ABSTRACTS OF WORKING PAPERS IN ECONOMICS

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

Abadie, Alberto

PD September 2001. TI The Economic Costs of Conflict: A Case-Control Study for the Basque Country. AU Abadie, Alberto; Gardeazabal, Javier. AA Abadie: Harvard University and NBER. Gardeazabal: University of the Basque Country. SR National Bureau of Economic Research Working Paper: 8478; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 14. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE D74, G14. O52. P16. KW Terrorism Costs. Basque Conflict.

AB This paper investigates the economic effects of conflict, using the terrorist conflict in the Basque Country as a case study. Our analysis rests on two different strategies. First, we use a combination of other regions to construct a "synthetic" control region which resembles many relevant economic characteristics of the Basque Country before the outlet of political terrorism in the 1970's. We find that, after the outbreak of terrorism, per capita GDP in the Basque Country declined about 10 percent points relative to the synthetic control region. Moreover, this gap seemed to widen in response to spikes in terrorist activity. The second part of this study uses the truce declared in September 1998 as a natural experiment to estimate the effects of the conflict. If the terrorist conflict was perceived to have a negative impact on the Basque economy, stocks of firms with a significant part of their business in the Basque Country should have shown a positive relative performance as the truce became credible, and a negative relative performance at the end of the cease-fire. We find evidence that is consistent with this conjecture using event study methods.

Abraham, Katharine G.

PD October 2001. TI Changes in Unemployment Duration and Labor Force Attachment. AU Abraham, Katharine G.; Shimer, Robert. AA Abraham: Bureau of Labor Statistics. Shimer: Princeton University and NBER. SR National Bureau of Economic Research Working Paper: 8513; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 38. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE J11, J22, J64. KW Unemployment Duration. Labor Force Attachment. Women.

AB This paper accounts for the observed increase in unemployment duration relative to the unemployment rate in the U.S. over the past thirty years, typified by the record low level of short-term unemployment. We show that part of the increase is due to changes in how duration is measured, a consequence of the 1994 Current Population Survey redesign. Another part is due to the passage of the baby boomers into their prime working years. After accounting for these shifts, most of the remaining increase in unemployment duration relative to the unemployment rate is concentrated among women, whose unemployment rate has fallen sharply in the last two decades while their unemployment duration has increased. Using labor market transition data, we show that this is a consequence of the increase in women's labor force attachment.

Acemoglu, Daron

PD September 2001. TI The World Income Distribution. AU Acemoglu, Daron; Ventura, Jaume. AA Acemoglu: MIT and CEPR. Ventura: MIT and Universitat Pompeu Fabra. SR CEPR Discussion Paper: 2973; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE F12, F43, O41. KW Income Differences. Endogenous Growth. International Trade. Specialization. Terms of Trade. Spillovers.

AB We show that even in the absence of diminishing returns in production and technological spillovers, international trade leads to a stable world income distribution. This is because specialization and trade introduce de facto diminishing returns -- countries that accumulate capital faster than average experience declining export prices, depressing the rate of return to capital and discouraging further accumulation. Because of diminishing returns to capital accumulation at the country level, the cross-sectional behavior of the world economy is similar to that of existing exogenous growth models. Cross-country variation in economic policies, savings and technology translate into cross-country variation in incomes, and country dynamics exhibit conditional convergence as in the Solow-Ramsey model. The dispersion of the world income distribution is determined by the forces that shape the strength of the terms of trade effects -- the degree of openness to international trade and the extent of specialization. Finally, we provide evidence that countries accumulating faster experience a worsening in their terms of trade. Our estimates imply that, all else equal, a 1 percent faster growth is associated with approximately a 0.7 percent decline in the terms of trade.

Adjaoute, Kpate

PD October 2001. TI EMU and Portfolio Diversification Opportunities. AU Adjaoute, Kpate; Danthine, Jean-Pierre. AA Adjaoute: Morgan Stanley. Danthine: Universite de Lausanne. SR CEPR Discussion Paper: 2962; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8

euros. **JE** F21, F31, G11, G15. **KW** EMU. Home Bias. Portfolio Diversification.

AB This paper studies the impact of EMU on portfolio diversification opportunities. We find a significant increase in the correlation between stock returns, whether they are computed on the basis of market or sector indices. This is true for two definitions of the pre- convergence and convergence periods. Diversification opportunities within the Euro-area have thus been reduced. The culprit appears to be less the disappearance of currency risk than the convergence of economic structures and/or the homogenization of economic shocks (across the Euro-15 member states). This evolution should mark the end of pure country allocation strategies within Europe. If these are the alternatives, the increased conformity of stock returns implies that international diversification does not pay: the cost of the home bias within Euroland has been lowered (in some cases to zero). Diversification across both countries and sectors, however, remains the much superior investment strategy, and, in light of this option, the cost of the home bias continues to be significant.

Ait-Sahalia, Yacine

PD October 2001. **TI** Telling from Discrete Data Whether the Underlying Continuous-Time Model is a Diffusion. **AA** Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 8504; National Bureau of Economic Research, 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 the U.S.). **JE** C22, C52, G12. **KW** Asset Returns. Diffusion Processes. Discrete Data.

AB Asset Returns have traditionally been modeled in the literature as following continuous-time Markov processes, and in many cases diffusions. This paper asks if discretely sampled financial rate data help us decide which continuous-time models are sensible. Diffusion processes are characterized by the continuity of their sample paths. This cannot be verified from the discrete sample path: by nature, even if the underlying sample path were continuous, the discretely sample data will always appear as a sequence of discrete jumps. Instead, this paper relies on a characterization of the transition density of the discrete data to determine whether the discontinuities observed in the discrete data are the result of the discreteness of sampling, or rather evidence of genuine jump dynamics for the underlying continuous-time process. This paper then focuses on the implications of this approach for option pricing models.

Albrecht, James

PD September 2001. **TI** Using Employer Hiring Behavior to Test the Educational Signaling Hypothesis. **AU** Albrecht, James; van Ours, Jan C. **AA** Albrecht: Georgetown University. van Ours: Tilburg University. **SR** CEPR Discussion Paper: 2968; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** I21, J24. **KW** Recruitment. Signaling.

AB This paper presents a test of the educational signaling hypothesis. If employers use education as a signal in the hiring process, they will rely more on education when less is otherwise known about applicants. We find that employers are more likely to lower educational standards when an informal, more informative recruitment channel is used, so we conclude that education is used as a signal in the hiring process.

Albuquerque, Rui

PD April 2002. **TI** Optimal Lending Contracts and Firm Dynamics. **AU** Albuquerque, Rui; Hopenhayn, Hugo A. **AA** Albuquerque: University of Rochester. Hopenhayn: University of Rochester and Universitat Torcuato Di Tella. **SR** Rochester Center for Economic Research Working Paper: 493; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: rcer.econ.rochester.edu. **PG** 28. **PR** $5.00 (3 first papers free of charge). **JE** D92, F34, G31, G32, G35. **KW** Financial Constraints. Imperfect Enforcement. Firm Dynamics. Capital Structure. Debt Maturity.

AB We develop a model of lending in the presence of endogenous borrowing constraints. Borrowing constraints arise because borrowers face limited liability and debt repayment cannot be perfectly enforced. In the model, the dynamics of debt are closely linked with the dynamics of borrowing constraints. In fact, borrowing constraints must satisfy a dynamic consistency requirement: The value of outstanding debt restricts current access to short-term capital, but is itself determined by future access to credit. This dynamic consistency is not guaranteed in models of exogenous borrowing constraints, where the ability to raise short-term capital is limited by some prespecified function of debt. We characterize the optimal default-free contract -- which minimizes borrowing constraints at all histories -- and derive implications for firm growth, survival, and leverage. The model is qualitatively consistent with stylized facts on the growth and survival of firms. Comparative statics with respect to technology and default constraints are derived.

Alesina, Alberto

PD October 2001. **TI** Why Doesn't the US Have a European-Style Welfare System? **AU** Alesina, Alberto; Sacerdote, Bruce; Glaeser, Edward. **AA** Alesina and Glaeser: Harvard University and NBER. Sacerdote: Dartmouth College and NBER. **SR** National Bureau of Economic Research Working Paper: 8524; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 39. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** D30, D63, I30, I32, I38. **KW** Welfare. Redistribution. Income Distribution. Racial Animosity.

AB European countries are much more generous to the poor relative to the US level of generosity. Economic models suggest that redistribution is a function of the variance and skewness of the pre-tax income distribution, the volatility of income (perhaps because of trade shocks), the social costs of taxation and the expected income mobility of the median voter. None of these factors appear to explain the differences between the US and Europe. Instead, the differences appear to be the result of racial heterogeneity in the US and American political institutions. Racial animosity in the US makes redistribution to the poor, who are disproportionately black, unappealing to many voters. American political institutions limited the growth of a socialist party, and more generally limited the political power of the poor.

Alexander, Kern

PD September 2001. **TI** A Uniform Choice of Law Rule

for the Taking of Collateral Interests in Securities: Using Private Law Approaches to Reduce Credit and Legal Risk in Financial Systems. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP211; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG. United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 22. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** G15, G19, G20, K22, K33. **KW** International Financial Markets. Legal Risk. Corporation and Securities Law. Private International Law.

AB Traditionally, securities were held, traded and settled in direct holding systems in which owners of securities were either recorded on the issuer's register or were in physical possession of bearer securities certificates. Today, most publicly traded securities are recorded electronically. Credit and liquidity arise in this context because there is uncertainty as to which legal system's rules apply to the disposition of collateral interests in securities. This legal insecurity may lead to increased credit and liability risk. This paper analyses a Hague Conference Report that proposes a uniform conflict of law rule for determining which law should apply to the disposition of collateral interests in securities held in indirect holding systems. This paper argues that more legal uniformity across national systems is needed to devise common principles and rules for the creation, perfection and protection of collateral interests in security.

Almond, Douglas

PD September 2002. **TI** Does Low Birth Weight Matter? Evidence From the U.S. Population of Twin Births. **AU** Almond, Douglas; Chay, Kenneth Y.; Lee, David S. **AA** Almond: NBER. Chay and Lee: UC Berkeley and NBER. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 53; The Center for Labor Economics, University of California, Berkeley, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: elsa.berkeley.edu/users/cle/wpapers.html. **PG** 37. **PR** free copies available electronically through website. **JE** I11, I12. **KW** Birth Weight. Infant Mortality. Health Outcomes.

AB This paper empirically evaluates the claim that birth weight can reliably substitute for direct health outcomes of interest (e.g. mortality) when evaluating and predicting the effects of health policies and interventions. We examine birth weight variation by focusing on within twin-pair correlations between birth weight and various health outcomes, using data on the population of twin births in the United States, which we construct using a new matching algorithm on available linked birth-infant death micro-data. While there are substantial differences in birth weights between twins, we find that the heavier twin is no more likely to survive past one-year of life than the lighter twin. This finding is consistent across demographic groups, causes of death, and years of birth and is insensitive to various econometric specifications.

Altonji, Joseph G.

PD September 2001. **TI** The Role of Permanent Income and Demographics in Black/White Differences in Wealth. **AU** Altonji, Joseph G.; Doraszelski, Ulrich. **AA** Altonji: Northwestern University and NBER. Doraszelski: Hoover Institution. **SR** National Bureau of Economic Research Working Paper: 8473; National Bureau of Economic Research,

1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 46. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** D31, D91, E21. **KW** Permanent Income. Black-White Wealth Gap.

AB We explore the extent to which the huge race gap in wealth can be explained with properly constructed income and demographic variables. In some instances we explain the entire wealth gap with income and demographics provided that we estimate the wealth model on a sample of whites. However, we typically explain a much smaller fraction when we estimate the wealth model on a black sample. Using sibling comparisons to control for intergenerational transfers and the effects of adverse history, we find that differences income and demographics are not likely to account for the lower explanatory power of the black wealth models. Our analysis of growth models of wealth suggests that differences in savings behavior and/or rates of return play an important role.

Alvarez, Fernando

PD May 2002. **TI** The Time Consistency of Monetary and Fiscal Policies. **AU** Alvarez, Fernando; Kehoe, Patrick J.; Neumeyer, Pablo. **AA** Alvarez: University of Chicago, Universidad T. Di Tella, and NBER. Kehoe: Federal Reserve Bank of Minneapolis, University of Minnesota, and NBER. Neumeyer: Universidad T. Di Tella and CONICET. **SR** Federal Reserve Bank of Minneapolis Staff Report: 305; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 27. **PR** no charge. **JE** E52, E61, E63, H63. **KW** Ramsey Policies. Friedman Rule. Zero Nominal Rates. Sustainable Plans. Optimal Policy.

AB Are optimal monetary and fiscal policies time consistent in a monetary economy? Yes, but if and only if under commitment the Friedman rule of setting nominal interest rates to zero is optimal. This result is of applied interest because the Friedman rule is optimal for the standard preferences used in applied work, those consistent with the growth facts.

Anderlini, Luca

PD June 2001. **TI** Courts of Law and Unforeseen Contingencies. **AU** Anderlini, Luca; Felli, Leonardo; Postlewaite, Andrew. **AA** Anderlini: Southampton University. Felli: London School of Economics. Postlewaite: University of Pennsylvania. **SR** CEPR Discussion Paper: 2835; 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** D74, K40, L14. **KW** Incentives. Optimal Courts. Risk. Unforeseen Contingencies.

