping Games. **AU** Shmaya, Eran; Solan, Eilon; Vieille, Nicolas. **AA** Shmaya: Tel Aviv University. Solan: Northwestern University. Vieille: HEC. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1323; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: [www.kellogg.nwu.edu/research/math/](http://www.kellogg.nwu.edu/research/math/). **PG** 15. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C72, C73. **KW** Non Zero-Sum Stopping Games. Ramsey Theorem. Equilibrium Payoff.

**AB** We prove that every two-player non zero-sum deterministic stopping game with uniformly bounded payoffs admits an epsilon-equilibrium, for every epsilon greater than 0. The proof uses Ramsey Theorem that states that for every coloring of a complete infinite graph by finitely many colors there is a complete infinite subgraph which is monochromatic.

### Silver, Mick

**PD** May 2002. **TI** A Failure in the Measurement of Inflation: Results from a Hedonic and Matched Experiment Using Scanner Data. **AU** Silver, Mick; Heravi, Saeed. **AA** Cardiff Business School. **SR** European Central Bank Working Paper: 144; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 62. **PR** no charge. **JE** C43, E43, O47. **KW** Inflation. Hedonic Regression. Index Numbers.

**AB** Statistical offices use the matched models method to compile consumer price indices (CPIs) to measure inflation. The prices of a sample of models are recorded, and then price collectors visit the same stores each subsequent month to record the prices of the same matched sample of models. The matched models method is designed to control for quality changes. But new, unmatched models launched in subsequent months have their prices ignored as do old unmatched models no longer available. The paper uses retailer's bar-code scanner data on several consumer durables to show that serious sample degradation can take place and that the quality-adjusted prices of unmatched items differ from those of matched ones, leading to substantial underestimates of inflation. Hedonic indices use the whole sample. They are argued to be more useful to price measurement in markets with a rapid turnover of models in order to avoid the demonstrated bias.

### Sinai, Todd

**TI** Network Effects, Congestion Externalities, and Air Traffic Delays: Or Why All Delays Are Not Evil. **AU** Mayer, Christopher; Sinai, Todd.

**PD** January 2002. **TI** Do Low-Income Housing Subsidies

Increase Housing Consumption? **AU** Sinai, Todd; Waldfogel, Joel. **AA** University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 8709; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 22. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H42, R21, R31. **KW** Public Goods. Low-Income Housing. Subsidy.

**AB** A necessary condition for justifying a policy such as publicly provided or subsidized low-income housing is that it has a real effect on recipients' outcomes. In this paper, we examine one aspect of the real effect of public or subsidized housing -- does it increase the housing stock? If subsidized housing raises the quantity of occupied housing per capita, either more people are finding housing or they are being housed less densely. On the other hand, if public or subsidized housing merely crowds out equivalent-quality low-income housing that otherwise would have been provided by the private sector, the housing policy may have little real effect on housing consumption. Using Census place-level data, we ask whether places with more public and subsidized housing also have more total housing. We find that government-financed units raise the total number of units in a Census place, although on average three government-subsidized units displace two units that would otherwise have been provided by the private market. There is less crowd out in more populous markets, and more crowd out in places where there is less excess demand for public housing. Tenant-based housing programs seem to be more effective than project-based programs.

### Siniscalco, Domenico

**TI** Science versus Profit in Research: Lessons from the Human Genome Project. **AU** Carraro, Carlo; Pome, Alessandra; Siniscalco, Domenico.

**TI** International Risk-Sharing and the Exchange Rate: Re-evaluating the Case for Flexible Exchange Rates. **AU** Devereux, Michael B.; Pome, Alessandra; Siniscalco, Domenico.

### Sinn, Hans-Werner

**PD** December 2001. **TI** Risk Taking, Limited Liability and the Competition of Bank Regulators. **AA** CESifo and NBER. **SR** National Bureau of Economic Research Working Paper: 8669; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** D81, D82, G24, G28, H00. **KW** Limited Liability. Asymmetric Information. Investment Banking. Risk Taking.

**AB** Limited liability and asymmetric information between an investment bank and its lenders provide an incentive for a bank to undercapitalize and finance overly risky business projects. To counter this market failure, national governments have imposed solvency constraints on banks. However, these constraints may not survive in systems competition, as systems competition is likely to suffer from the same type of information asymmetry which induced the private market failure and which brought in the government in the first place (Selection Principle). As national solvency regulation creates a positive international policy externality on foreign lenders of domestic banks, there will be an undersupply of such regulation. This may explain why Asian banks were undercapitalized and took excessive risks before the banking

crisis emerged.

### Siotis, Georges

**TI** Innovation and Market Structure: An Empirical Evaluation of the "Bounds Approach" in the Chemical Industry. **AU** Marin Uribe, Pedro L.; Siotis, Georges.

### Slaughter, Matthew J.

**TI** Does Inward Foreign Direct Investment Boost the Productivity of Domestic Firms? **AU** Haskel, Jonathan E.; Pereira, Sonia C.; Slaughter, Matthew J.

### Slemrod, Joel

**TI** Consumer Response to Tax Rebates. **AU** Shapiro, Matthew D.; Slemrod, Joel.

### Sliwka, Dirk

**PD** September 2001. **TI** On the Use of Nonfinancial Performance Measures in Management Compensation. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 29/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 22. **PR** no charge. **JE** J33, M12. **KW** Management Compensation. Performance Measures. Management Activities.

**AB** It is often claimed that (i) managers work too hard on operational issues and do not spend enough effort on strategic activities and (ii) something can be done about this by introducing nonfinancial performance measures, as for instance with a balanced scorecard. We give an explanation for both claims in a formal model. The distortion towards operational effort arises because with financial performance measures strategic effort can only be rewarded in the future. But renegotiation-proof long-term compensation plans entail too weak variable components in the future. This problem can be reduced by introducing performance measures that help to disentangle strategic and operational effects.

**TI** Risk Taking in Asymmetric Tournaments. **AU** Kraekel, Matthias; Sliwka, Dirk.

**TI** Strategic Delegation and Mergers in Oligopolistic Contests. **AU** Kraekel, Matthias; Sliwka, Dirk.

### Smart, Michael

**TI** Does Tax Competition Raise Voter Welfare? **AU** Besley, Timothy; Smart, Michael.

### Smarzynska, Beata K.

**PD** September 2001. **TI** Pollution Havens and Foreign Direct Investment: Dirty Secret or Popular Myth? **AU** Smarzynska, Beata K.; Wei, Shang-Jin. **AA** Smarzynska: World Bank. Wei: The Brookings Institutions, Harvard University, and NBER. **SR** National Bureau of Economic Research Working Paper: 8465; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 15. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** F20, Q20. **KW** Pollution. Foreign Direct Investment. Corruption.

**AB** The "pollution haven" hypothesis refers to the possibility that multinational firms, particularly those engaged in highly polluting activities, relocate to countries with weaker environmental standards. Despite the plausibility and

popularity of this hypothesis, the existing literature has found little evidence to support it. This paper identifies four areas of difficulties that may have impeded the researcher's ability to uncover this "dirty secret." This includes the possibility that some features of FDI host countries, such as bureaucratic corruption, may deter inward FDI, but are positively correlated with laxity of environmental standard. Another potential problem is that country -- or industry -- level data, typically used in the literature, may have masked the effect at the firm level. In addition, environmental standards of the host countries and pollution intensity of the multinational firms are not easy to measure. This study addresses these problems present in the earlier literature by taking explicitly into account corruption level in host countries and using a firm-level data set on investment projects. We find some support for the "pollution haven" hypothesis, but the overall evidence is relatively weak and does not survive numerous robustness checks.

### Smets, Frank

**TI** The Industry Effects of Monetary Policy in the Euro Area. **AU** Peersman, Gert; Smets, Frank.

### Smetters, Kent

**PD** January 2002. **TI** Controlling the Cost of Minimum Benefit Guarantees in Public Pension Conversions. **AA** The United States Treasury, University of Pennsylvania, and NBER. **SR** National Bureau of Economic Research Working Paper: 8732; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 30. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G12, G13, G23. **KW** Defined Benefit. Defined Contribution. Public Pension. Risk Management.