AB We study a contracting model with unforeseen contingencies in which the court is an active player. Ex-ante, the contracting parties cannot include the risky unforeseen contingencies in the contract they draw up. Ex-post the court observes whether an unforeseen contingency occurred, and decides whether to void or uphold the contract. If the contract is voided by the court, the parties can renegotiate a new agreement ex-post.

Andersen, Torben G.

PD October 2001. **TI** An Empirical Investigation of Continuous-Time Equity Return Models. **AU** Andersen,

Torben G.; Benzoni, Luca; Lund, Jesper. **AA** Andersen: Northwestern University and NBER. Benzoni: University of Minnesota. Lund: Aarhus University. **SR** National Bureau of Economic Research Working Paper: 8510; National Bureau of Economic Research, 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 the U.S.). **JE** C51, G12, G13. **KW** Asset Returns. Stochastic Volatility Diffusions. Discrete Jumps.
AB This paper extends the class of stochastic volatility diffusions for asset returns to encompass Poisson jumps of time-varying intensity. We find that any reasonably descriptive continuous-time model for equity- index returns must allow for discrete jumps as well as stochastic volatility with a pronounced negative relationship between return and volatility innovations. We also find that the dominant empirical characteristics of the return process appear to be priced by the option market. Our analysis indicates a general correspondence between the evidence extracted from daily equity-index returns and the stylized features of the corresponding options market prices.

Anderson, Heather M.

PD October 2001. **TI** Capturing the Shape of Business Cycles with Nonlinear Autoregressive Leading Indicator Models. **AU** Anderson, Heather M.; Athanasopoulos, George; Vahid, Farshid. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 07/2001; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. **PG** 24. **PR** no charge. **JE** C22, C23, E17, E37. **KW** Business Cycles. Leading Indicators. Nonlinear Models. Yield Spread.
AB This paper studies linear and nonlinear autoregressive leading indicator models of business cycles in OECD countries. The models use the spread between short-term and long-term interest rates as leading indicators for GDP, and their success in capturing business cycles gauged by the non-parametric procedures developed by Harding and Pagan (2001). Our preliminary findings indicate that bivariate nonlinear models of output and the interest rate spread can successfully capture the shape of the business cycle. In particular, they can capture the features of recession and the deviation of the actual path of the cycles from a triangular approximation to this path, both characteristics that other models of GDP fail to reproduce.

PD December 2002. **TI** Nonlinear Autoregressive Leading Indicator Models of Output in G-7 Countries. **AU** Anderson, Heather M.; Athanasopoulos, George; Vahid, Farshid. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 20/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. **PG** 17. **PR** no charge. **JE** C22, C23, E17, E37. **KW** Business Cycles. Leading Indicators. Model Evaluation. Nonlinear Models. Yield Spreads.
AB This paper studies linear and nonlinear autoregressive leading indicator models of business cycles in G7 countries. The models use the spread between short-term and long-term interest rates as leading indicators for GDP, and their success in capturing business cycles is gauged by non-parametric shape tests, and their ability to predict the probability of recession. We find that bivariate nonlinear models of output and the interest rate spread can successfully capture the shape of the business cycle in cases where linear models fail. Also, our nonlinear leading indicator models for USA, Canada and the UK outperform other models of GDP with respect to predicting the probability of recession.

PD December 2002. **TI** Choosing Lag Lengths in Nonlinear Dynamic Models. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 21/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. **PG** 15. **PR** no charge. **JE** C22, C45, C51. **KW** Nonlinear Models. Neural Networks. Model Selection Criteria. Polynomial Approximations. Volterra Expansions.
AB Given that it is quite impractical to use standard model selection criteria in a nonlinear modeling context, the builders of nonlinear models often choose lag length by setting it equal to the lag length chosen for a linear autoregression of the data. This paper studies the performance of this procedure in a variety of circumstances, and then proposes some new and simple model selection procedures, based on linear approximations of the nonlinear forms. The idea here is to apply standard selection criteria to these linear approximations, rather than to autoregressions that make no provision for nonlinear behavior. A simulation study compares the properties of these proposed procedures with the properties of linear selection procedures.

Anderson, James E.

PD September 2001. **TI** From Wild West to the Godfather: Enforcement Market Structure. **AU** Anderson, James E.; Bandiera, Oriana. **AA** Anderson: Boston College and NBER. Bandiera: London School of Economics. **SR** National Bureau of Economic Research Working Paper: 8469; 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** H11, K11. **KW** Enforcement. Property Rights. Mafias.
AB Weak states enable private enforcement but it does not always fade away in the presence of strong states. We develop a general equilibrium model of the market organization of enforcers (self-enforcers, competitive specialized enforcers or monopoly) who defend endowments from predators. We provide conditions under which a Mafia emerges, persists and is stable. Mafias are most likely to emerge at intermediate stages of economic development. Private enforcers might provide better enforcement to the rich than would a welfare-maximizing state -- hence the State may find it difficult to replace the Mafia or competitive private enforcers.

PD October 2001. **TI** Borders, Trade and Welfare. **AU** Anderson, James E.; van Wincoop, Eric. **AA** Anderson: Boston College and NBER. Van Wincoop: Federal Reserve Bank of New York. **SR** National Bureau of Economic Research Working Paper: 8515; National Bureau of Economic Research, 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 the U.S.). **JE** D58, F15, J51. **KW** Economic Integration. Gravity Models. General Equilibrium. Trade Flows.

Border Barriers. NAFTA.

AB International economic integration yields large potential welfare effects, even in a static constant returns competitive world economy. Our method is novel. The effect of border barriers on trade flows is often inferred from gravity models. But their rather atheoretic structure precludes welfare analysis. Computable general equilibrium models are designed for tight welfare analysis, but lack econometric foundation. Our method combines these approaches. Gravity models based on Anderson's (1979) interpretation are full general equilibrium models of a special simple sort. In Anderson and van Wincoop (NBER WP 8079, 2001) we develop and estimate this structure, then calculate the comparative static effects on trade flows of border barriers. In this paper we further deploy the model to explore the comparative statics of welfare with respect to borders, to currency unions and to the North American Free Trade Agreement (NAFTA). Our NAFTA exercise does a much better job of replicating the actually trade flow changes than do computable general equilibrium models. An interesting implication is that terms of trade changes are very important, even for "small" countries such as Mexico.

Anderson, Simon
TI Valuing Animal Genetic Resources in Peasant Economies: The Case of the Box Keken Creole Pig in Yucatan. **AU** Scarpa, Riccardo; Drucker, Adam; Anderson, Simon; Ferraes-Ehuan, Nancy; Gomez, Veronica; Risopatron, Carlos, R.; Rubio-Lionel, Olga.

Angelucci, Manuella
PD October 2001. **TI** The Effect of Ownership and Competitive Pressure on Firm Performance in Transition Countries, Micro Evidence from Bulgaria, Romania and Poland. **AU** Angelucci, Manuella; Estrin, Saul; Konings, Jozef; Zolkiewski, Zbigniew. **AA** Angelucci: University of London and University College London. Estrin: University of London and CEPR. Konings: Katholieke Universiteit Leuven, CEPR, and IZA. Zolkiewski: Central Statistical Office, Warsaw. **SR** CEPR Discussion Paper: 2985; 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** D24, D42, J42. **KW** Competitive Pressure. Firm Performance. Privatization. Bulgaria. Poland. Romania.

AB This paper uses a unique representative firm level data set to analyze the effect of domestic and international competitive pressure and ownership changes in three emerging economies, Bulgaria Poland and Romania. Our main findings can be summarized as follows: Domestic competitive pressure, measured by market structure, and increased import penetration are associated with higher firm performance in Poland irrespective of the ownership structure of firms. Furthermore, the positive effects of increased import competition are reinforced for foreign owned firms. In contrast, in Bulgaria and Romania, increased import penetration is associated with lower firm performance, while there is some evidence that more competitive market structures are associated with higher total factor productivity. These effects depend, however, on the ownership structure of firms, which suggests the existence of complementarities between competitive pressure and ownership changes. The results also indicate that privatization has positive effects on firm performance. In particular, domestic private firms and foreign-owned firms outperform state-owned

firms. Furthermore, there is evidence that foreign-owned firms do better than domestically-owned private firms especially in Bulgaria and Poland. The results on ownership are somewhat weaker for Romania.

Armour, John
PD June 2001. **TI** Insolvency, Employment Protection and Corporate Restructuring: The Effects of TUPE. **AU** Armour, John; Deakin, Simon. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP204; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 48. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** J41, K11, K22, K31. **KW** Corporate Governance. Employment Protection. Corporate Restructuring. Undertakings.

AB The statutory protection currently provided by UK law to employees during transfers of undertakings and other restructurings has been criticized on the grounds that it undermines insolvency procedures and interferes with the "rescue" process. We present an analysis that suggests that granting employees contingent control rights may be an efficient means of recognizing their firm-specific human capital. Case study evidence shows that while in some situations employment rights may obstruct reorganizations, in others they allow employee interests to be factored into the bargaining process so as to enhance the survival chances of enterprise undergoing restructuring. The law functions best when effective mechanisms of employee representation are in place and when the conditions under which employees' acquired rights can be waived in the interests of preserving employment are clearly specified. When these institutional conditions are met, employment law performs an economically valuable role in expressing the interests of employee-stakeholders in the firm.

Armstrong, Jeff S.
TI Commercializing Knowledge: University Science, Knowledge Capture, and Firm Performance in Biotechnology. **AU** Zucker, Lynne G.; Armstrong, Jeff S.; Darby, Michael R.

Arteta, Carlos
PD August 2001. **TI** When Does Capital Account Liberalization Help More than it Hurts? **AU** Arteta, Carlos; Eichengreen, Barry; Wyplosz, Charles. **AA** Arteta: University of California, Berkeley. Eichengreen: University of California, Berkeley and NBER. Wyplosz: University of Geneva. **SR** National Bureau of Economic Research Working Paper: 8414; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F21, F29, F43. **KW** Liberalization. Capital Account. Growth.

AB In this paper we reconsider the evidence on capital account liberalization and growth. While we find indications of a positive association, the effects vary with time, with how capital account liberalization is measured, and with how the relationship is estimated. The evidence that the effects of capital account liberalization are stronger in high-income countries is similarly fragile. There is some evidence that the positive growth effects of liberalization are stronger in countries with strong institutions, as measured by standard

indicators of the rule of law, but only weak evidence that the benefits grow with a country's financial depth and development. We find more evidence of a correlation between capital account liberalization and growth when we allow the effect to vary with other dimensions of openness. There are two interpretations of this finding, one in terms of the sequencing of trade and financial liberalization, the other in terms of the need to eliminate major macroeconomic imbalances before opening the capital account. By and large our results support the second interpretation.

PD August 2001. TI When Does Capital Account Liberalization Help More Than it Hurts? AU Arteta, Carlos; Eichengreen, Barry; Wyplosz, Charles. AA Arteta and Eichengreen: University of California, Berkeley. Wyplosz: Graduate Institute of International Studies, Switzerland. SR CEPR Discussion Paper: 2910; Centre for Economic Policy Research. Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE F21, F29, F43. KW Liberalization. Capital Account. Growth. In this paper we reconsider the evidence on capital account liberalization and growth. While we find indications of a positive association, the effects vary with time, with how capital account liberalization is measured, and with how the relationship is estimated. The evidence that the effects of capital account liberalization are stronger in high-income countries is similarly fragile. There is some evidence that the positive growth effects of liberalization are stronger in countries with strong institutions, as measured by standard indicators of the rule of law, but only weak evidence that the benefits grow with a country's financia.lp 1 5 epth and development. We find more evidence of a correlation between capital account liberalization and growth when we allow the effect to vary with other dimensions of openness. There are two interpretations of this finding, one in terms of the sequencing of trade and financial liberalization, the other in terms of the need to eliminate major macroeconomic imbalances before opening the capital account. By and large our results support the second interpretation.
AB Not Given.

Athanasopoulos, George
TI Capturing the Shape of Business Cycles with Nonlinear Autoregressive Leading Indicator Models. AU Anderson, Heather M.; Athanasopoulos, George; Vahid, Farshid.

PD August 2002. TI Statistical Inference on Changes in Income Inequality in Australia. AU Athanasopoulos, George; Vahid, Farshid. AA Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 09/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG 21. PR no charge. JE C19, D31, J10. KW Income Inequality. Gini Coefficient. Theil Inequality Measure. Bootstrap.
AB This paper studies the changes in income inequality of individuals in Australia between 1986 and 1999. Individuals are divided into various subgroups along several dimensions, such as region of residence, age, employment status etc. The changes in inequality over time, between and within the various subgroups is studied, and the bootstrap method is used to establish whether these changes are statistically significant.

TI Nonlinear Autoregressive Leading Indicator Models of Output in G-7 Countries. AU Anderson, Heather M.; Athanasopoulos, George; Vahid, Farshid.