**AB** Unfunded defined-benefit (DB) public pension plans throughout the world are being converted to funded defined-contribution (DC) plans that typically contain a minimum benefit guarantee (DC-MB). Risk management techniques must be used to control the cost of these guarantees. The most common technique is to "over-fund" the benefit: the contribution rate is set high enough so that the expected benefit is much larger than the guaranteed minimum benefit. This paper shows that while over-funding is very effective in controlling guarantee costs in traditional DB plans, it is highly ineffective for DC-MB plans. This result holds even at very large contribution rates and when risky investments are restricted to a very diversified index like the S&P500. This paper considers two approaches to control guarantee costs. The first approach borrows from the recent catastrophic insurance literature. A "standardized" portfolio is guaranteed, requiring agents to accept "basis risk" if they chose a non-standard portfolio. The second method uses a more brute force approach: private portfolio returns in the good states of the world are taxed while returns in the bad states are subsidized. Both opinions are very effective at controlling guarantee costs, and they can be used separately or together.

### Smith, Peter N.

**PD** January 2002. **TI** Macroeconomic Sources of FOREX Risk. **AU** Smith, Peter N.; Wickens, Michael R. **AA** University of York. **SR** CEPR Discussion Paper: 3148; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available.

PR 5 pounds, \$5 or 8 euros + postage and handling.  
 JE F31, G12. KW Foreign Exchange. GARCH. Market Efficiency. Risk Premium. Stochastic Discount Factors.

AB This paper is an exploration into the links between macroeconomics and finance as they affect the Foreign Exchange (FOREX) risk premium. Stochastic Discount Factor (SDF) theory is used in which the factors are observable macroeconomic variables. Three SDF theories are compared: a benchmark model based on traditional tests of FOREX efficiency; consumption-based Capital Asset Pricing Model (CAPM); and the monetary model of the exchange rate. The theory takes account of both domestic and foreign investors. The joint distribution of the excess return to FOREX and the macro factors satisfies the no-arbitrage assumption, and is a suitably restricted version of Multivariate Generalized Autoregressive Conditional Heteroskedasticity (M-GARCH)-in-mean. Monthly data for the sterling-dollar exchange rate 1975-97 are used. The results suggest that the FOREX risk premium is best modeled by CAPM based and the factors that determine next period's exchange rate.

#### Soderling, Ludvig

PD May 2002. TI Escaping the Curse of Oil? The Case of Gabon. AA IMF. SR International Monetary Fund Working Paper: WP/02/93; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. PG 26. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE E20, O11, O41, O55, Q32. KW Gabon. Growth. Oil. Foreign Financing. Income Stabilization Fund.

AB This paper studies the prospects for sustainable growth and economic development in Gabon, in the face of a severe decline in its main source of income and growth, i.e. oil. A simple computable general equilibrium model is used to simulate the development of the non-oil economy under various assumptions. The results of the simulations underline Gabon's dependence on foreign financing -- especially private -- and its vulnerability to variations in oil prices. The potential role of an income stabilization fund is also discussed.

#### Solan, Eilon

TI An Application of Ramsey Theorem to Stopping Games.  
 AU Shmaya, Eran; Solan, Eilon; Vieille, Nicolas.

#### Song, David

TI Tax Credits, the Distribution of Subsidized Health Insurance Premiums, and the Uninsured. AU Pauly, Mark V.; Herring, Bradley; Song, David.

#### Sorenson, Bent E.

TI Consumption and Aggregate Constraints: Evidence from US States and Canadian Provinces. AU Ostergaard, Charlotte; Sorenson, Bent E.; Yosha, Oved.

#### Srinivasan, Krishna

TI Foreign Direct Investment in Africa -- Some Case Studies. AU Basu, Anupam; Srinivasan, Krishna.

#### Stambaugh, Robert F.

TI Liquidity Risk and Expected Stock Returns.  
 AU Pastor, Lubos; Stambaugh, Robert F.

#### Steen, Frode

TI Economies of Scale in European Manufacturing Revisited. AU Henriksen, Espen; Knarvik, Karen-Helene Midelfart; Steen, Frode.

#### Stenbacka, Rune

TI Introductory Offers in a Model of Strategic Competition.  
 AU Gehrig, Thomas; Stenbacka, Rune.

#### Stephens, Melvin, Jr.

PD July 2001. TI The Impact of Separate Taxation on the Intra-Household Allocation of Assets: Evidence from the UK. AU Stephens, Melvin, Jr.; Ward-Batts, Jennifer. AA Stephens: Carnegie Mellon University and NBER. Ward-Batts: Claremont McKenna College and University of Michigan. SR National Bureau of Economic Research Working Paper: 8380; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 33. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE H24, J31. KW United Kingdom Taxation. Income Taxation. Taxation. Household Asset Allocation.

AB The income tax system in the United Kingdom moved from joint to independent taxation of husbands' and wives' income in 1990. One interesting aspect of independent taxation is the ability for households to choose the division of household assets between the two spouses. This tax reform therefore creates an opportunity for households to engage in a form of tax avoidance by shifting their investment income to the spouse with the lower marginal tax rate. We use Family Expenditure Survey data to examine the impact of this tax reform on the magnitude of investment income shifting between spouses with different marginal tax rates. We find a sizeable shift in the share and incidence of asset income claimed by wives, who typically have lower marginal tax rates, as well as in the incidence of the wife claiming all the household asset income, indicating that households responded to this policy change by reallocating asset ownership.

#### Stone, Mark

TI Establishing Initial Conditions in Support of Inflation Targeting. AU Carare, Alina; Schaechter, Andrea; Stone, Mark; Zelmer, Mark.

#### Storper, Michael

TI The Economic Geography of the Internet Age.  
 AU Leamer, Edward E.; Storper, Michael.

#### Stracca, Livio

PD July 2002. TI The Optimal Allocation of Risks Under Prospect Theory. AA European Central Bank. SR European Central Bank Working Paper: 161; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 30. PR no charge. JE D81, G11. KW Cumulative Prospect Theory. Loss Aversion. Diminishing Sensitivity. Diversification. Home Bias Puzzle.

AB This paper deals with the optimal allocation of risks for an agent whose preferences may be represented with prospect theory (Tversky and Kahneman, 1992). A simple setting is considered with  $n$  identically distributed and symmetric sources of risk. Under expected utility, equal diversification of risks is optimal in this setting ("do not put your eggs in the same

basket"). Conversely, under prospect theory, provided that the subjective probability of obtaining a perfect hedge is negligible, risk concentration is optimal ("do put your eggs in the same basket"). The intuitive reason behind this result is that a prospect theory agent is risk-seeking over losses, with the consequence that the property of diversification of averaging downside risks is welfare-reducing rather than welfare-improving.

#### **Strahan, Philip E.**

**TI** Throwing Good Money After Bad? Board Connections and Conflicts in Bank Lending. **AU** Kroszner, Randall S.; Strahan, Philip E.

#### **Strebulaev, Ilya A.**

**TI** Bidding and Performance in Repo Auctions: Evidence From ECB Open Market Operations. **AU** Nyborg, Kjell G.; Bindseil, Ulrich; Strebulaev, Ilya A.

#### **Strozzi, Chiara**

**TI** Rent Sharing in Wage Determination: Evidence from Italy. **AU** Pistoresi, Barbara; Strozzi, Chiara.

#### **Stulz, Rene M.**

**TI** Corporate Governance and the Home Bias. **AU** Pinkowitz, Lee; Stulz, Rene M.; Williamson, Rohan.

#### **Subrahmanyam, Avaniidhar**

**TI** An Empirical Analysis of Stock and Bond Market Liquidity. **AU** Chordia, Tarun; Sarkar, Asani; Subrahmanyam, Avaniidhar.

#### **Sun, Steve Guoqiang**

**TI** An Evaluation of Multi-Factor CIR Models Using LIBOR, Swap Rates, and Cap and Swaption Prices. **AU** Jagannathan, Ravi; Kaplin, Andrew; Sun, Steve Guoqiang.

#### **Suss, Esther C.**

**TI** Caribbean Offshore Financial Centers: Past, Present, and Possibilities for the Future. **AU** Mendis, Chandima; Suss, Esther C.; Williams, Oral H.

#### **Sutherland, Alan**

**PD** December 2002. **TI** International Monetary Policy Coordination and Financial Market Integration. **AA** University of St. Andrews and CEPR. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 751; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. **Website:** [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). **PG** 35. **PR** no charge. **JE** E52, E58, F42. **KW** Monetary Policy. International Coordination. Financial Integration. Risk Sharing. Sticky Prices.

**AB** The welfare gains from international coordination of monetary policy are analyzed in a two-country model with sticky prices. The gains from coordination are compared under two alternative structures for financial markets: financial autarky and risk sharing. The welfare gains from coordination are found to be largest when there is risk sharing and the elasticity of substitution between home and foreign goods is

greater than unity. When there is no risk sharing the gains to coordination are almost zero. It is also shown that the welfare gain from risk sharing can be negative when monetary policy is uncoordinated.

#### **Sutherland, Holly**

**PD** June 2001. **TI** Reducing Child Poverty in Europe: What can Static Microsimulation Models Tell Us? **AA** University of Cambridge. **SR** University of Cambridge, EUROMOD Working Paper: EM2001/05; Microsimulation Unit, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **Website:** [www.econ.cam.ac.uk/dae/mu/emod3.htm](http://www.econ.cam.ac.uk/dae/mu/emod3.htm). **PG** 29. **PR** \$10 (5 pounds) STG/EURO 8; make checks payable to University of Cambridge. **JE** C81, I32. **KW** Child Poverty. Microsimulation. Policy Reform. European Union. Tax-Benefit Model.

**AB** Static microsimulation models are based on household micro-data and are designed to estimate the revenue cost and distributional and incentive effects of tax and benefit policy changes. This paper illustrates the range of ways in which static microsimulation can help us to develop policy to reduce child poverty, with reference to some concrete simulation exercises. It also outlines the situations where other types of modeling are complementary and attempts to put all modeling in perspective. The first illustration shows how static microsimulation has been used to gauge the effect on child poverty of the recent United Kingdom tax-benefit reforms. The second illustration presents some early results from a European tax-benefit model (EUROMOD) which explores the relationships between child poverty and the scale of cash benefits and tax concessions targeted on children in four countries of the European Union: Denmark, France, Spain and the United Kingdom.

**PD** June 2002. **TI** Final Report: EUROMOD-An Integrated European Benefit-Tax Model. **AA** University of Cambridge. **SR** University of Cambridge, EUROMOD Working Paper: EM2001/09; Microsimulation Unit, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. **Website:** [www.econ.cam.ac.uk/dae/mu/emod3.htm](http://www.econ.cam.ac.uk/dae/mu/emod3.htm). **PG** 113. **PR** \$10 (5 pounds) STG/EURO 8; make checks payable to University of Cambridge. **JE** C81, H21, H55, I32. **KW** European Union. Microsimulation. Tax-Benefit Model.

**AB** The project was to build EUROMOD, a tax-benefit microsimulation model covering all 15 Member States of the European Union. EUROMOD has been used for a number of policy-related exercises ranging from studies of the relationship of public spending on social benefits to poverty and the implications of a common European minimum pension, to the impact of welfare benefits on work incentives and the consequences of non-indexation of taxes and contributions. In addition, the model is ready to be used for a wide range of new applications. Not only can it be used to explore the impact of prospective (and hypothetical) changes in social and fiscal policy on poverty and inequality; it can also estimate the cost of reforms, provide options for financing mechanisms, and establish the effect of the reforms in other dimensions such as the work incentives of household members and any implied redistribution within the household.

#### **Sutt, Andres**

**TI** The Estonian Currency Board: Its Introduction and Role



in the Early Success of Estonia's Transition to a Market Economy. **AU** Knobl, Adalbert; Sutt, Andres; Zavoico, Basil.

**Suwa Eisenmann, Akiko**

**PD** January 2002. **TI** Reciprocity and the Political Economy of Harmonization and Mutual Recognition of Regulatory Measures. **AU** Suwa Eisenmann, Akiko; Verdier, Thierry. **AA** Suwa Eisenmann: Ecole Normale Supérieure. Verdier: DELTA. **SR** CEPR Discussion Paper: 3147; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F13, L51. **KW** Mutual Recognition. Standards. Trade Policy. Regulation.

**AB** This paper discusses the issue of regulatory protectionism and its implication for reciprocity and international bargaining on regulation. In a simple two way trade model a la Brander and Spencer, we take into account the three following features of regulatory measures: a) a regulation raises the cost not only of foreign producers but also of domestic producers; b) a regulation also creates a fixed cost which is entirely supported by foreign exporters; c) a regulation may provide a welfare gain valued per se by individuals or to correct some market failure. In this context, we investigate the political economy forces for unilateral regulatory protectionism and the effectiveness of various intra-sectorial bargaining schemes (negotiated reciprocal regulation setting, harmonization or mutual recognition agreements) to ensure reciprocal market access.

**Svensson, Jakob**

**PD** January 2002. **TI** Who Must Pay Bribes and How Much? Evidence from a Cross-Section of Firms. **AA** World Bank, Stockholm University, and CEPR. **SR** CEPR Discussion Paper: 3167; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D91, K42, L11. **KW** Corruption. Bribes. Uganda. Bargaining Model.

**AB** This paper uses a unique data set on corruption containing quantitative information on estimated bribe payments of Ugandan firms. The data has two striking features: not all firms report they need to pay bribes; and there is considerable variation in reported graft across firms facing similar institutions/policies. To explain these patterns we construct a simple bargaining model. The model yields predictions on both the incidence and the level of graft. Consistent with the model we find that variation in policies/regulations (across industries) explain the incidence of corruption, while variation in profitability and technology choice explain the variation in bribes for the group of bribe paying firms. These findings suggest that public officials act as price (bribe) discriminators, and that prices of public services are endogenously determined in order to extract bribes.

**Swagel, Phillip**

**TI** The Aging of the Population and the Size of the Welfare State. **AU** Razin, Assaf; Sadka, Efraim; Swagel, Phillip.

**Swaine, Daniel G.**

**PD** December 2001. **TI** Are Taste and Technology Parameters Stable? A Test of "Deep" Parameter Stability in

Real Business Cycle Models of the U.S. Economy. **AA** Federal Reserve Bank of Boston. **SR** Federal Reserve Bank of Boston Working Paper: 01/05; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: www.bos.frb.org/economic/wp/index.htm. **PG** 18. **PR** no charge; available only online. **JE** C32, E13, E32. **KW** Real Business Cycle. Neoclassical Growth Model. Stochastic Growth Models. Parameter Instability.

**AB** Lucas (1976) criticized Keynesian models because of parametric instability. For many economists, the "Lucas critique" provided a reason to replace the Keynesian approach with equilibrium models of the business cycle. One example of the equilibrium approach is the Real Business Cycle (RBC) model. However, RBC models have not been subjected to the same scrutiny of tests of parameter instability. We present a prototypical RBC model and subject it to structural change tests. Our results document evidence of extensive parameter instability. Thus, the "Lucas critique" is applicable and we conclude that the single representative agent class of RBC models has an invalid structural form. Revised version of paper originally published in November 2001.

**Swanson, Eric**

**TI** Identifying the Effects of Monetary Policy Shocks on Exchange Rates Using High Frequency Data. **AU** Faust, Jon; Rogers, John H.; Swanson, Eric; Wright, Jonathan H.

**Taksar, Michael I.**

**TI** On the Fundamental Theorem of Asset Pricing: Random Constraints and Bang-Bang No-Arbitrage Criteria. **AU** Evstigneev, Igor V.; Schuerger, Klaus; Taksar, Michael I.

**Tannenwald, Robert**

**TI** Measuring the Incentive Effects of State Tax Policies Toward Capital Investment. **AU** Plesko, George A.; Tannenwald, Robert.

**Taube, Gunther**

**TI** Energy Sector Quasi-Fiscal Activities in the Countries of the Former Soviet Union. **AU** Petri, Martin; Taube, Gunther; Tsyvinski, Aleh.