Atkeson, Andrew
PD November 2001. TI The Transition to a New Economy After the Second Industrial Revolution. AU Atkeson, Andrew; Kehoe, Patrick J. AA Atkeson: University of California, Los Angeles, Federal Reserve Bank of Minneapolis, and NBER. Kehoe: Federal Reserve Bank of Minneapolis and NBER. SR Federal Reserve Bank of Minneapolis Staff Report: 296; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. PG 39. PR no charge. JE E13, L95, O47, O51. KW Productivity Paradox. Diffusion. Information Technology. Learning By Doing. Electricity.
AB During the Second Industrial Revolution, 1860-1900, many new technologies, including electricity, were invented. After this revolution, however, several decades passed before these new technologies diffused and measured productivity growth increased. We build a quantitative model of technology diffusion which we use to study this transition to a new economy. We show that the model implies both slow diffusion and a delay in growth similar to that in the data. Our model casts doubt, however, on the conjecture that this experience is a useful parallel for understanding the productivity paradox following the Information Technology Revolution.

PD December 2001. TI The Advantage of Transparent Instruments of Monetary Policy. AU Atkeson, Andrew; Kehoe, Patrick J. AA Atkeson: University of California, Los Angeles, and Federal Reserve Bank of Minneapolis. Kehoe: Federal Reserve Bank of Minneapolis and University of Minnesota and NBER. SR Federal Reserve Bank of Minneapolis Staff Report: 297; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. PG 29. PR no charge. JE E52, E61, F33, F41. KW Nominal Anchor. Exchange Rate Regime. Monetary Instrument. Time Consistency. Fixed Exchange Rates.
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.

Atkinson, A. B.
PD January 2002. TI Top Incomes in the United Kingdom Over the Twentieth Century. AA University of Oxford. SR University of Oxford, Discussion Papers in Economic and Social History: 43; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. PG 38. PR no charge. JE D31, H24, N33, N34. KW Personal Income.

Taxation. Inequality. Distribution. UK.

AB In 1909, the United Kingdom Government introduced "super-tax", which was an additional income tax levied on top incomes. This provided information on the distribution of total incomes that had not previously been available, since under the ordinary income tax, the authorities did not know the total income of individuals, which could be the subject of several separate assessments. Super-tax remained in existence until 1972, by which time other income tax sources were in place to allow the series to be continued. This paper aims to examine what can be said from the published super-tax statistics about the evolution of top incomes in the UK. The paper spells out the limitations of the super-tax information, and the problems in establishing control totals for total population and total income, but argues that it provides a unique source of evidence about the distribution of top incomes covering virtually the whole of the twentieth century. The resulting picture allows us to draw broad conclusions about developments over the twentieth century.

Aughinbaugh, Alison

PD February 2003. TI Maternal Employment and Adolescent Risky Behavior. AU Aughinbaugh, Alison; Gittleman, Maury. AA U.S. Bureau of Labor Statistics. SR U.S. Bureau of Labor Statistics Economic Working Paper: 366; BLS Economic Working Paper Series, c/o Glenda Driggers, 4945 Postal Square Building, 2 Massachusetts Avenue NE, Washington, DC 20212. Website: www.bls.gov/ore/orecatlg.htm. PG 23. PR no charge. JE I12, J13. KW Risky Behavior. Maternal Employment. Youth.

AB This paper examines the impact of maternal employment during a child's first three years and during adolescence on his or her decisions to engage in a range of risky behaviors: smoking cigarettes, drinking alcohol, using marijuana and other drugs, engaging in sex and committing crimes. Using data from the NLSY79 and its young adult supplement, we find little evidence that mother's employment early in the child's life has lasting consequences on participation in risky behaviors. Similarly, with the possible exception of drinking alcohol - - our results do not indicate that maternal employment during adolescence is correlated with increased involvement in risky activities.

Austen-Smith, David

PD December 2001. TI Majority Preference for Subsidies Over Redistribution. AA Northwestern University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1333; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 31. PR $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. JE D71, H23, H24. KW Subsidies. Redistribution. Median Income.

AB Among other activities, democratic governments redistribute resources directly through tax schemes that explicitly benefit the poor and indirectly through subsidizing particular goods and services that do not. Indeed, in some cases the effective redistribution under subsidy policies is clearly away from the poor. This paper studies when a majority might prefer subsidy policies over direct income redistribution in economies with mean greater than median income. The main result is a set of necessary and sufficient conditions for subsidies to be majority preferred to direct redistribution: in sum, subsidies are strictly majority preferred to redistribution when the gap between median and mean incomes is not "too great.".

Ayalew, Workneh

PD December 2001. TI Economic Evaluation of Smallholder Subsistence Livestock Production: Lessons from an Ethiopian Goat Development Program. AU Ayalew, Workneh ; King, J. M.; Burns, E.; Rischkowsky, Barbara. AA Ayalew: International Livestock Research Institute, Ethiopia. King, Burns, and Rischkowsky: University of Goettingen. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2001/107; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it. PG 14. PR no charge; available only on website. JE M11, O13, Q12. KW Evaluation. Indigenous Animal Genetic Resources. Unit Net Benefits.

AB Conventional productivity evaluation criteria are inadequate to evaluate subsistence livestock production, because 1) they fail to capture non-marketable benefits of the livestock, and 2) the core concept of a single limiting input is inappropriate to subsistence production, as multiple limiting inputs (livestock, labor, and land) are involved in the production process. As many of the livestock functions as possible (physical and socio-economic) should be aggregated into monetary values and related to the resources used, irrespective of whether these "products" are marketed, home-consumed or maintained for later use. A broad evaluation model involving three complementary flock-level productivity indices was applied to evaluate subsistence goat production in eastern Ethiopian highlands. The results showed that indigenous goat flocks generated significantly higher net benefits under improved than under traditional management, which challenges the prevailing notion in countries like Ethiopia that indigenous livestock do not adequately respond to improvements in the level of management. It is then concluded that the evaluation model not only allows a broad aggregation of benefits from subsistence livestock, but also provides a more realistic platform to propose sound improvement interventions.

Bagwell, Kyle

PD April 2000. TI Game Theory and Industrial Organization. AU Bagwell, Kyle; Wolinsky, Asher. AA Bagwell: Columbia University. Wolinsky: Northwestern University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1307; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 41. PR $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C72, L13, L41. KW Industrial Organization. Game Theory. Collusion. Predation.

AB In this article, we consider how important developments in game theory have contributed to the theory of industrial organization. Our goal is not to survey the theory of industrial organization; rather, we consider the contribution of game theory through a careful discussion of a small number of topics within the industrial organization field. We also identify some

points in which developments in the theory of industrial organization have contributed to game theory. The topics that we consider are: commitment in two-stage games and the associated theories of strategic-trade policy and entry deterrence; asymmetric- information games and the associated theories of limit pricing and predation; repeated games with public moves and the associated theory of collusion in markets with public demand fluctuations; mixed-strategy equilibria and purification theory and the associated theory of sales; and repeated games with imperfect monitoring and the associated theory of collusion and price wars. We conclude with a general assessment concerning the contribution of game theory to industrial organization.

Baliga, Sandeep

PD August 2000. TI Coordination, Spillovers, and Cheap Talk. AU Baliga, Sandeep; Morris, Stephen. AA Baliga: Northwestern University. Morris: Yale University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1301; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 21. PR $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C71, D82, D83. KW Cheap Talk. Incomplete Information Game. Nash Equilibria.

AB We analyze the role of cheap-talk in two player games with one-sided incomplete information. We identify conditions under which (1) players can fully communicate and coordinate on efficient Nash equilibria of the underlying complete information game; and (2) players cannot communicate so cheap-talk does not alter the equilibrium set of the Bayesian game. We present examples that illustrate several issues that arise when there is two-sided incomplete information and also analyze the role of cheap-talk in the electronic mail game of Rubinstein [1989].

Bandiera, Oriana

TI From Wild West to the Godfather: Enforcement Market Structure. AU Anderson, James E.; Bandiera, Oriana.

PD October 2001. TI On the Structure of Tenancy Contracts: Theory and Evidence from 19th Century Rural Sicily. AA London School of Economics and CEPR. SR CEPR Discussion Paper: 3032; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE D82, O12, O17. KW Contract Duration. Rural Contracts. Tenancy. Asymmetric Information. Sharecropping. Sicily.

AB In a world with asymmetric information, contractual terms are an important incentive device. This paper studies the effect of crop characteristics on the choice between short-term and long-term tenancy contracts and on the choice between sharecropping and fixed-rent contracts when the production process depends on two non-contractibles: effort devoted to current production and effort devoted to plant and soil maintenance. Long-term contracts are effective in providing incentives for non-contractible maintenance investment. Since, however, incentive provision is costly, long-term contracts will be employed only when, due to the characteristics of the crop, maintenance benefits are high, or when, due to the characteristics of the tenant, the cost of providing incentives is low. The predictions of the theory are tested on a unique data set containing 705 tenancy contracts signed between 1870 and 1880 in the province of Syracuse (Sicily). The empirical evidence shows that, indeed, long-term contracts were used if the crops grown had higher maintenance needs. Other comparative static results are derived and tested empirically.

Bansal, Ravi

PD October 2001. TI Sovereign Risk and Return in Global Equity Markets. AU Bansal, Ravi; Dahlquist, Magnus. AA Bansal: Duke University. Dahlquist: Duke University and CEPR. SR CEPR Discussion Paper: 3034; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE F31, F34, G12, G15. KW Credibility. Dynamic Models. General Equilibrium. International CAPM. Peso Problems. Sample Selectivity. Systematic Risk.

AB Standard asset pricing models have difficulty explaining cross- sectional differences in observed equity risk premia of developed and emerging markets. We argue that national equity returns are subject to sample selectivity and peso biases. The lack of credible commitment to keep capital markets open (risk of expropriation) leads to these biases. We develop a general equilibrium model for systematic risk and sample selectivity. We find that after taking account of the sample selectivity bias, our model of systematic risk can account for the differences in risk premia quite well. We estimate the average expropriation risk to be about two-thirds of the ex-post risk premium for emerging economies and close to zero for developed economies. Further, we argue that the measured selectivity bias in equity premia provide valuable economic information regarding the incentives for sovereigns not to expropriate international investors. We find that the measured expropriation risk is related to reputations in capital markets (as argued in Eaton and Gersowitz, 1981) and to the magnitude of trade that an economy conducts (as argued in Bulow and Rogoff, 1989a, 1989b).

Barelli, Paulo

PD June 2002. TI A Model of Capital Accumulation and Rent-Seeking. AU Barelli, Paulo; de Abreu Pessoa, Samuel. AA Barelli: Columbia University. De Abreu Pessoa: Graduate School of Economics (EPGE), Fundacao Getulio Vargas, Brazil. SR University of Pennsylvania, CARESS Working Paper: 02/06; CARESS, University of Pennsylvania, 3718 Locust Walk, Philadelphia, PA 19104- 6297. Website: www.econ.upenn.edu/Centers/CARESS/. PG 50. PR $3.00 for U.S. and Canada; $5.00 for Foreign; make checks payable to Trustees of the University of Pennsylvania. JE D23, D74, O41, O47. KW Rent-Seeking. Two-Sector Model. Capital Accumulation. Productivity.

AB A simple model incorporating rent-seeking into the standard neoclassical model of capital accumulation is presented. It embodies the idea that the performance of an economy depends on the efficiency of its institutions. It is shown that welfare is positively affected by the institutional efficiency, although output is not necessarily so. It is also shown that an economy with a monopolistic rent-seeker performs better than one with a competitive rent-seeking industry.

Barkume, Anthony J.

AB This paper uses a representative sample of U.S. private industry jobs to study how employee benefits and other pay supplements (bonuses, overtime) differ when traditional incentive pay -- piece rates or sales commissions -- is a part of job earnings. The results are compared to union-nonunion pay differentials in pay supplements. The paper also discusses the role that incentive pay and collective bargaining may play in accommodating differences in worker preferences for hours of work.

Barro, Robert J.

AB In 1997-98, five East Asian countries -- Indonesia, Malaysia, South Korea, the Philippines, and Thailand -- experienced sharp currency and banking crises. The contraction of real GDP was severe in relation to the previous history and in comparison with five East Asian countries that were less affected by the financial crisis. Recoveries in the five crisis countries in 1999-2000 were strong in most cases, but it is unclear whether the pre-crisis growth paths will be reattained. Indications for permanently depressed prospects come from the sharp reductions in investment ratios, which have recovered only slightly, and the lowered stock-market prices. A panel analysis for a broad group of economies shows that a combined currency band banking crisis typically reduces economic growth over a five-year period by 2% per year, compared with 3% per year for the 1997-98 crisis in east Asia. The broader analysis found no evidence that financial crises had effects on growth that persisted beyond a five-year period.

Barry, Frank

AB Many previous studies have shown that the localization of firms can be an important factor in attracting new foreign direct investment into a host country. What has been missing in this literature thus far, however, is an investigation into the reasons why industry clusters attract firms. We distinguish between "efficiency agglomerations" as firms locating close to each other because they can increase their efficiency by doing so, and "demonstration effects," whereby existing firms send signals to new investors as to the reliability of the host country and newly entering firms follow previous firms. In this paper we try to disentangle these two effects, by examining the location of US and UK firms in Ireland. We calculate proxies for "efficiency agglomerations" and "demonstration effects" and include these proxies in an empirical model of the location decision of firms. For US firms, we find that both efficiency agglomeration and demonstration effects are important determinants of entry. For UK firms, however, the evidence is not as clear-cut.