**Teles, Pedro**

**TI** The Optimal Mix of Taxes on Money, Consumption and Income. **AU** De Fiore, Fiorella; Teles, Pedro.

**Tenreiro, Silvana**

**PD** December 2002. **TI** Economic Effects of Currency Unions. **AU** Tenreiro, Silvana; Barro, Robert J. **AA** Tenreiro: Federal Reserve Bank of Boston. Barro: Harvard University. **SR** Federal Reserve Bank of Boston Working Paper: 02/04; Research Library, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Website: www.bos.frb.org/economic/wp/index.htm. **PG** 26. **PR** no charge; available only online. **JE** F15, F31, F42. **KW** Foreign Exchange Rates. Monetary Unions. Instrumental Variables.

**AB** This paper develops a new instrumental-variable (IV) approach to estimate the effects of different exchange rate regimes on bilateral outcomes. The basic idea is that the characteristics of the exchange rate regime between two countries (exchange rate variability, fixed or float, autonomous

or common currencies) are partially related to the independent decisions of these countries to peg -- explicitly or de facto -- to a third currency, notably that of a main anchor. Our approach is to use this component of the exchange rate regime as an IV in regressions of bilateral outcomes. We illustrate the methodology with one specific application: the economic effects of currency unions. The likelihood that two countries independently adopt the currency of the same anchor country is used as an instrument for whether they share or not a common currency.

#### ter Horst, Jenke

**TI** Evaluating Style Analysis. **AU** de Roon, Frans Adrianus; Nijman, Theo E.; ter Horst, Jenke.

#### Tesar, Linda L.

**TI** Exchange Rate Exposure. **AU** Dominguez, Kathryn M. E.; Tesar, Linda L.

#### Tharakan, Joe

**PD** September 2001. **TI** The Importance of Being Small: Or When Countries are Areas and Not Points. **AU** Tharakan, Joe; Thisse, Jacques-Francois. **AA** Tharakan: Universite Catholique de Louvain and University College Dublin. Thisse: CERAS, Paris and CORE, Universite Catholique de Louvain. **SR** CEPR Discussion Paper: 2938; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** F12, L13. **KW** Geographical Nation Size. International Trade. Mill Pricing. Spatial Competition.

**AB** Market size and transport costs are important ingredients of international trade. We propose to look at these issues from a different perspective. Using a Hotelling duopoly model with quadratic transport costs, we analyze the welfare effects of international trade between two countries that differ only in size. Our results indicate that in most cases free trade will lead to a decrease in prices. Furthermore, the firm of the small country will benefit from market expansion. Finally, the model predicts that the small country benefits from a move towards free trade whereas the opening to trade may hurt the large country.

#### Theissen, Erik

**PD** August 2001. **TI** Price Discovery in Floor and Screen Trading Systems. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 35/2001; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 21. **PR** no charge. **JE** G14, G19. **KW** Trading Systems. Error Correction. Information Shares. Common Long Memory Components. Price Discovery.

**AB** We analyze price discovery in floor-based and electronic exchanges using data from the German stock market. We find that both markets contribute to price discovery. There is bidirectional Granger causality, and prices from both markets adjust to deviations from the long-run equilibrium. We use two different measures of the contributions to price discovery: the information share (Hasbrouck 1995), and the weights with which the series enter the common long memory component as defined by Gonzalo/Granger (1995). The contributions of the two trading systems to the process of price discovery are almost equal when transaction prices are used for the estimation.

Models based on quote midpoints indicate that the electronic trading system has a larger share in the price discovery process. A cross-sectional analysis reveals that the contributions to price discovery are positively related to the market shares of the trading systems.

**PD** August 2002. **TI** Trader Anonymity, Price Formation and Liquidity. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 20/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 43. **PR** no charge. **JE** D82, G12, G14. **KW** Anonymity. Bid-Ask Spreads. Floor Trading. Price Improvement. Specialists.

**AB** Using data from the Frankfurt Stock Exchange we analyze price formation and liquidity in a non-anonymous environment with similarities to the floor of the New York Stock Exchange. Our main hypothesis is that the non-anonymity allows the specialist to assess the probability that a trader trades on the basis of private information. He uses this knowledge to price discriminate. This can be achieved by quoting a large spread and granting price improvement to traders deemed uninformed. Consistent with our hypothesis we find that price improvement reflects lower adverse selection costs but does not lead to a reduction in the specialist's profit. Further, the quote adjustment following transactions at the quoted bid or ask price is more pronounced than the quote adjustment after transactions at prices inside the spread. Our results indicate that anonymity comes at the cost of higher adverse selection risk.

#### Thierbach, Frank

**PD** March 2002. **TI** Mean-Variance Hedging Under Additional Market Information. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 11/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). **PG** 29. **PR** no charge. **JE** G11, G12, G13, G14. **KW** Option Pricing. Hedging. Incomplete Markets. Martingale Measures.

**AB** In this paper we analyze the mean-variance hedging approach in an incomplete market under the assumption of additional market information, which is represented by a given, finite set of observed prices of non-attainable contingent claims. Due to no-arbitrage arguments, our set of investment opportunities increases and the set of possible equivalent martingale measures shrinks. Therefore, we obtain a modified mean-variance hedging problem, which takes into account the observed additional market information. Solving this by means of the techniques developed by Gourieroux, Laurent, and Pham (1998), we obtain an explicit description of the optimal hedging strategy and an admissible, constrained variance-optimal signed martingale measure, which generates both the approximation price and the observed option prices.

#### Thisse, Jacques-Francois

**TI** The Importance of Being Small: Or When Countries are Areas and Not Points. **AU** Tharakan, Joe; Thisse, Jacques-Francois.

**TI** Does Geographical Agglomeration Foster Economic Growth? And Who Gains and Loses From It? **AU** Fujita, Masahisa; Thisse, Jacques-Francois.

**Thomas, Alun**

**PD** April 2002. **TI** The Costs and Benefits of Various Wage Bargaining Structures: An Empirical Exploration. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/71; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 16. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** J30, J31, J51, J64. **KW** Wage Bargaining. Unemployment. Internal Factors. **AB** The literature on the relationship between the unemployment rate and wage bargaining fails to separate the offsetting effects of a reduction in competition associated with centralized bargaining and the increased awareness of unemployment externalities. This paper uses OECD data to distinguish these effects. While wages have become more sensitive to changes in the unemployment rate in countries that have switched to centralized wage-bargaining arrangements, the industry wage is not particularly sensitive to internal factors (relative price and productivity shifts) in economies with centralized/industry-level bargaining arrangements. The latter effect dominates in terms of persistently high unemployment and weaker growth.

**Tiomo, Andre**

**TI** Financial Constraints and Investment in France and Spain: A Comparison Using Firm Level Data. **AU** Hernando, Ignacio; Tiomo, Andre.

**Tirole, Jean**

**TI** Willpower and Personal Rules. **AU** Benabou, Roland; Tirole, Jean.

**TI** Self Control in Peer Groups. **AU** Battaglini, Marco; Benabou, Roland; Tirole, Jean.

**Tisljar, Rolf**

**PD** September 2002. **TI** Mechanism Design by an Informed Principal -- Pure-Strategy Equilibria for a Common Value Model. **AA** University of Bonn. **SR** Bonn Econ Discussion Paper: 21/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: www.wiwi.uni-bonn.de/bgse/liste.html. **PG** 51. **PR** no charge. **JE** C72, D82. **KW** Equilibrium Refinement. Informed Principal. Mechanism Design. Perfect Bayesian Equilibrium. Strong Solution.

**AB** We present a common value mechanism design model for an informed principal where only the principal has private information, but her one-dimensional private information is allowed to be distributed according to any probability measure. For this model we characterize the set of pure-strategy perfect Bayesian equilibria. Furthermore, we present several equilibrium refinements based on the concept of equilibrium domination to take account of beliefs off the equilibrium path. Finally, we demonstrate that the extension of the strong solution of Myerson (Econometrica, 1983) to our model is supported as an equilibrium satisfying all refinement criteria presented (in case a strong solution exists).

**Toledo Falcon, Liliana**

**TI** Futuros sobre acciones: demanda e implicaciones sobre los mercados de renta variable (Futures on Stocks: Demand and

Implications for Equity Markets). **AU** Martinez Resano, Jose Ramon; Toledo Falcon, Liliana.