Barsky, Robert

AB This paper notes a potential problem in the method of Blinder and Oaxaca -- the most popular method in the literature for decomposing the mean difference between groups of a given variable into the portion attributable to differences in the distribution of some explanatory variables and differences in the conditional expectation functions. In its conventional application, the Blinder-Oaxaca method requires that a parametric assumption be made about the form of the conditional expectations function. We show that misspecification is likely to result in non-trivial errors in inference regarding the portion attributable to differences in the distribution of explanatory variables. A nonparametric alternative to the Blinder-Oaxaca method is proposed. Rather than specify an arbitrary functional form for the conditional expectations function, the method re-weights the empirical distribution of the outcome variable using weights that equalize the empirical distributions of the explanatory variable. Applying this method to the large black-white gap in net worth, we document a substantial difference in the estimated role of earnings differences between the two methods. Our estimates suggest that differences in earnings account for roughly two-thirds of the overall wealth gap.

Basevi, Giorgio

Stabilization. Spillovers.

AB   This paper studies the welfare implications of the location decisions of innovative newcomers that, though spinning off an industrial district, may choose whether to locate inside or outside its borders. The fear is delocation, that is, the implosion of the district due to the flight of innovative newcomers to distant locations. This negative effect could offset the benefits that the district reaps both in terms of cost reduction through foreign production in low wage countries and in terms of access to new markets. We address these issues by depicting the industrial district as a center of innovation where positive local spillovers sustain the endogenous invention of new goods by profit-seeking firms. After invention firms face a crucial choice between reaching distant markets by export or plant delocation. By focusing on market-seeking rather than cost-reducing location choices, we argue that, by the very nature of the district, the equilibrium distribution of firms is bound to be inefficient from the point of view of the district as a whole. In particular, firms' attempts to circumvent trade barriers through delocation slow down the pace of innovation and harm the welfare of the district.

Bates, David S.

PD   October 2001. TI   The Market for Crash Risk. AA   University of Iowa and NBER. SR   National Bureau of Economic Research Working Paper: 8557; 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   D81, G13. KW   Stock Crashes. Risk Attitudes. Heterogeneity. Option Pricing.

AB   This paper examines the equilibrium when negative stock market jumps (crashes) can occur, and investors have heterogeneous attitudes towards crash risk. The less crash-averse insure the more crash-averse through the options markets that dynamically complete the economy. The resulting equilibrium is compared with various option pricing anomalies reported in the literature: the tendency of stock index options to overpredict volatility and jump risk, the Jackwerth (2000) implicit pricing kernel puzzle, and the stochastic evolution of option prices. The specification of crash aversion is compatible with the static option pricing puzzles, while heterogeneity partially explains the dynamic puzzles. Heterogeneity also magnifies substantially the stock market impact of adverse news about fundamentals.

Battaglini, Marco

PD   October 2001. TI   Self-Control in Peer Groups. AU   Battaglini, Marco; Benabou, Roland; Tirole, Jean. AA   Battaglini and Benabou: Princeton University. Tirole: IDEI, CERAS, and MIT. SR   Princeton University, Woodrow Wilson School Discussion Paper in Economics: 217; Working Paper Coordinator, Woodrow Wilson School, Robertson Hall, Princeton University, Princeton, NJ 08544-1013. Website: www.wws.princeton.edu/~econdp/. PG   35. PR   no charge. JE   C72, D71, D82, D91, J24. KW   Peer Effects. Social Interactions. Self-Control. Willpower. Addiction.

AB   People with a self-control problem often seek relief through social interactions rather than binding commitments. Thus, in self-help groups like Alcoholic 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. More generally, we identify conditions on agents' initial self-confidence, confidence in others, and degree of correlation that uniquely lead to either a "good news" equilibrium where social interactions improve self-discipline, a "bad news equilibrium" where they damage it or to both. We also conduct a welfare analysis to determine when group membership is preferable to, or worse than, isolation.

Bauer, Thomas K.

PD   September 2001. TI   Flexible Wages Systems and the Structure of Wages: Evidence from Matched Employer-Employee Data. AU   Bauer, Thomas K.; Bender, Stefan. AA   Bauer: IZA, Bonn and CEPR. Bender: Institute for Employment Research. SR   CEPR Discussion Paper: 2980; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG   not available. PR   5 pounds, $8 or 8 euros. JE   D23, J31, L22. KW   Employment. Inequality. Organizational Change. Germany. Flexible Workplace. Wages.

AB   A growing theoretical and empirical literature is concerned with the effects of flexible workplace systems or High Performance Work Organizations (HPWOs) on wages. Existing theoretical literature suggests that these forms of organization should lead to higher inequality across firms, increased segregation of labor markets and decreased within-firm inequality. This paper makes use of a new employer-employee-linked data set for Germany to examine the labor market effects of flexible workplace systems. Our results suggest that HPWOs increase both across and within firm inequality. We do not find evidence, however, that HPWOs affect their employment structure.

Baxter, Marianne

PD   June 2001. TI   Social Security as a Financial Asset: Gender-Specific Risks and Returns. AA   Boston University and NBER. SR   National Bureau of Economic Research Working Paper: 8329; 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   G20, H31, H55. KW   Social Security. Gender-Specific Risks. Labor Income.

AB   Social Security is a financial asset whose "purchase" is compulsory for most working individuals; the return during the individual's working lifetime is related to the rate of change of aggregate labor income. If an individual's labor income is strongly related to aggregate labor income, then the Social Security asset is a particularly unattractive asset. In this situation, the individual would benefit from a reformed Social Security system that would permit investment of retirement funds in other financial assets. This paper investigates how this aspect of Social Security risk varies across groups of individuals who differ according to gender; education; race; and age. The main finding is that there are important differences

across groups in this component of Social Security risk, as captured by the sensitivity of individual-level income growth to changes in the SSWI. This element of risk is most important for women, especially women who are young-to-middle ages and with more education. This analysis suggests that women would have more to gain, compared with men, from a reformed Social Security system.

PD July 2001. TI Variable Factor Utilization and International Business Cycles. AU Baxter, Marianne; Farr, Dorsey D. AA Baxter: Boston University and NBER. Farr: University of Virginia. SR National Bureau of Economic Research Working Paper: 8392; 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 E32, F23, F41. KW Business Cycles. International Cycles. Factor Utilization. AB When an economic boom produces high output, employment, and investment in the United States, there is usually a simultaneous boom on other industrialized countries. But, why? Answering this question is a central goal of international macroeconomics. However, multi-country dynamic equilibrium models have struggled with two major problems. The first difficulty is that the productivity shocks required by the model are implausibly large and volatile. Second, these models have difficulty explaining why factor inputs move together so closely across countries: realistic international comovement of business cycles requires implausibly high cross-country correlations of productivity shocks. This paper builds a model in which the utilization rates of capital and labor can be varied in response to shocks. We find that variable factor utilization is quite successful in (i) reducing the required size of productivity shocks; and (ii) increasing international comovement of factor inputs, with most of the improvement stemming from variable capital utilization.

PD September 2001. TI The Effects of Variable Capital Utilization on the Measurement and Properties of Sectoral Productivity: Some International Evidence. AU Baxter, Marianne; Farr, Dorsey D. AA Baxter: Boston University and NBER. Farr: Balentine and Company. SR National Bureau of Economic Research Working Paper: 8475; National Bureau of Economic Research. 1050 Massachusetts Avenue, Cambridge. MA 02138-5398. Website: www.nber.org. PG 14. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE E32, F4, O33. KW Sectoral Productivity. Factor Utilization. AB This paper explores how accounting for variations in factor utilization rates alters the empirical characteristics of productivity residuals in the Untied States and Canada. Using data on 19 manufacturing industries, we study the behavior of productivity using three proxies for capital services. We find that adjusting for cyclical movements in capital utilization alters many of the empirical characteristics of productivity, both within and across countries.

Beaudry, Paul
PD October 2001. TI An Exploration into Pigou's Theory of Cycles. AU Beaudry. Paul; Portier, Franck. AA Beaudry: University of British Columbia. Portier: Universite des Sciences Sociales de Toulouse and GREMAQ. SR CEPR Discussion Paper: 2996; 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 C52, D58, E32. KW Business Cycles. Expectations. Recessions. Technological Progress. AB This paper proposes a model of business cycles in which recessions and booms arise as the result of difficulties encountered by agents in properly forecasting the economy's future needs in terms of capital. The idea has a long history in the macroeconomic literature, as reflected by the work of Pigou [1926]. The contribution of this paper is twofold. First, we illustrate the type of general equilibrium structure that can give rise to such phenomena. Second, we examine the extent to which such a model can explain the observed pattern of US recessions (frequency, depth) without relying on technological regress. We argue that such a model may offer an explanation as to why recession appears to be driven by declines in aggregate demand even in the absence of any significant price rigidities, and may also help understand elements of the recent downturns in Asia.

Bebchuk, Lucian Arye
PD August 2001. TI Ex Ante Costs of Violating Absolute Priority in Bankruptcy. AA Harvard University and CEPR. SR CEPR Discussion Paper: 2914; 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 G33, K22. KW Absolute Priority. Asset Dilution. Bankruptcy. Chapter 11. Claim Dilution. 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 October 2001. TI Federal Intervention to Enhance Shareholder Choice. AU Bebchuk. Lucian Arye; Ferrell. Allen. AA Bebchuk: Harvard Law School and NBER. Ferrell: Harvard Law School. SR CEPR Discussion Paper: 3006; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road. London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE G30, H70, K22. KW Federal Takeover. Regulatory Competition. Shareholder. State Takeover. Takeover Law. AB In a recent article, we have put forward a new approach to takeover law and regulatory competition. We proposed a "choice-enhancing" federal intervention that would provide: (i) an optional body of substantive federal takeover law which shareholders would be able to opt into (or out of) and which would be more hospitable than existing state takeover law, and (ii) a mandatory process rule that would provide shareholders the right to initiate and adopt, regardless of managers' wishes, proposals for option into (or out of) the federal takeover law. In this paper, we respond to critics of our proposal, and we further develop the case for it.

Beegle, Kathleen

TI Health, Family Planning and Well-Being in Indonesia During an Economic Crisis: Early Results From the Indonesian Family Life Survey. AU Frankenberg, Elizabeth; Beegle, Kathleen; Sikoki, Bondan; Thomas, Duncan.

PD May 1999. TI Measuring Change in Indonesia. AU Beegle, Kathleen; Frankenberg, Elizabeth; Thomas, Duncan. AA Beegle and Frankenberg: RAND Corporation. Thomas: RAND Corporation and UCLA. SR RAND Corporation Report: DRU/2014/WB/NIH; Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. PG 82. PR not available. JE D10, I20, I30, O53. KW Indonesia. Economic Crisis. Welfare. Family Life Survey.

AB Indonesia has experienced vast changes in both the economic and political environment during 1998. Few Indonesians have remained untouched by the events of the year, but the effects of the economic crisis on welfare vary by region and across socio-economic and demographic groups. This study has sought to provide information on those topics, based on data from the Indonesia Family Life Survey (IFLS). For the purpose of understanding how the economic crisis has affected welfare, the paper compares the responses of individuals interviewed in the second half of 1997 to responses obtained through reinterviews with those same individuals in the second half of 1998. This study presents information on changes in a number of dimensions of family and individual well-being: these include expenditure patterns, education, employment, migration, and uptake of food assistance programs. By looking across a range of indicators of well-being, the results show that the effects of crisis are heterogeneous and that households have responded in many different ways.

Beetsma, Roel

PD June 2001. TI Structural Distortions and Decentralized Fiscal Policies in EMU. AU Beetsma, Roel; Bovenberg, A. Lans. AA Beetsma: Universiteit van Amsterdam and CEPR. Bovenberg: Tilburg University. SR CEPR Discussion Paper: 2851; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE E52, E58, E61, E62. KW Debt Targets. Decentralized Fiscal Policy. Discretionary Monetary Policy. Inflation Targets. EMU.

AB The combination of discretionary monetary policy, labor-market distortions and nominal wage rigidity yields an inflation bias as monetary policy tries to exploit nominal wage contracts to address labor-market distortions. Although an inflation target eliminates this inflation bias, it creates a conflict between monetary policy and discretionary fiscal policy if fiscal policy is set at a higher frequency than nominal wages are. To avoid the associated excessive accumulation of public debt, ceilings on public debt are called for. If countries differ substantially in terms of structural distortions or economic shocks, country-specific debt targets must complement uniform debt ceilings in order to prevent decentralized fiscal authorities from employing debt policy strategically.

PD October 2001. TI Is Fiscal Policy Coordination in EMU Desirable? AU Beetsma, Roel; Debrun, Xavier; Klaassen, Franc. AA Beetsma: University of Amsterdam,

CESifo, and CEPR. Debrun: IMF and Graduate Institute of International Studies. Klaassen: University of Amsterdam. SR CEPR Discussion Paper: 3035; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE E52, E58, E61, E62, E63. KW Demand Management. EMU. Fiscal Coordination. Shocks. ECB.