**Tootell, Geoffrey M. B.**

**TI** Identifying the Macroeconomic Effect of Loan Supply Shocks. **AU** Peek, Joe; Rosengren, Eric S.; Tootell, Geoffrey M. B.

**Tracy, Joseph**

**TI** Modeling Uncertainty: Predictive Accuracy as a Proxy for Predictive Confidence. **AU** Rich, Robert; Tracy, Joseph.

**Trefler, Daniel**

**TI** Ginis in General Equilibrium: Trade, Technology and Southern Inequality. **AU** Zhu, Susan Chun; Trefler, Daniel.

**Tressel, Thierry**

**TI** Competition, Corporate Governance: Substitutes or Complements? Evidence from the Warsaw Stock Exchange. **AU** Grosfeld, Irena; Tressel, Thierry.

**Tsakoglou, Panos**

**TI** Indicators of Social Exclusion in EUROMOD. **AU** Papadopoulos, Fotis; Tsakoglou, Panos.

**Tsyvinski, Aleh**

**TI** Energy Sector Quasi-Fiscal Activities in the Countries of the Former Soviet Union. **AU** Petri, Martin; Taubé, Gunther; Tsyvinski, Aleh.

**Ulph, David**

**TI** Information Sharing, Research Co-Ordination and Membership of Research Joint Ventures. **AU** Bussoli, Patrizia; Navaretti, Giorgio Barba; Ulph, David; von Graevenitz, Georg.

**TI** Information Sharing, Research Co-Ordination and Membership of Research Joint Ventures. **AU** Bussoli, Patrizia; Navaretti, Giorgio Barba; Ulph, David; von Graevenitz, Georg.

**Uribe, Martin**

**TI** Optimal Fiscal and Monetary Policy Under Sticky Prices. **AU** Schmitt-Grohe, Stephanie; Uribe, Martin.

**TI** Avoiding Liquidity Traps. **AU** Benhabib, Jess; Schmitt-Grohe, Stephanie; Uribe, Martin.

**Valles, Javier**

**TI** Money in an Estimated Business Cycle Model of the Euro Area. **AU** Andres, Javier; Lopez-Salido, J. David; Valles, Javier.

**Van Dalen, Jan**

**TI** The Cost of Private Transportation in the Netherlands, 1992-1999. **AU** Bode, Ben; Van Dalen, Jan.

**van Ours, Jan C.**

**PD** December 2001. **TI** Is Cannabis a Stepping-Stone for Cocaine? **AA** Tilburg University and CEPR. **SR** CEPR Discussion Paper: 3116; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not

available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C41, D12, I12. **KW** Consumer Behavior. Drugs.

**AB** This paper uses a unique data set collected among inhabitants of Amsterdam, to study the dynamics in the consumption of cannabis and cocaine. If people start using these drugs they are most likely to do so at age 18-20 for cannabis and age 20-25 for cocaine. An analysis of the starting rates shows some evidence of cannabis being a "stepping stone" for cocaine. The fact that some individuals use both cannabis and cocaine has, however, to do mostly with (unobserved) personal characteristics and not with the use of cannabis causing the use of cocaine.

#### Van Wassenhove, Luk N.

**TI** The Strategic Decentralization of Reverse Channels and Price Discrimination Through Buyback Payments. **AU** Savaskan, R. Canan; Van Wassenhove, Luk N.

#### van Wincoop, Eric

**TI** A Theory of Currency Denomination of International Trade. **AU** Bacchetta, Philippe; van Wincoop, Eric.

**TI** A Theory of the Currency Denomination of International Trade. **AU** Bacchetta, Philippe; van Wincoop, Eric.

#### Vanin, Paolo

**TI** Economic Growth and Social Poverty: The Evolution of Social Participation. **AU** Antoci, Angelo; Sacco, Pier Luigi; Vanin, Paolo.

#### van Winden, Frans

**TI** Exploring Group Behavior in a Power-to-Take Video Experiment. **AU** Bosman, Ronald; Hennig-Schmidt, Heike; van Winden, Frans.

#### Vegh, Carlos A.

**PD** December 2001. **TI** Monetary Policy, Interest Rate Rules, and Inflation Targeting: Some Basic Equivalences. **AA** UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 8684; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 25. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** E31, E43, E52, E58. **KW** Monetary Policy Instruments. Nominal Interest Rates. Inflation Targeting.

**AB** Policymakers increasingly view short-term nominal interest rates as the main instrument of monetary policy, often in conjunction with some inflation target. Interest rates on short-term indexed government debt (i.e., a real interest rate) have also been used as policy instruments. To understand the pros and cons of different policy rules and instruments, this paper derives some basic equivalences among different policy rules. It is shown that, under certain conditions, the following three rules are exactly equivalent: (i) a "k-percent" money growth rule; (ii) a nominal interest rate rule combined with an inflation target; and (iii) a real interest rate rule combined with an inflation target. These policy rules, however, become increasingly complex: the first rule requires no feedback mechanism; the second rule requires responding to the inflation gap; while the third rule involves responding to both the inflation gap and the output gap. It is also shown that policy rules, which respond to the output gap, may avoid a

deflationary adjustment.

#### Velasco, Andres

**TI** Optimal Interest Rate Policy in a Small Open Economy. **AU** Parrado, Eric; Velasco, Andres.

#### Velilla Lucini, Pilar

**TI** Hedonic House Prices Without Characteristics: The Case of New Multiunit Housing. **AU** Bover, Olympia; Velilla Lucini, Pilar.

#### Verboven, Frank

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

#### Verdier, Thierry

**TI** Reciprocity and the Political Economy of Harmonization and Mutual Recognition of Regulatory Measures. **AU** Suwa Eisenmann, Akiko; Verdier, Thierry.

#### Verhagen, Willem

**TI** Flexible Inflation Targeting Under a Non-Linear Phillips Curve. **AU** Eijffinger, Sylvester C. W.; Verhagen, Willem.

#### Vesala, Jukka

**TI** Equity and Bond Market Signals as Leading Indicators of Bank Fragility. **AU** Gropp, Reint; Vesala, Jukka; Vulpes, Giuseppe.

#### Veugelers, Reinhilde

**TI** Multinational Knowledge Spillovers with Centralized versus Decentralized R&D: A Game Theoretic Approach. **AU** Sanna-Randaccio, Francesca; Veugelers, Reinhilde.

#### Vieille, Nicolas

**TI** An Application of Ramsey Theorem to Stopping Games. **AU** Shmaya, Eran; Solan, Eilon; Vieille, Nicolas.

#### Vinals, Jose

**PD** May 2001. **TI** Monetary Policy Issues in a Low Inflation Environment. **AA** Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0107; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcalá, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 48. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana. **JE** E31, E32, E50. **KW** Low Inflation. Monetary Policy. Fluctuations. **AB** See the abstract for Vinals, Jose. September 2001, "Monetary Policy Issues in a Low Inflation Environment". CEPR Discussion Paper: 2945; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org).

**PD** September 2001. **TI** Monetary Policy Issues in a Low Inflation Environment. **AA** Banco de Espana and CEPR. **SR** CEPR Discussion Paper: 2945; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** E31, E42, E52, E58. **KW** Credibility. Financial Stability. Inflation. Monetary Policy.

**AB** One of the most striking macroeconomic phenomena in recent decades has been the achievement of rather low and more stable rates of inflation in many countries. Consequently, the main goal of this paper is to offer an overview of the main policy issues arising in a low inflation environment and their practical relevance so as to identify the main challenges facing central bankers in such an environment. The paper asks the following questions: To what extent are the public's attitudes towards price stability relative to other economic objectives likely to change over time? How can the effectiveness of monetary policy change as a result of the non-linearities associated with the zero bound on nominal interest rates, the supposedly higher degree of downward real wage rigidity and, in general, the presence of downward nominal wage or price rigidities? What does the low inflation environment imply about the relative importance and effects of supply and demand shocks? What sort of indicators are likely to be more useful to the central bank for assessing inflationary pressures and, in particular, should asset prices play a bigger role in the conduct of monetary policy?.