AB It is widely argued that Europe's unified monetary policy calls for international coordination at the fiscal level. We survey the issues involved with such coordination of fiscal policy as a demand management tool and we use a simple model to investigate the circumstances under which coordination may be desirable. It turns out that coordination is beneficial when the correlation of the shocks hitting the various economies is low. Given the potentially adverse reaction by the European Central Bank (ECB) (as a result of free-riding and/or a conflict on the orientation of the policy mix), fiscal coordination is likely to be counterproductive when demand or supply shocks are highly symmetric across countries and governments are unable to acquire a strategic leadership position vis-a-vis the ECB. Generally, the scope for fiscal coordination is larger under asymmetric shocks, because the ECB remains passive as average inflation in the union is unaffected. This result contrasts with the more widely held view that the case for international fiscal coordination is strongest under common shocks.

Benabou, Roland

PD August 2000. TI Mobility as Progressivity: Ranking Income Processes According to Equality of Opportunity. AU Benabou, Roland; Ok, Efe A. AA Benabou: Princeton University. Ok: New York University. SR Princeton University, Woodrow Wilson School Discussion Paper in Economics: 211; Working Paper Coordinator, Woodrow Wilson School, Robertson Hall, Princeton University; Princeton, NJ 08544-1013. Website: www.wws.princeton.edu/~econdp/. PG 19. PR no charge. JE D31, D63, H20, J62. KW Social Mobility. Income Distribution. Inequality. Equality of Opportunity. Progressive Taxation.

AB Interest in economic mobility stems largely from its perceived role as an equalizer of opportunities, though not necessarily of outcomes. In this paper, we show that this view leads very naturally to a methodology for the measurement of social mobility, which has strong parallels with the theory of progressive taxation. We characterize opportunity-equalizing mobility processes, and provide simple criteria to determine when one process is more equalizing than another. We then explain how this mobility ordering relates to social welfare analysis, and how it differs from existing ones. We also extend standard indices to tax progressivity to mobility processes, and illustrate our general methodology on intra- and inter-generational mobility data from the United States and Italy.

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

PD November 2001. TI Willpower and Personal Rules. AU Benabou, Roland; Tirole, Jean. AA Benabou: Princeton University. Tirole: IDEI, GREMAQ, CERAS, and MIT. SR Princeton University, Woodrow Wilson School Discussion Paper in Economics: 216; Working Paper Coordinator, Woodrow Wilson School, Robertson Hall, Princeton University, Princeton, NJ 08544-1013. Website:

www.wws.princeton.edu/~econdp/. **PG** 40. **PR** no charge. **JE** A12, C70, D91, J22, J24. **KW** Self-Control. Willpower. Memory. Time Inconsistency. Psychology and Economics.

AB Much of the literature on time inconsistency has studied the external commitment devices that individuals use to address their self-control problems. This paper, by contrast, focuses on internal commitment mechanisms or personal rules (diets, exercise regiments, resolutions, moral or religious precepts, etc.) through which people attempt to achieve self-discipline. Our theory is based on the idea of self-reputation over one's willpower as a mechanism that transforms lapses in a personal rule into precedents that undermine future self-restraint. The foundation for such self-reputational effects, in turn, is the imperfect recall of past motives and feelings, which leads people to infer revealed preferences from their own past actions. We thus model the behavior of individuals who are unsure of their willpower, and characterize feasible rules as self-reputational equilibria where impulses for immediate gratification are held in check by the fear of "losing faith in oneself." We then examine how equilibrium conduct reflects the extent to which the individual's self-monitoring is subject to opportunistic distortions of memory or inference. We also study how one can influence the set of sustainable behaviors by using certain cognitive strategies.

Bender, Stefan

TI Flexible Wages Systems and the Structure of Wages: Evidence from Matched Employer-Employee Data. **AU** Bauer, Thomas K.; Bender, Stefan.

Benigno, Pierpaolo

PD June 2001. **TI** Price Stability with Imperfect Financial Integration. **AA** New York University and CEPR. **SR** CEPR Discussion Paper: 2854; 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** E58, F41. **KW** Incomplete Markets. Optimal Monetary Policy. Price Stability. Financial Integration.

AB This paper evaluates the welfare implications of policy rules when international financial markets are incomplete Using a two-country dynamic general equilibrium model with incomplete markets, price stickiness and monopolistic competition, one finds that an allocation in which the producer inflation rates in both countries are stabilized to zero reproduces the flexible-price allocation. This allocation, however, is sub-optimal with deadweight losses evaluated at around 0.05 percent of a permanent shift in steady-state consumption. A state-contingent producer inflation policy is the feasible first best. The gains from pursuing this policy instead of price stability are, however, small in terms of reduction in the deadweight losses. Therefore, under incomplete markets, price stability is a good approximation of the feasible first best policy.

Bennett, Robert

PD September 2001. **TI** Changing Use of External Business Advice and Government Supports by SMEs in the 1990's. **AU** Bennett, Robert; Robson, Paul. **AA** Bennett: University of Cambridge. Robson: University of Aberdeen. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP210; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 31. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** L50, L80, M13. **KW** Small Businesses. Business Advice. Consultancy.

AB This paper uses cross-sectional surveys of 1991 and 1997, and a panel survey of firms surviving between 1991 and 1997, to compare the levels of use by SMEs of external business advice. The analysis demonstrates only modest changes over time in aggregate use, and these are not statistically significant. This suggests that earlier growth in external business advice services may now have plateaued. Sector differences are shown to be considerable and need to be taken account of in future analysis.

Benveniste, Lawrence M.

PD October 2001. **TI** Evidence of Information Spillovers in the Production of Investment Banking Services. **AU** Benveniste, Lawrence M.; Ljungqvist, Alexander P.; Wilhelm, William J., Jr.; Yu, Xiaoyun. **AA** Benveniste: University of Minnesota. Ljungqvist: New York University, CEPR, and European Corporate Governance Institute. Wilhelm: University of Oxford and University of Virginia. Yu: University of Minnesota and University Bloomington. **SR** CEPR Discussion Paper: 2988; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** G24, G32. **KW** Information Externalities. Initial Public Offerings. Investment Banking.

AB We present evidence that firms attempting IPOs learn from the experience of their contemporaries. These information spillovers affect revisions in offer terms and the decision whether to carry through with an offering. The evidence also supports the argument that IPOs are implicitly bundled as a means of promoting more equitable sharing of information production costs. One apparent consequence of this behavior is that while initial returns and IPO volume are positively correlated in the aggregate, the correlation is negative among contemporaneous offerings subject to a common valuation factor. These findings are consistent with the Benveniste, Busaba, and Wilhelm (2001) argument that the dynamics of volume and initial returns in primary equity markets reflect, at least in part, an institutional response to information externalities.

Benzoni, Luca

TI An Empirical Investigation of Continuous-Time Equity Return Models. **AU** Andersen, Torben G.; Benzoni, Luca; Lund, Jesper.

Bergemann, Dirk

PD October 2001. **TI** Information Structures in Optimal Auctions. **AU** Bergemann, Dirk; Pesendorfer, Martin. **AA** Bergemann: Yale University. Pesendorfer: London School of Economics. **SR** CEPR Discussion Paper: 2991; 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** C72, D44, D82, D83. **KW** Information Structures. Optimal Auction. Partitions. Private Values.

AB A seller wishes to sell an object to one of multiple bidders. The valuations of the bidders are privately known. We

consider the joint design problem in which the seller can decide the accuracy by which bidders learn their valuation and to whom to sell at what price. We establish that optimal information structures in an optimal auction exhibit a number of properties: (i) information structures can be represented by monotone partitions; (ii) the cardinality of each partition is finite; (iii) the partitions are asymmetric across agents. These properties imply that the optimal selling strategy of a seller can be implemented by a sequence of exclusive take-it or leave-it offers.

Berger, Allen N.

PD May 2002. **TI** To What Extent Will the Banking Industry be Globalized? A Study of Bank Nationality and Reach in 20 European Nations. **AU** Berger, Allen N.; Dai, Qinglei; Ongena, Steven; Smith, David C. **AA** Berger and Smith: Federal Reserve Board. Dai: Norwegian School of Management. Ongena: Tilburg University. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 725; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 37. **PR** no charge. **JE** G15, G21, G28, G34. **KW** Bank. Globalization. Europe. Mergers.
AB We model two dimensions of bank globalization -- bank nationality (a bank from the firm's host nation, its home nation, or a third nation) and bank reach (a global, regional, or local bank) -- using a two-stage nested multinomial logit model. Our data set includes over 2,000 foreign affiliates of multinational corporations operating in 20 European nations. We find that these firms frequently use host nation banks for cash management services, and that bank reach may be strongly influenced by this choice of bank nationality. Our results suggest limits to the degree of future bank globalization.

Berger, Brett D.

PD November 2001. **TI** Convergence in Neoclassical Vintage Capital Growth Models. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 713; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 51. **PR** no charge. **JE** C61, E22, O33, O41. **KW** Productivity. Technology. Growth Models. Vintage Capital.
AB Most growth models assume capital is homogeneous. This contradicts intuition and empirical evidence that the majority of technology is embodied in the capital stock. Classic papers from the late 1950's and 1960's show that non-optimization models display the same asymptotic growth rates whether technology is embodied (vintage capital) or disembodied. This paper uses new numerical optimization techniques to solve for the entire time paths of the key economic variables for optimization versions of the three main types of vintage capital models. The conclusion is that although steady state growth rates may be the same, the transition paths, especially as characterized by convergence rates, vary greatly between the vintage and non-vintage capital models.

PD December 2001. **TI** Putty-Putty, Two Sector, Vintage Capital Growth Models. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 716; Secretary,

International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 40. **PR** no charge. **JE** E22, O33, O41. **KW** Productivity. Technology. Vintage Capital. Growth Models.
AB Most growth models assume capital is homogeneous with regard to technology. This contradicts intuition and empirical evidence that the majority of technology is embodied in the capital stock. Berger (2001) showed that neoclassical vintage capital (embodied technology) and non- vintage capital (disembodied technology) models have different convergence rates, although identical steady state growth rates. Removing the neoclassical assumption that technological growth is exogenous, this paper examines two-sector, putty-putty, vintage capital models. Technological growth is tied to investment in the research sector. Savings rates and the allocation of labor differ between the vintage and non-vintage cases. It is shown for the first time that vintage and non-vintage versions of a model can have different steady state growth rates.

Bergoeing, Raphael

PD October 2001. **TI** A Decade Lost and Found: Mexico and Chile in the 1980s. **AU** Bergoeing, Raphael; Kehoe, Patrick J.; Kehoe, Timothy J.; Soto, Raimundo. **AA** Bergoeing: Universidad de Chile. Kehoe, P.: Federal Reserve Bank of Minneapolis, University of Minnesota, and NBER. Kehoe, T.: University of Minnesota and Federal Reserve Bank of Minneapolis. Soto: Pontificia Universidad Catolica de Chile and Banco Central de Chile. **SR** National Bureau of Economic Research Working Paper: 8520; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** E32, N16, O40. **KW** Chile. Mexico. Economic Crises. Growth. Policy Reforms.
AB Chile and Mexico experienced severe economic crises in the early 1980s. This paper analyzes four possible explanations for why Chile recovered much faster than did Mexico. Comparing data from the two countries allows us to rule out a monetarist explanation, an explanation based on falls in real wages and real exchange rates, and a debt overhang explanation. Using growth accounting, a calibrated growth model, and economic theory, we conclude that the crucial difference between the two countries was the earlier policy reforms in Chile that generated faster productivity growth. The most crucial of these reforms were in banking and bankruptcy procedures.

Berlin, Mitchell

PD December 2002. **TI** Collateral and Competition. **AU** Berlin, Mitchell; Butler, Alexander W. **AA** Berlin: Federal Reserve Bank of Philadelphia. Butler: Rice University. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 02/22; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. **PG** 29. **PR** no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** D24, D82, L14. **KW** Loan Market. Competition. Contractual Renegotiation. Optimal Contracts.
AB We examine the effects of changes in competitive conditions on the structure of loan contracts. In particular, we

·present conditions in which greater loan market competition reduces the stringency of contractual collateral requirements, a prediction that is consistent with anecdotal evidence from loan markets. We also analyze the interaction between the degree of competition and the efficiency of contractual renegotiation. Insufficiently competitive markets may lead to bargaining difficulties that reduce the efficiency of renegotiable contracts. At low levels of competition negotiable contracts remain feasible only if collateral levels are inefficiently low.

Bernard, Andrew B.

PD June 2001. **TI** Who Dies? International Trade, Market Structure, and Industrial Restructuring. **AU** Bernard, Andrew B.; Jensen, J. Bradford. **AA** Bernard: Dartmouth College and NBER. Jensen: University of Maryland. **SR** National Bureau of Economic Research Working Paper: 8327; National Bureau of Economic Research, 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 the U.S.). **JE** F11, L16, L60. **KW** International Trade. Factor Endowments. Industry Growth. Entry.
AB This paper examines the role of changing factor endowments in the growth and decline of industries and regions. The implications of an endowment-based Heckscher-Ohlin trade model for plant entry and exit are tested on 20 years of data for the entire US manufacturing sector. The trade model provides predictions for which industries will see growth through the positive net entry of plants. A multi-region version of the same model has predictions for which regions will see high turnover and net entry of plants In a country such as the U.S. that is augmenting both its physical and human capital, the least capital- intensive, least skill-intensive industries are correctly predicted to have the lowest rate of net entry. In addition, increases in regional capital and skill intensity are associated with higher probabilities of shutdown, especially for plants in industries with low initial capital and skill intensities.

Bernheim, B. Douglas

PD June 2001. **TI** Do Estate and Gift Taxes Affect the Timing of Private Transfers? **AU** Bernheim, B. Douglas; Scholz, John Karl; Lemke, Robert J. **AA** Berheim: Stanford University and NBER. Scholz: University of Wisconsin-Madison and NBER. Lemke: Florida International University. **SR** National Bureau of Economic Research Working Paper: 8333; National Bureau of Economic Research, 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 the U.S.). **JE** H20. **KW** Estate Tax. Private Transfers. Gift Taxation. Bequests.
AB Proposals to alter the estate tax are contentious and have been debated largely in an empirical vacuum. This paper examines time series and cross-sectional variation to identify the effects of gift and estate taxation on the timing of private transfers. The analysis is based on data from the 1989, 1992, 1995, and 1998 waves of the Surveys of Consumer Finances. Legislative activity during this period reduced the tax disadvantage of bequests relative to gifts. Moreover, the magnitude of this reduction differed systematically across identifiable - household categories. We find that households experiencing larger declines in the expected tax disadvantages of bequests substantially reduced inter vivos transfers relative to households experiencing small decline in the tax

disadvantages of bequests. This implies that the timing of transfers is highly responsive to applicable gift and estate tax rates. These conclusions are based both on comparisons of the probability of giving across different time period and groups, and on empirical specifications that control for a variety of potentially confounding factors. The results also provide evidence of a systematic bequest motive for some high-wealth households.

PD October 2001. **TI** The Mismatch Between Life Insurance Holdings and Financial Vulnerabilities: Evidence from the Survey of Consumer Finances. **AU** Bernheim, B. Douglas; Carman, Katherine Grace; Gokhale, Jagadeesh; Kotlikoff, Laurence J. **AA** Bernheim: Stanford University and NBER. Carman: Stanford University. Gokhale: Federal Reserve Bank of Cleveland. Kotlikoff: Boston University and NBER. **SR** National Bureau of Economic Research Working Paper: 8544; 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** D12, G22, I12. **KW** Death. Life Insurance. Life-Cycle Model.
·**AB** Using the 1995 Survey of Consumer Finances an elaborate life-cycle model, we quantify the potential financial impact of each individual's death on his.or her survivors, and we measure the degree to which life insurance moderates these consequences. Life insurance is essentially uncorrelated with financial vulnerability at every stage of the life cycle. As a result, the impact of insurance among at-risk households is modest, and substantial uninsured vulnerabilities are widespread, particularly among younger couples. Roughly two-thirds of poverty among surviving women and more than one-third of poverty among surviving men results from a failure to insure survivors against an undiminished living standard. We also identify a systematic gender bias: for any given level of financial vulnerability, couples provide significantly more protection for wives than for husbands.

Bertaut, Carol C.

PD April 2002. **TI** Equity Prices, Household Wealth, and Consumption Growth in Foreign Industrial Countries: Wealth Effects in the 1990s. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 724; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 43. **PR** no charge. **JE** D10, E21. **KW** Equity Prices. Wealth. Consumption.
AB Although recent empirical research regarding the size and significance of the impact of changes in wealth on consumption has looked for such effects in the US, equity prices in the 1990s rose considerably in most other industrial countries as well. This paper investigates the strength of the wealth effect across countries. The paper finds evidence of significant wealth effects in the UK and Canada of a size comparable to that in the US, reflecting the importance of equities in aggregate household wealth in these countries. A significant wealth effect is also evident in Japan, but because household wealth has changed little on balance in Japan in recent years, this channel has been less important in explaining Japanese consumption growth in the second half of the 1990s. Despite a rapid appreciation in equity prices and an increase in equity ownership in the major continental European countries since 1995, equities remain a less important form of household

wealth, and the consumption response to changes in wealth remains limited. However, in some smaller European countries where equity issuance is more common, wealth effects may be more important.

Bertola, Giuseppe

AB We analyze a 1960-96 panel of OECD countries to explain why the US moved from relatively high to relatively low unemployment over the last three decades. We find that while macroeconomic and demographic shocks and changing labor market institutions explain a modest portion of this change, the interaction of these shocks and labor market institutions is the most important factor explaining the shift in US relative unemployment. Our finding of the central importance of these interactions is consistent with Blanchard and Wolfers (2000). We also show that, controlling for country- and time-specific effects, high employment is associated with low wage levels and high levels of wage inequality. These findings suggest that US relative unemployment has fallen in recent years in part because its more flexible labor market institutions allow shocks to affect real and relative wages to a greater degree than is true in other countries relative to the US since the 1970s, with much smaller differences in outcomes among the prime- aged. In the late 1990s, the US had lower unemployment than our models predict, suggesting exceptionally favorable recent US experience.

AB We analyze a 1960-96 panel of Organization for Economic Co-operation and Development (OECD) countries to explain why the United States has moved from relatively high to relatively low unemployment over the last three decades. We find that while macroeconomic and demographic shocks and changing labor-market institutions explain a modest portion of this change, the interaction of these shocks and labor market institutions is the most important factor explaining the shift in US relative unemployment. Our finding of the central importance of these interactions is consistent with Blanchard and Wolfers (2000). We also show that, controlling for country- and time-specific effects, high employment is associated with low wage levels and high levels of wage inequality. These findings suggest that US relative unemployment has fallen in recent years in part because its more flexible labor market institutions allow shocks to affect real and relative wages to a greater degree than is true in other countries. Disaggregating, we find that the employment of both younger and older people fell sharply in other countries relative to the United States since the 1970s, with much smaller differences in outcomes among the prime-aged.

Besley, Timothy

AB The role of citizens' initiatives figures prominantly in contemporary debates on constitutional change. A basic question is why are initiatives necessary in a representative democracy where candidates must already compete for the right to control policy? This paper offers one answer to this question. In a representative democracy, the bundling of issues, together with the fact that citizens have only one vote, means that policy outcomes on specific issues may diverge far from what the majority of citizens want. In such circumstances, allowing citizens to put legislation directly on the ballot permits the "unbundling" of these issues, which forces a closer relationship between policy outcomes and popular preferences. To the extent that it is considered socially undesirable for outcomes on specific issues to stray too far from what the majority wants, this creates a role for citizens' initiatives.

Bhattacharjee, Arnab

AB Using data over a 34-year span on United Kingdom (UK) quoted firms, this paper seeks to identify the factors that increase the likelihood of exit of firms. Firms may disappear through the mutually precluding events of bankruptcies and acquisitions. We use a competing-risks hazard model to determine characteristics leading to each outcome. Hazard models make use of the data on timing of these alternative outcomes and we exploit this to focus attention on how the hazards change over the business cycles, conditional on the post-listing age of the firm. We find that the volatility in macro environment has a role in determining, in different ways, the hazard of firms going bankrupt or being acquired.

PD August 2002. TI Testing Proportionality in Duration Models with Respect to Continuous Covariates. AU Bhattacharjee, Arnab; Das, Samarjit. AA Bhattacharjee: University of Cambridge. Das: Reserve Bank of India. SR University of Cambridge, DAE Working Paper: 0220; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 22. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE C12, C14, C41. KW Proportional Hazards. Hazards Ratio. Ordered Alternatives. Sieve Estimators. Strike Durations.

AB Several omnibus tests of the proportional hazards assumption have been proposed in the literature. In the two-sample case, tests have also been developed against non-parametrically specified ordered alternatives. This paper considers a natural extension of such monotone ordering to the case of continuous covariates, and develops tests for the proportional hazards assumption against such ordered alternatives. Small sample properties of the tests are explored. The use of the test statistics, and use of histogram sieve estimators in the case where proportionality does not hold, are illustrated with application to data on strike durations.

Biggs, Michael

PD April 2001. TI Positive Feedback in Collective Mobilization: The American Strike Wave of 1886. AA University of Oxford. SR University of Oxford, Discussion Papers in Economic and Social History: 40; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. PG 29. PR no charge. JE D74, J51, J52, N31. KW Strikes. Collective Mobilization. Trade Unions.

AB Formal models prove the possibility of positive feedback in collective action: the metaphors of historically minded observers convey the same insight. It is still neglected in the literature on social movements, which emphasizes exogenous factors -- above all, political opportunities -- rather than endogenous processes. This paper draws on an intensive investigation of strikes for the eight-hour day in Chicago in May 1886. It demonstrates that changes in economic and political circumstances cannot explain the magnitude of the strike wave. More importantly, it provides evidence for positive feedback in collective mobilization, showing how optimistic expectations percolated through the working class in the spring of 1886. As each new group of workers became hopeful enough to organize, the fact of their organization inspired other groups to follow suit. New hopes gave rise to new organization; new organization became evidence that such hopes were justified.

Billah, Baki

PD August 2001. TI Unmasking the Theta Method. AU Billah, Baki: Hyndman, Rob J. AA Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 05/2001; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG 5. PR no charge. JE C22, C53. KW Exponential Smoothing. Forecasting Competitions. State Space Models.

AB The "Theta method" of forecasting performed particularly well in the M3-competition and is therefore of interest to forecast practitioners. The description of the method

given by Assimakopoulos and Nikolopoulos (2000) involves several pages of algebraic manipulation and is difficult to comprehend. We show that the method can be expressed much more simply; furthermore we show that the forecasts obtained are equivalent to simple exponential smoothing with drift.

PD August 2002. TI Local Linear Forecasts using Cubic Smoothing Splines. AU Billah, Baki; Hyndman, Rob J.; King, Maxwell L.; Pitrun, Ivet. AA Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 10/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG 15. PR no charge. JE C13, C14, C22, C53. KW ARIMA Models. Exponential Smoothing. Holt's Forecasts. Local Linear. Maximum Likelihood. Nonparametric Regression. Smoothing Splines. State Space Model. Stochastic Trends.

AB We show how cubic smoothing splines fitted to univariate time series data can be used to obtain local linear forecasts. Our approach is based on a stochastic state space model which allows the use of a likelihood approach for estimating the smoothing parameter, and which enables easy construction of prediction intervals. We show that our model is a special case of an ARIMA (0,2,2) model and we provide a simple upper bound for the smoothing parameter to ensure an invertible model. We also show that the spline model is not a special case of Holt's local linear trend method. Finally we compare the spline forecasts with Holt's forecasts and those obtained from the full ARIMA (0,2,2) model, showing that the restricted parameter space does not impair forecast performance.

Black, William E.

TI Does Drinking Really Decrease in Bad Times? AU Ruhm, Christopher J.; Black, William E.

Blau, Francine D.

TI Comparative Analysis of Labor Market Outcomes: Lessons for the US from International Long-Run Evidence. AU Bertola, Giuseppe; Kahn, Lawrence M.; Blau, Francine D.

TI Comparative Analysis of Labor Market Outcomes: Lessons for the US from International Long-Run Evidence. AU Bertola, Giuseppe; Blau, Francine D.; Kahn, Lawrence M.

Bloise, Gaetano

PD August 2001. TI Risk and Intermediation in a Dual Financial Market Model. AU Bloise, Gaetano; Reichlin, Pietro. AA Bloise: Universite Catholique de Louvain. Reichlin: Universita di Roma La Sapienza. SR CEPR Discussion Paper: 2909; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE D81, G21. O17. KW Financial Intermediation. Moral Hazard.

AB This paper investigates the relationship between risk and productive activity and the degree of financial intermediation in a model with moral hazard. Entreprenuers can simultaneously get credit from two types of competing institutions: "financial intermediaries" and "local lenders." The former are competitive firms with a comparative advantage in diversifying credit risks.

and the latter have superior information about the investment returns of a "nearby" entrepreneur. This information advantage allows local lenders to save on intermediation costs that are otherwise related to lending activity. By diversifying risks, financial intermediaries are able to offer a safe asset to local lenders and, because of intermediation costs, the latter are willing to diversify their portfolio by offering some direct lending to the nearby entrepreneur (incomplete insurance). We show that, in some cases, a fall in intermediation costs, by inducing local lenders to choose a safer portfolio, reduces entrepreneurs' effort and increases the probability of default.

Blonigen, Bruce A.

PD July 2001. **TI** Antidumping. **AU** Blonigen, Bruce A.; Prusa, Thomas J. **AA** Blonigen: University of Oregon and NBER. Prusa: Rutgers University and NBER. **SR** National Bureau of Economic Research Working Paper: 8398; 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** F13, F15. **KW** Trade Policy. Antidumping Policy. Protection. Import Competition.