**Vitale, Paolo**

**PD** July 2001. **TI** Foreign Exchange Intervention, Policy Objectives, and Macroeconomic Stability. **AA** London School of Economics and CEPR. **SR** CEPR Discussion Paper: 2886; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D82, F31, F41, G14, G15. **KW** Foreign Exchange Intervention. Monetary Policy. Signaling. Macroeconomic Stability.

**AB** Within a simple model of monetary policy for an open economy, we study how foreign exchange intervention may be used to condition agents' beliefs of the objectives of the policymakers. Differently from cheap talk, foreign exchange intervention guarantees a unique equilibrium. Foreign exchange intervention does not bring about a systematic policy gain, such as an increase in employment or a reduction in the inflationary bias. It can, however, stabilize the national economy, for it drastically reduces the fluctuations of employment and output. Foreign exchange intervention is profitable, but a trade-off exists between these profits and the stability gain it brings about. Finally, an important normative conclusion of our analysis is that foreign exchange intervention and monetary policy should be kept separated, in that a larger stability gain is obtained when these two instruments of policy making are under the control of different governmental agencies.

**Vives, Xavier**

**TI** Incentives in Dynamic Duopoly. **AU** Jun, Byoung; Vives, Xavier.

**TI** Dollarization, Bailouts and the Stability of the Banking System. **AU** Gale, Douglas M.; Vives, Xavier.

**Vulpes, Giuseppe**

**TI** Equity and Bond Market Signals as Leading Indicators of Bank Fragility. **AU** Gropp, Reint; Vesala, Jukka; Vulpes, Giuseppe.

**Wade, Paul**

**TI** The Challenge of Fiscal Decentralization in Transition

Countries. **AU** Dabla-Norris, Era; Wade, Paul.

**Waldfoegel, Joel**

**TI** Do Low-Income Housing Subsidies Increase Housing Consumption? **AU** Sinai, Todd; Waldfoegel, Joel.

**Walzl, Markus**

**TI** When Bidding More is Not Enough: All-Pay Auctions with Handicaps. **AU** Feess, Eberhard; Muehlheusser, Gerd; Walzl, Markus.

**Ward-Batts, Jennifer**

**TI** The Impact of Separate Taxation on the Intra-Household Allocation of Assets: Evidence from the UK. **AU** Stephens, Melvin, Jr.; Ward-Batts, Jennifer.

**Warnock, Francis E.**

**TI** Firm-Level Access to International Capital Markets: Evidence >From Chilean Equities. **AU** Holland, Sara B.; Warnock, Francis E.

**TI** Diversification, Original Sin, and International Bond Portfolios. **AU** Burger, John D.; Warnock, Francis E.

**Wasmer, Etienne**

**TI** Higher Education Levels, Firm's Outside Options and the Wage Structure. **AU** Rosen, Asa; Wasmer, Etienne.

**Watson, Joel**

**TI** Entrepreneurship in International Trade. **AU** Rauch, James E.; Watson, Joel.

**Wauthy, Xavier**

**PD** August 2001. **TI** How Does Imperfect Competition in the Labor Market Affect Unemployment Policies? **AU** Wauthy, Xavier; Zenou, Yves. **AA** Wauthy: Facultes Universitaires Saint-Louis and CORE. Zenou: Southampton University. **SR** CEPR Discussion Paper: 2902; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** H24, I28, J31, J64, L13. **KW** Education. Wages. Unemployment Policies. Labor Market.

**AB** We consider a continuum of workers ranked according to their ability to acquire education, and two firms with different technologies that compete imperfectly in wages to attract these workers. Once employed, each worker bears an education cost proportional to their initial ability, this cost being higher in the high-technology firm. At the Nash equilibrium, we show that unemployed workers are those with the lowest initial abilities. We then study different policies that subsidize either the education cost or wages and compare them. We found that the first best allocation can only be implemented by selective policies. We then analyze second best non-selective policies that do not discriminate between workers and firms and show that, in terms of welfare, subsidizing education costs or wages is strictly equivalent.

**Wechsler, Henry**

**TI** Are There Differential Effects of Price and Policy on College Students' Drinking Intensity? **AU** Williams, Jenny; Chaloupka, Frank J.; Wechsler, Henry.

**Wei, Shang-Jin**

**TI** Pollution Havens and Foreign Direct Investment: Dirty Secret or Popular Myth? **AU** Smarzynska, Beata K.; Wei, Shang-Jin.

**Weil, David N.**

**TI** Mortality Change, the Uncertainty Effect, and Retirement. **AU** Kalemli-Ozcan, Sebnem; Weil, David N.

**Weisbach, Michael**

**TI** The Economics of Has-Beens. **AU** MacDonald, Glenn; Weisbach, Michael.

**Weiss, Thomas**

**TI** Agricultural Labor Productivity in the Lower South, 1720-1800. **AU** Mancall, Peter C.; Rosenbloom, Joshua L.; Weiss, Thomas.

**Western, Bruce**

**TI** Ronald Reagan and the Politics of Declining Union Organization. **AU** Farber, Henry S.; Western, Bruce.

**Wettstein, David**

**TI** All-Pay Auctions with Variable Rewards. **AU** Kaplan, Todd R.; Luski, Israel; Sela, Aner; Wettstein, David.

**Wey, Christian**

**TI** The Incentives for Takeover in Oligopoly. **AU** Inderst, Roman; Wey, Christian.

**White, Lucy**

**TI** Anti-Competitive Financial Contracting: The Design of Financial Claims. **AU** Cestone, Giacinta; White, Lucy.

**White, Matthew W.**

**TI** Household Electricity Demand, Revisited. **AU** Reiss, Peter C.; White, Matthew W.

**Whitmore, Diane M.**

**TI** Would Smaller Classes Help Close the Black-White Achievement Gap? **AU** Krueger, Alan B.; Whitmore, Diane M.

**Wickens, Michael R.**

**TI** Macroeconomic Influences on Optimal Asset Allocation. **AU** Flavin, Thomas; Wickens, Michael R.

**TI** Macroeconomic Sources of FOREX Risk. **AU** Smith, Peter N.; Wickens, Michael R.

**Wickham, Peter**

**PD** May 2002. **TI** Do "Flexible" Exchange Rates of Developing Countries Behave Like the Floating Exchange Rates of Industrialized Countries? **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/82; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 28. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** F31. **KW** Flexible Exchange Rates. Floating Exchange Rates.

**AB** This paper examines the behavior of daily spot exchange

rates for a sample of industrialized countries that are generally considered to be floating with only occasional official foreign exchange market intervention. This behavior is then compared to the behavior of the exchange rates of a sample of sixteen developing countries whose regimes are often classified as being "flexible". Considerable differences in the way these developing countries' exchange rate regimes operate is apparent from the daily data, with some sharing similarities with the regimes of the industrialized countries and with others demonstrating regime shifts and other marked discontinuities.

**Wieland, Volker**

**TI** Inflation Dynamics and International Linkages: A Model of the United States, the Euro Area, and Japan. **AU** Coenen, Gunter; Wieland, Volker.

**Williams, Jenny**

**PD** January 2002. **TI** Are There Differential Effects of Price and Policy on College Students' Drinking Intensity? **AU** Williams, Jenny; Chaloupka, Frank J.; Wechsler, Henry. **AA** Williams: University of Illinois at Chicago and University of Adelaide. Chaloupka: University of Illinois at Chicago and NBER. Wechsler: Harvard School of Public Health. **SR** National Bureau of Economic Research Working Paper: 8702; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 13. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** D12, I12. **KW** College Student. Alcohol Price. Drinking Behavior.

**AB** This paper investigates whether college students' response to alcohol price and policies differ according to their drinking intensity. Individual level data on drinking behavior, price paid per drink, and college alcohol policies come from the student and administrator components of the 1997 and 1999 waves of the Harvard School of Public Health (HSPH) College Alcohol Study (CAS). Students drinking behavior is classified on the basis of the number of drinks they typically consume on a drinking occasion, and the number of times they have been drunk during the 30 days prior to survey. A generalized ordered logit model is used to determine whether key variables impact differentially the odds of drinking and the odds of heavy drinking. We find that students who faced a higher money prices for alcohol are less likely to make the transition from abstainer to moderate drinker and moderate drinker to heavy drinker, and this effect is equal across thresholds. Campus bans on the use of alcohol are a greater deterrent to moving from abstainer to moderate drinker than moderate drinker to heavy drinker.