AB We review the growing literature on the effects of antidumping, a trade policy that has emerged as the most serious impediment to international trade. Over the past 25 years countries have increasingly turned to antidumping in order to offer protection to import-competing industries. Antidumping is a trade policy where the institutional process surrounding the investigation and determinations has significant impacts beyond the antidumping duty we observe, and where the filing decision, the legal determination, and the protective impact are all endogenous with firms' decisions in the market, leading to a wealth of potential strategic actions and distorted market outcomes. This theme underlies our discussion as we review the literature in three broad areas connected with different phases of the antidumping trade policy process: 1) pre-investigation, 2) investigation, and 3) post-investigation.

PD September 2001. **TI** Dynamic Pricing in the Presence of Antidumping Policy: Theory and Evidence. **AU** Blonigen, Bruce A.; Park, Jee-Hyeong. **AA** Blonigen: University of Oregon and NBER. Park: Wayne State University. **SR** National Bureau of Economic Research Working Paper: 8477; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 32. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** F13, L11. **KW** Antidumping. Dynamic Pricing. Protection.

AB Antidumping (AD) duties are calculated as the difference between the foreign firm's product price in the export market and some definition of "normal" or "fair" value, often the foreign firm's product price in its own market. This appear examines the resulting dynamic pricing problem of a foreign firm that facts such an AD trade protection policy in its export market. When AD duties are certain for any dumping that occurs, we obtain the surprising result that dumping and AD duties should increase over time toward a stationary equilibrium value. Adding uncertainties prevalent in AD enforcement into our analysis changes these conclusions substantially and leads to more realistic testable implications. Firms with ex ante expectations that the probability of AD enforcement is low will decrease their dumping and AD duties over time in the administrative review process once they face

AD duties. Using detailed data from U.S. AD investigations filed from 1980-1995, we find evidence consistent with these hypotheses stemming from our analysis with uncertain AD enforcement and provide empirical evidence consistent with James Anderson's domino dumping hypothesis.

Blume, Andreas

PD February 2002. **TI** Learning from Failure. **AU** Blume, Andreas; Franco, April. **AA** Blume: University of Pittsburgh. Franco: Federal Reserve Bank of Minneapolis and University of Iowa. **SR** Federal Reserve Bank of Minneapolis Staff Report: 299; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 27. **PR** no charge. **JE** C72, D21. **KW** Game Theory. Decentralized Learning. Organizations.

AB We study decentralized learning in organizations. Decentralization is captured through a symmetry constraint on agents' strategies. Among such attainable strategies, we solve for optimal and equilibrium strategies. We model the organization as a repeated game with imperfectly observable actions. A fixed but unknown subset of action profiles are successes and all other action profiles are failures. The game is played until either there is a success or the time horizon is reached. For any time horizon, including infinity, we demonstrate existence of optimal attainable strategies and show that they are Nash equilibria. For some time horizons, we can solve explicitly for the optimal attainable strategies and show uniqueness. The solution connects the learning behavior of agents to the fundamentals that characterize the organization: Agents in the organization respond more slowly to failure as the future becomes more important, the size of the organization increases and the probability of success decreases.

Blundell, Richard

PD October 2001. **TI** Has "In-Work" Benefit Reform Helped the Labour Market? **AU** Blundell, Richard; Hoynes, Hilary W. **AA** Blundell: University College London. Hoynes: University of California, Davis and NBER. **SR** National Bureau of Economic Research Working Paper: 8546; 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** H24, I38, J22. **KW** Labor Market. United Kingdom. In-Work Benefits. Labor Supply.

AB The aim of this paper is to examine the labor market impact of in- work benefit reform in the UK. Evidence is drawn from the impact of earlier reforms in the UK and similar reforms in the US. We focus on the impact on labor supply -- employment and hours of work. In the US a large proportion of the dramatic increase in participation among low educated single parents in the 1990s has been attributed to the increased generosity of the Earned Income Tax Credit. The impact of apparently similar reforms in the UK appears to have been smaller. We argue that these differences can be attributed to four factors: the impact of interactions with other means tested benefits in the UK; the importance of workless couples with children in the UK, who make up nearly 50% of the recipients in the UK; the level of income support given to non-working parents; and the strength of the economic upturn in the US during the 1990s.

Boersch-Supan, Axel H.

AB Throughout the world, population aging is a major challenge that will continue well into the 21st century. While the patterns of the demographic transition are similar in most countries, timing differs substantially, in particular between industrialized and less developed countries. To the extent that capital is internationally mobile, population aging will therefore induce capital flows between countries. In order to quantify these international capital flows, we employ a multi-country overlapping generations model and combine it with long-term demographic projections for several world regions over a 50 year horizon. Our simulations suggest that capital flows from fast-aging industrial countries (such as Germany and Italy) to the rest of world will be substantial. Closed-economy models of pension reform are likely to miss quantitatively important effects of international capital mobility.

AB Population aging is just beginning to hit the industrialized countries in full force, and it will have a tremendous impact on capital markets. In this paper, we argue that the capital market effects of population aging are particularly strong in continental European economies such as Germany, France, and Italy, with their large and ailing pay-as-you-go public pension systems, relatively thin capital markets, and poor capital performance. The younger generations in these countries are quite aware of the need to provide for more retirement income through own private saving, and these effects will be accentuated by fundamental pension reforms that aim at more pre-funding. Population aging changes households' savings behavior and portfolio composition, and many more assets will be invested on the stock market. Capital markets will grow in size, and active institutional investors such as pension funds will become more important in continental European countries. These changes are likely to have beneficial side effects in terms of improved capital efficiency, total factor productivity, and growth. Looking at the effects of population aging on savings behavior and capital markets therefore adds a new dimension to the continuing debate about advantages and disadvantages of pay-as-you-go and fully funded pension systems.

Boldrin, Michele

AB We study a simple model of factor saving technological innovation in a concave framework. Capital can be used either to reproduce itself or, at additional cost, to produce a higher quality of capital that requires less labor input. In higher quality capital can be produced quickly, we get a model of exogenous balanced growth as a special case. If, however, higher quality capital can be produced slowly, we get a model of endogenous growth in which the growth rate of the economy and the rate of adoption of new technologies are determined by preferences, technology, and initial conditions. Moreover, in the latter case, the process of growth is necessarily uneven, exhibiting a natural cycle with alternating periods of high and low growth. Growth paths and technological innovations also exhibit dependence upon initial conditions. The model provides a step toward a theory of endogenous innovation under conditions of perfect competition.

AB We construct a competitive model of innovation and growth under constant returns to scale. Previous models of growth under constant returns cannot model technological innovation. Current models of endogenous innovation rely on the interplay between increasing returns and monopolistic markets. In fact, established wisdom claims monopoly power to be instrumental for innovation and sees the non-rivalrous nature of ideas as a natural conduit to increasing returns. The results here challenge the positive description of previous models and the normative conclusion that monopoly through copyright and patent is socially beneficial.

Bolotin, Arkady

Bonaglia, Federico

euros. **JE** D72, D73, F15, K42. **KW** Corruption. Globalization. Governance. International Trade.

AB Globalization, governance and economic performance affect each other in very complex mutual relationships. In this paper, we establish a clear and well-circumscribed hypothesis: "Is there an effect of globalization on governance?" To test this hypothesis or, even more specifically, to test how openness can affect the quality of domestic institutions, we survey available theoretical explanations of causal relationships between globalization and governance. Microeconomic theory helps us identify trade policy, competition by foreign producers and international investors, and openness-related differences in institution building costs and benefits, · as three major transmission mechanisms through which openness affects a country's corruption levels. Examining a large sample of countries covering a 20-year long period, we found robust empirical support for the fact that increases in import openness do indeed cause reductions in corruption, a crucial aspect of governance. The magnitude of the effect is also quite strong. After controlling for many cross-country differences, openness' influence on corruption is close to one third of that exercised by the level of development. Some cautious policy conclusions are derived.

Boone, Jan

PD October 2001. **TI** Optimal Labor Taxation and Search. **AU** Boone, Jan; Bovenberg, A. Lans. **AA** Boone: CentER, Tilburg University and CEPR. Bovenberg: CentER, Tilburg University, CEPR, and CESifo. **SR** CEPR Discussion Paper: 3002; 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** H21, H22, H23, J64. **KW** Labor Market. Optimal Tax System. Search Model.

AB This paper explores the optimal role of the tax system in alleviating labor-market imperfections and raising revenue. For this purpose, the standard search model of the labor market is extended by introducing scarce entrepreneurial talent and arbitrage between the supply and demand. We study how these extensions affect the following two major implications of the standard model: (1) only the ad valorem component of the wage tax should be employed to raise revenue; (2) the optimal tax system should not distort labor-market tightness.

Booth, Alison L.

PD June 2001. **TI** Is Wage Compression a Necessary Condition for Firm-Financed General Training? **AU** Booth, Alison L.; Zoega, Gylfi. **AA** Booth: Australian National University, University of Essex, and CEPR. Zoega: Birkbeck College. **SR** CEPR Discussion Paper: 2845; 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** J24, J31. **KW** Absolute and Relative Wage Compression. Firm-Financed General Training.

AB It is well known that workers in Europe appear to receive more firm- provided general training than their counterparts in the United States. Moreover, there is considerable evidence that firms, in many cases, pay for the general training, contrary to the predictions of Becker (1964). In important recent contributions, Acemoglu and Pischke argue that it is through wage compression that unions and other labor-market institutions induce firms to invest in general training. We show that while wage compression can make firms more willing to pay for training, it does not constitute a necessary condition for firm-sponsored training.

Bordo, Michael D.

PD · October 2001. **TI** The Adam Klug Memorial Lecture: Haberler versus Nurkse: The Case for Floating Exchange Rates as an Alternative to Bretton Woods? **AU** Bordo, Michael D.; James, Harold. **AA** Bordo: Rutgers University and NBER. James: Princeton University. **SR** National Bureau of Economic Research Working Paper: 8545; 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** B31, E22, F33, N42. **KW** Exchange Rates. Bretton Woods. Keynesian Paradigm.

AB From the perspective of the late 1930s and 1940s the dominant view was that the inter-war currency experience was a financial disaster. The view is perfectly encapsulated in the League of Nations' publication The Inter-war Currency Experience, the bulk of which was written by Ragnar Nurkse and published in 1944. It was also the view behind the Keynes and White plans for international monetary reform, which culminated in the Bretton · Woods conference and the establishment of the adjustable peg par value system buttressed by capital controls. An alternative view to Nurkse was posited by Gottfried Haberler in Prosperity and Depression, also commissioned by the League of Nations and published in 1937. In Prosperity and Depression Haberler made a strong intellectual case for floating exchange rates as a mechanism to insulate countries from the transmission of booms and depressions. In this paper we consider the views of Nurkse and Haberler on fixed and floating exchange rates and consider why Haberler's approach was not taken seriously until 1950s. Our main conclusion is that Haberler himself failed to offer a sufficiently clear blueprint for his approach at the time, although he did come to it by 1953. Moreover his views were counter to the ascending Keynesian paradigm.

Bosworth, Barry

PD June 2001. **TI** Economic Growth in Greece: Past Performance and Future Prospects. **AU** Bosworth, Barry; Kollintzas, Tryphon. **AA** Bosworth: Brown Shipley and Co Ltd. Kollintzas: Athens University of Economics and Business. **SR** CEPR Discussion Paper: 2852; 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** E60, O40, O52. **KW** Economic Institutions. Greek Economy. Reforms. Structural Funds Package. Economic Growth.

AB This paper examines the past growth performance of the Greek economy and examines the outlook for future growth in light of the macroeconomic stabilization that was achieved over the last half of the 1990s. The Greek economy performed very poorly from 1970 to 1995. We develop a set of growth accounts that attribute part of the deteriorating performance to a falloff in capital formation, but the most dramatic factor is a sharp deterioration in multi-factor productivity. Part of the explanation lies with the collapse of macroeconomic policy; but the Greek economy also fares poorly in other dimensions of its economic institutions. Over the last half of the 1990s,

Greece undertook a successful program to restore fiscal and monetary stability -- by the end of 2000, it had qualified for admission to the Euro currency system. The restoration of rational macroeconomic policies also led to an improvement in economic growth to the extent that Greece matched the performance of the rest of the EU over the 1995-2000 period. It also appears that these growth rates are sustainable and consistent with current rates of capital accumulation.

Bound, John
TI Accounting for the Black-White Wealth Gap: A Nonparametric Approach. **AU** Barsky, Robert; Charles, Kerwin; Bound, John; Lupton, Joseph.

PD October 2001. **TI** Trade in University Training: Cross-State Variation in the Production and Use of College-Educated Labor. **AU** Bound, John; Groen, Jeffrey; Kezdi, Gabor; Turner, Sarah. **AA** Bound: University of Michigan and NBER. Groen and Kezdi: University of Michigan. Turner: University of Virginia and NBER. **SR** National Bureau of Economic Research Working Paper: 8555; 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** J24, J61. **KW** University Education. Factor Mobility. Skilled Workers.
AB The main question addressed in this analysis is how the production of undergraduate and graduate education at the state level affects the local stock of university-educated workers. The potential mobility of highly skilled workers implies that the number of college students graduating in an area need not affect the number of college graduates living in the area. However, the production of relatively large numbers of college and university graduates in an area may lead to increases in the employment of university-trained manpower if local industries expand production of goods that use college-educated workers intensively. Using data from the U.S., we find a modest link between the production and use of BA degree recipients; states awarding relatively large numbers of BA degrees in each cohort also have somewhat higher concentrations college-educated workers.