**Williams, John C.**

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

**Williams, Oral H.**

**TI** Caribbean Offshore Financial Centers: Past, Present, and Possibilities for the Future. **AU** Mendis, Chandima; Suss, Esther C.; Williams, Oral H.

**Williamson, Jeffrey G.**

**TI** A Tariff-Growth Paradox? Protection's Impact the World Around 1875- 1997. **AU** Clemens, Michael A.; Williamson, Jeffrey G.

**Williamson, Rohan**

**TI** Corporate Governance and the Home Bias.  
**AU** Pinkowitz, Lee; Stulz, Rene M.; Williamson, Rohan.

**Willman, Alpo**

**PD** May 2002. **TI** The Spanish Block of the ESCB-Multi-Country Model. **AU** Willman, Alpo; Estrada, Angel. **AA** Willman: European Central Bank. Estrada: Banco de Espana. **SR** European Central Bank Working Paper: 149; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 78. **PR** no charge. **JE** E13, E17. **KW** Macro Model. Stock-Flow Equilibrium. Spain. Multi-Country Model.

**AB** This paper presents the Spanish country block (ES-MCM) of the European System of Central Banks (ESCB) Multi-Country Model for the euro area, which has been built in a close co-operation with the European Central Bank and the Banco de Espana. The theoretical structure of the ES-MCM block is in line with most current mainstream macro models, i.e. the supply factors determine the long-run equilibrium, while in the short run output is demand-determined, resulting from a sluggish adjustment of prices and quantities. The paper is structured as follows. First, a simplified theoretical counterpart of the ES-MCM block is presented and its steady-state comparative statistics and stock-flow equilibrium properties are studied. The theoretical analysis is followed by the review of the estimated equations of the ES-MCM block. Finally the simulation properties of the ES-MCM block are presented in the light of five alternative shock simulations.

**PD** June 2002. **TI** Euro Area Production Function and Potential Output: A Supply Side System Approach. **AA** European Central Bank. **SR** European Central Bank Working Paper: 153; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 54. **PR** no charge. **JE** E23, E25. **KW** Production Function. Supply-Side. Factor Shares. Potential Output. Output Gap.

**AB** In this paper, we present a three equation supply-side model based on aggregation across sectors with sector specific mark-ups and the technology parameters of the production function. The model has been applied to euro area data from the 1970s assuming that the underlying production function is either Constant Elasticity of Substitution (CES) or Cobb-Douglas. Estimation results support the Cobb-Douglas case and the estimated supply-side model accounts satisfactorily for the stylized features of the data, i.e. the hump shape in the labor income share coupled with the relatively stable capital-to-labor income ratio and a noticeable change in profit margins and sectoral production shares. We also produce estimates of potential output and the output gap conditional on estimated production functions and examine the sensitivity of output gap estimates with respect to the alternative parameterization of the production function.

**PD** July 2002. **TI** The Spanish Block of the ESCB-Multi-Country Model. **AU** Willman, Alpo; Estrada, Angel. **AA** Willman: European Central Bank. Estrada: Banco de Espana. **SR** Banco de Espana, Documentos de Trabajo: 0212; Banco de Espana, Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcalá, 50, 28014 Madrid, Spain. Website: [www.bde.es/](http://www.bde.es/). **PG** 47. **PR** single copy 2,58 euro; annual subscription 60,10 euro; payment accepted in euro; makes checks payable to Publicaciones, Banco de Espana.

**JE** E10, E13, E17. **KW** Macro Model. Stock-Flow Equilibrium. Spain. Euro Area.

**AB** This paper presents the Spanish country block (ES-MCM) of the ESCB Multi-Country Model for the euro area, which has been built in a close co-operation with the ECB and the Banco de Espana. The theoretical structure of the ES-MCM block is in line with most current mainstream macro models, i.e. the supply factors determine the long-run equilibrium, while in the short run output is demand-determined, resulting from a sluggish adjustment of prices and quantities. The paper is structured as follows. First, a simplified theoretical counterpart of the ES-MCM block is presented and its steady-state comparative statistics and stock-flow equilibrium properties are studied. The theoretical analysis is followed by the review of the estimated equations of the ES-MCM block. Finally the simulation properties of the ES-MCM block are presented in the light of five alternative shock simulations.

**Wilson, Beth Anne**

**TI** Recent U.S. Macroeconomic Stability: Good Policies, Good Practices, or Good Luck? **AU** Ahmed, Shaghil; Levin, Andrew T.; Wilson, Beth Anne.

**Wilson, Daniel J.**

**TI** Quantifying Embodied Technological Change. **AU** Sakellaris, Plutarchos; Wilson, Daniel J.

**Wittenberg, Martin**

**TI** Interpretation of Regressions with Multiple Proxies. **AU** Lubotsky, Darren; Wittenberg, Martin.

**Wittwer, Glyn**

**TI** Globalization of the Worlds Wine Markets. **AU** Anderson, Kym; Norman, David; Wittwer, Glyn.

**Wolff, Edward N.**

**PD** January 2002. **TI** Productivity, Computerization, and Skill Change. **AA** New York University and NBER. **SR** National Bureau of Economic Research Working Paper: 8743; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D24, J24, O33. **KW** Total Factor Productivity. Growth. Computer Investment.

**AB** Using pooled cross-section, time-series data for 44 industries over the decades of the 1960s, 1970s, and 1980s in the United States, this paper finds no econometric evidence that computer investment is positively linked to total factor productivity (TFP) growth (over and above its inclusion in the TFP measure). However, computerization is positively associated with occupational restructuring and changes in the composition of intermediate inputs and capital coefficients. There is modest evidence that the growth of worker skills is positively related to industry productivity growth. The effects are very modest -- adding at most 0.07 percentage points to annual labor productivity growth.

**Wolinsky, Asher**

**PD** October 2000. **TI** A Market Based Approach to Property Tax. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1320; Northwestern University, CMS-EMS, 2001

Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: [www.kellogg.nwu.edu/research/math/](http://www.kellogg.nwu.edu/research/math/). PG 20. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE H20. KW Property Tax. Privatization.

AB This paper discusses the possibility of basing the administration of property taxes on market forces or even privatizing it. The basic idea is that owners will be free to determine the assessed valuations of their own properties, but these assessments will constitute an obligation to sell the property to whomever offers that price. With the aid of a simple formal model we discuss the manner in which such a method would induce owners to choose assessments that reflect the value. The obvious objection is that many owners would resent the risk of unintended sale of their house so much that it is impractical or even silly to consider this idea. In response we outline a softened version that would still offer some of the benefits but would reduce the pain considerably.

TI Rationalizable Outcomes of Large Independent Private-Value First-Price Discrete Auctions. AU Dekel, Eddie; Wolinsky, Asher.

#### Wolman, Alexander L.

TI Regional Inflation in a Currency Union: Fiscal Policy vs. Fundamentals. AU Duarte, Margarida; Wolman, Alexander L.

#### Woodford, Michael

PD December 2001. TI Imperfect Common Knowledge and the Effects of Monetary Policy. AA Princeton University and NBER. SR National Bureau of Economic Research Working Paper: 8673; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 41. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE D82, E31, E32, E50. KW Imperfect Common Knowledge. Monetary Policy. Monopolistic Competition. Inflation.

AB This paper reconsiders the Phelps-Lucas hypothesis, according to which temporary real effects of purely nominal disturbances result from imperfect information, but departs from the assumptions of Lucas (1973) in two crucial respects. Due to monopolistically competitive pricing, higher-order expectations are crucial for aggregate inflation dynamics, as argued by Phelps (1983). And decision makers' subjective perceptions of current conditions are assumed to be of imperfect precision, owing to finite information processing capacity, as argued by Sims (2001). The model can explain highly persistent real effects of a monetary disturbance, and a delayed effect on inflation, as found in VAR studies.

PD December 2001. TI Monetary Policy in the Information Economy. AA Princeton University and NBER. SR National Bureau of Economic Research Working Paper: 8674; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 59. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE D80, E52, E58. KW Monetary Policy. Central Bank. Information.

AB This paper considers two challenges that improvements in private-sector information-processing capabilities may pose for the effectiveness of monetary policy. It first considers the consequences of improved information about central-bank

actions, and argues that the management of expectations will become even more important to effective monetary policy. The paper next considers the consequences of the potential erosion of private-sector demand for central-bank money. This should not fundamentally impair the ability of central banks to achieve their stabilization objectives, though it may require a new approach to the implementation of monetary policy. The advantages of a "channel" system, in which central-bank standing facilities are the main tool used to control overnight interest rates, are discussed.

#### Wooton, Ian

TI Multinational Investment, Industry Risk and Policy Competition. AU Haaland, Jan; Wooton, Ian.

#### Wright, Jonathan H.

PD July 2002. TI Testing the Null 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: 732; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: [www.federalreserve.gov/pubs/ifdp](http://www.federalreserve.gov/pubs/ifdp). PG 39. PR no charge. JE C12, C52. KW Identification. Robust Confidence Sets. Weak Instruments. GMM.

AB This paper proposes a new test of the null hypothesis that a generalized method of moments model is identified. The test can detect local or global under identification, and under identification in some or all directions. The idea of the test is to compare the volume of two confidence sets -- one that is robust to lack of identification and one that is not. Under the null hypothesis the relative volume of these two sets is big O, sub p, one, but under the alternative, the robust confidence set has infinite relative volume.

TI Identifying the Effects of Monetary Policy Shocks on Exchange Rates Using High Frequency Data. AU Faust, Jon; Rogers, John H.; Swanson, Eric; Wright, Jonathan H.

TI Uncovered Interest Parity: It Works, But Not For Long. AU Chaboud, Alain P.; Wright, Jonathan H.

#### Wyplosz, Charles

TI The International Lender of Last Resort: How Large is Large Enough? AU Jeanne, Olivier; Wyplosz, Charles.

#### Yao, James Y.

TI Extreme Contagion in Equity Markets. AU Chan-Lau, Jorge A.; Mathieson, Donald J.; Yao, James Y.

#### Yao, Shunli

TI How Can South Asia and Sub-Saharan Africa Gain from the Next WTO Round? AU Anderson, Kym; Yao, Shunli.

TI China, GMOs and World Trade in Agricultural and Textile Products. AU Anderson, Kym; Yao, Shunli.

#### Yosha, Oved

TI Consumption and Aggregate Constraints: Evidence from US States and Canadian Provinces. AU Ostergaard, Charlotte; Sorenson, Bent E.; Yosha, Oved.

#### Young, Garry

TI Financial Pressure and Balance Sheet Adjustment by UK



Firms. AU Benito, Andrew; Young, Garry.

### Zamir, Shmuel

TI A Note on Revenue Effects of Asymmetry in Private-Value Auctions. AU Kaplan, Todd R.; Zamir, Shmuel.

### Zarnowitz, Victor

TI Time Series Decomposition and Measurement of Business Cycles, Trends and Growth Cycles. AU Ozyildirim, Ataman; Zarnowitz, Victor.

### Zavoico, Basil

TI The Estonian Currency Board: Its Introduction and Role in the Early Success of Estonia's Transition to a Market Economy. AU Knobl, Adalbert; Sutt, Andres; Zavoico, Basil.

### Zelmer, Mark

TI Establishing Initial Conditions in Support of Inflation Targeting. AU Carare, Alina; Schaechter, Andrea; Stone, Mark; Zelmer, Mark.

### Zenou, Yves

TI How Does Imperfect Competition in the Labor Market Affect Unemployment Policies? AU Wauthy, Xavier; Zenou, Yves.

### Zettelmeyer, Jeromin

TI What Moves Capital to Transition Economies? AU Garibaldi, Pietro; Mora, Nada; Sahay, Ratna; Zettelmeyer, Jeromin.

### Zhang, Xiabo

TI Fifty Years of Regional Inequality in China: A Journey Through Revolution, Reform and Openness. AU Kanbur, Ravi; Zhang, Xiabo.

### Zhu, Susan Chun

PD August 2001. TI Ginis in General Equilibrium: Trade, Technology and Southern Inequality. AU Zhu, Susan Chun; Treffer, Daniel. AA Zhu: University of Toronto. Treffer: Canadian Institute for Advanced Research (CIAR), University of Toronto, and NBER. SR National Bureau of Economic Research Working Paper: 8446; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 34. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D63, F10, F16. KW Wage Inequality. Export Growth. Technological Catch-Up. Skill Upgrading.

AB Within developing and newly industrialized countries, rising wage inequality is both common and highly correlated with export growth. This is incompatible with the Stolper-Samuelson theorem, but suggestive of a role for technological catch-up. We develop this insight using a model that features both Ricardian and endowments-based comparative advantage. In this model Southern catch-up induces a correlation between rising inequality and export growth. It also induces a shift in trade patterns that results in skill upgrading and rising inequality in both the South and the North. A rudimentary empirical exercise reveals that, as predicted, Southern skill upgrading is correlated with the trade-weighted average rate of Southern catch-up.

### Zin, Stanley E.

TI Competition and Intervention in Sovereign Debt Markets. AU Paasche, Bernhard; Zin, Stanley E.

TI Model Uncertainty and Liquidity. AU Routledge, Bryan R.; Zin, Stanley E.

### Zingales, Luigi

TI Private Benefits of Control: An International Comparison. AU Dyck, Alexander; Zingales, Luigi.

TI Private Benefits of Control: An International Comparison. AU Dyck, Alexander; Zingales, Luigi.

### Zoega, Gylfi

TI If You're so Smart, Why Aren't You Rich? Wage Inequality with Heterogenous Workers? AU Booth, Alison L.; Zoega, Gylfi.

### Zuehlsdorff, Christian

PD January 2002. TI The Pricing of Derivatives on Assets with Quadratic Volatility. AA University of Bonn. SR Bonn Econ Discussion Paper: 05/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). PG 29. PR no charge. JE G12, G13. KW Strong Solutions. Stochastic Differential Equation. Option Pricing. Volatility. Implied Volatility.

AB The basic model of financial economics is the Samuelson model of geometric Brownian motion because of the celebrated Black-Scholes formula for pricing the call option. The asset's volatility is a linear function of the asset value and the model guarantees positive asset prices. In this paper it is shown that the pricing partial differential equation can be solved for level-dependent volatility, which is a quadratic polynomial. If zero is attainable, both absorption and negative asset values are possible. Explicit formulae are derived for the call option: a generalization of the Black-Scholes formula for an asset whose volatility is affine, the formula for the Bachelier model with constant volatility, and new formulae in the case of quadratic volatility. The implied Black-Scholes volatilities of the Bachelier and the affine model are frowns; the quadratic specifications imply smiles.

PD January 2002. TI Extended Labor Market Models with Affine and Quadratic Volatility. AA University of Bonn. SR Bonn Econ Discussion Paper: 06/2002; Bonn Graduate School of Economics, University of Bonn, Adenauerallee 24-42, 53113 Bonn, Germany. Website: [www.wiwi.uni-bonn.de/bgse/liste.html](http://www.wiwi.uni-bonn.de/bgse/liste.html). PG 28. PR no charge. JE E43, G12, G13. KW Forward Labor Rates. Labor Market Model. Volatility. Derivatives Pricing. Closed Form Solutions.

AB The market model of interest rates specifies simple forward or Labor rates as log-normally distributed, their stochastic dynamics has a linear volatility function. In this paper, the model is extended to quadratic volatility functions which are the product of a quadratic polynomial and a level-independent covariance matrix. The extended Labor market models allow for closed form cap pricing formulae; the implied volatilities of the new formulae are smiles and frowns. We give examples for the possible shapes of implied volatilities. Furthermore, we derive a new approximative swaption pricing

formula and discuss its properties. The model is calibrated to market prices; it turns out that no extended model specification outperforms the others. The criteria for model choice should thus be theoretical properties and computational efficiency.