Bovenberg, A. Lans
TI Structural Distortions and Decentralized Fiscal Policies in EMU. **AU** Beetsma, Roel; Bovenberg, A. Lans.

TI Optimal Labor Taxation and Search. **AU** Boone, Jan; Bovenberg, A. Lans.

Bradford, David F.
PD October 2001. **TI** Reforming Budgetary Language. **AA** Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 8500; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 32. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** H11, H61. **KW** Budgetary Conventions. Government Structure. Language.
AB In the context of several examples of problems associated with present budgetary conventions, this paper revisits Musgrave's conceptual division of the government's program into Allocation, Distribution and Stabilization Branch subbudgets. One suggestion of this paper is that progress towards Musgrave's ideal of a more informative budgetary "language," one less dependent on arbitrary institutional labeling, must be based on the nonarbitrary description of the individual's economic environment, as it is affected by government. As a first approximation, that environment can be summed up in terms of the individual's budget constraint and levels of public goods provided. Simple models suggest that an unambiguous budgetary language may be feasible but here remains much to clarify about both the objectives of the exercise and the specifics of methods to deal with particular problems.

Bradley, Ralph
PD May 2002. **TI** Is Adverse Selection Simply Moral Hazard? Evidence from the 1987 Medical Expenditure Survey. **AA** U.S. Bureau of Labor Statistics. **SR** U.S. Bureau of Labor Statistics Economic Working Paper: 360; BLS Economic Working Paper Series, c/o Glenda Driggers, 4945 Postal Square Building, 2 Massachusetts Avenue NE, Washington, DC 20212. Website: www.bls.gov/ore/orecatlg.htm. **PG** 27. **PR** no charge. **JE** C32, I11. **KW** Adverse Selection. Moral Hazard. Censored Regression.
AB There continues to be a lack of consensus about the presence of adverse selection in health plan markets. Previous studies conducted tests using data that covered only a certain segment of the entire population, and none modeled the role that risk aversion plays in the selection of plans. Additionally, none of these studies accounted for the possibility that the probability distribution of future illness could depend on unobserved "preventative" choices made by the policyholder. This study accounts for these characteristics and finds that not only is adverse selection present, but that there is an additional market failure since individuals are not fully compensated for their efforts at preventing both illness and accidents.

Braga de Macedo, Jorge
TI How Globalization Improves Governance. **AU** Bonaglia, Federico; Braga de Macedo, Jorge; Bussolo, Maurizio.

Brahmakulam, Irene
TI Science and Technology Collaboration: Building Capacity in Developing Countries? **AU** Wagner, Caroline S.; Brahmakulam, Irene; Jackson, Brian; Wong, Anny; Yoda, Tatsuro.

Brandt, Michael W.
PD July 2001. **TI** International Risk Sharing is Better Than You Think (or Exchange Rates are Much Too Smooth). **AU** Brandt, Michael W.; Cochrane, John H.; Santa-Clara, Pedro. **AA** Brandt: University of Pennsylvania and NBER. Cochrane: University of Chicago and NBER. Santa-Clara: UCLA. **SR** National Bureau of Economic Research Working Paper: 8404; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 21. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F31, G12, G15. **KW** Exchange Rates. Risk Sharing. Excessive Smoothness.
AB Exchange rates depreciate by the difference between the domestic and foreign marginal utility growths. Exchange rates vary a lot, as much as 10% per year. However, equity premia imply that marginal utility growths vary much more, by at least 50% per year. This means that marginal utility growths must be highly correlated across countries -- international risk sharing is

better than you think. Conversely, if risks really are not shared internationally, exchange rates should vary more than they do -- exchange rates are much too smooth. We calculate an index of international risk sharing that formalizes this intuition in the context of both complete and incomplete capital markets. Our results suggest that risk sharing is indeed very high across several pairs of countries.

Brown, Charles

PD October 2001. TI Firm Age and Wages. AU Brown, Charles; Medoff, James L. AA Brown: University of Michigan and NBER. Medoff: Harvard University. SR National Bureau of Economic Research Working Paper: 8552; 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 D21, J31. KW Firm Age. Wages. Fringe Benefits. Employment.

AB In this paper, we analyze the relationship between how long an employer has been in business (firm age) and wages. Using data from special supplements to the Survey Research Center's monthly Survey of Consumers, we find that firms that have been in business longer pay higher wages (as previous studies have found), but pay if anything lower wages after controlling for worker characteristics. There is some evidence that the relationship is not monotonic, with wages falling and then rising with years in business. Older firms provide better fringe benefits and more stable employment, but these differences do not appear very important in understanding the age-wage relationship. Established employers do appear to make greater use of back-loaded compensation, consistent with their higher probability of remaining in business.

Brown, J. David

PD September 2001. TI Gross Job Flows in Russian Industry Before and After Reforms: Has Destruction Become More Creative? AU Brown, J. David; Earle, John S. AA Brown: Heriot-Watt University, Edinburgh, CEPR, and IZA. Earle: Upjohn Institute for Employment Research, Central European University, and IZA. SR CEPR Discussion Paper: 2951; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE E24, J63, O47, P23. KW Job Allocation. Job Destruction. Productivity. Russia. Transition.

AB This paper uses 1985-99 manufacturing census data for old Russian enterprises to calculate the magnitude and productivity effects of gross job flow rates before and after reforms. Job creation was low throughout the period in this sector, but increased slightly during the transition, while job destruction rose markedly. Heterogeneity in firm employment change also increased significantly. Intra- and inter- sectoral job reallocation had no effect on aggregate labor productivity during the socialist period, while they have made a strong positive contribution during the transition. Privatization and product market competition have not led to greater job destruction overall, but rather have helped to focus the destruction in the firms with the lowest productivity.

PD October 2001. TI Competition Enhancing Policies and Infrastructure: Evidence from Russia. AU Brown, J. David; Earle, John S. AA Brown: Heriot-Watt University, IZA, and CEPR. Earle: Upjohn Institute for Employment Research, Central European University, and IZA. SR CEPR Discussion Paper: 3022; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE H54, L51, P23, P31. KW Competition. Infrastructure. Market Structure. Russia. Transition. Market Dispersion. Price Regulation.

AB This paper investigates whether the efficiency effect of product market dispersion is a function of the infrastructural and policy environment. We hypothesize that more developed transportation and communication infrastructure and lower government regulation may reduce transaction costs, intensifying the competition associated with a given market structure, and we use data from the recently liberalized and regionally diverse country of Russia to test the hypothesis. Estimating translog production functions on a large 1992-99 panel of manufacturing firms, we find that the efficiency impact of market dispersion varies positively with the regional density of highway, railroad and telephone infrastructure, but negatively with regional price regulation and the share of votes received by the Communist Party.

Brown, William

PD June 2001. TI The Limits of Statutory Trade Union Recognition. AU Brown, William; Deakin, Simon; Hudson, Maria; Pratten, Cliff. AA University of Cambridge. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP199; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. PG 24. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE J51, J53, K31. KW Trade Union Recognition. Collective Bargaining. Employment Contracts. Labor Law.

AB The paper assesses the prospects for Britain's new statutory trade union recognition procedure in the light of empirical evidence concerning union derecognition practice in the 1990s. It draws on 15 cases of union derecognition across a broad spread of employment, matched with comparable bases where recognition was retained. It is shown that in practice, the line between recognition and non- recognition was extremely blurred. A move towards more cooperative workplace arrangements associated with a partnership model of industrial relations was common to employers in both categories. As part of this process, the traditional distinction between negotiation and consultation was breaking down. Against this background, we argue that it is far from clear that the current legislative strategy, in focusing on statutory recognition, is the best way of promoting partnership at work.

TI Collective Employee Representation and the Impact of Law: Initial Response to the Employment Relations Act 1999. AU Oxenbridge, Sarah; Deakin, Simon; Brown, William; Pratten, Cliff.

PD September 2001. TI The Management of Pay as the Influence of Collective Bargaining Diminishes. AU Brown, William; Marginson, Paul; Welsh, Janet. AA Brown: University of Cambridge. Marginson: University of Warwick. Welsh: Royal Holloway College. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP213; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk.

PG 34. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** J30, J31, J33, J50, J51. **KW** Wage Determination. Collective Bargaining. Remuneration Management. Bargaining Structure.
AB The management of pay in Britain has changed substantially in recent years. The paper starts with a theoretical discussion of the extent to which individual employers can exercise discretion in the management of their employees' pay. It then examines the ways in which pay is used to secure productive effort. An analysis of the influence of trade unions leads onto an examination of the diminishing influence of collective bargaining in British pay determination. The implications of this are discussed for employer pay strategies, within and between firms, and internationally. It concludes with the consequences of diminishing trade union influence for the distribution of pay.

PD September 2002. **TI** The Operation of the Low Pay Commission. **AA** University of Cambridge. **SR** University of Cambridge. DAE Working Paper: 0223; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 18. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** J38, J58. **KW** Minimum Wages. Social Partnership. Low Pay. United Kingdom.
AB The paper provides an account of the working of the Low Pay Commission that was established to advise on the introduction of a statutory National Minimum Wage for the United Kingdom. It discusses the way in which the Commission was constituted and the consultation procedures and research methods it developed over its first four years. An account is provided of the principles the Commission developed and of the problems that had to be overcome in delivering what proved to be a successful labor market intervention.

Bru, Luis
PD October 2001. **TI** Divisionalization in Vertical Structures. **AU** Bru, Luis; Ordonez de Haro, Jose-Manuel; Fauli-Oller, Ramon. **AA** Bru and Ordonez de Haro: Universidad de Malaga. Fauli-Oller: Universidad de Alicante and CEPR. **SR** CEPR Discussion Paper: 3011; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** L10, L11, L20. **KW** Divisionalization. Intermediate Markets. Vertical Structures. Bargaining Power.
AB We study the incentives to firms to create divisions once the vertical structure of an industry is taken into account. Downstream firms, those that must buy an essential input from upstream firms, may create divisions. Divisionalization reduces their bargaining power against upstream firms. This effect must be weighted against the usual incentive to divisionalize, namely the increase in the share of the final market that a firm obtains through the process. We show that incentives to divisionalize are severely reduced when compared with the standard results, and even that sometimes firms choose not to divisionalize at all. This paper also shows the implications of the former analysis on the internal organization of firms and on the incentives to vertically integrate.

Brunekreeft, Gert
PD November 2002. **TI** Regulatory Threat in Vertically Related Markets; The Case of German Electricity. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0228(CM110); Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 21. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** L42, L51, L94. **KW** Regulation. Discrimination. Network Industries. Electricity. Germany.
AB This paper applies the concept of regulatory threat to analyze the electricity supply industry in Germany, where in contrast to other European member states, there is no ex-ante regulation of network access charges. Instead, network access relies on industrial self- regulation and ex-post control by the Cartel Office. The paper modifies the concept of regulatory threat to vertically related markets, stressing the balance between the level of the network access charges and (non-price) discrimination against their parties. The conceptual framework appears to explain developments in the German electricity sector accurately and thus provides a useful tool for policy analysis.

Brunner, Antje
PD October 2001. **TI** Corporate Debt Restructuring: Evidence on Lending Coordination in Financial Distress. **AU** Brunner, Antje; Krahnen, Jan Pieter. **AA** Brunner: Humboldt University. Krahnen: University of Frankfurt and CEPR. **SR** CEPR Discussion Paper: 3030; 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** D74, G21, G33, G34. **KW** Bank Lending. Coordination Risk. Distress. Workout. Germany. Creditor Pools.
AB We analyze the coordination problem in multi-creditor relationships empirically, relying on a unique panel data set that contains detailed credit-file information on distressed lending relationships in Germany, including information on creditor pools, a legal institution aiming at coordinating lender interests in borrower distress. We report three major findings. First, the existence of creditor pools increases the probability of workout success. Second, the results are consistent with coordination costs being positively related to pool size. Third, major determinants of pool formation are found to be the number of banks, the distribution of lending shares, and the severity of the distress shock.

Brunt, Liam
PD February 2000. **TI** "Where's There's Much, There's Brass": The Market of Manure in the Industrial Revolution. **AA** University of Oxford. **SR** University of Oxford, Discussion Papers in Economic and Social History: 35; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. **PG** 33. **PR** no charge. **JE** N53, Q10, Q20. **KW** Agriculture. Renewable Resources. Extractive Industries. Nitrogen.
AB Between 1700 and 1850, English grain yields were substantially higher than those attained in other countries. It is widely believed that yields were constrained by the availability of nitrogen, and the supplies of nitrogen were effectively limited to animal dung produced on the farm. This paper presents the first systematic analysis of off- farm sources of nitrogen, such as urban and industrial waste. We show that the

use of off-farm nitrogen was both widespread and intensive by 1700, contrary to the received wisdom. We further argue that there was only modest growth in the use of off-farm nitrogen up to 1850. We explain this pattern of use of off-farm nitrogen by supply and demand factors. We use a new method of estimation to show that the overall impact was to raise wheat yields by a constant 20 per cent throughout the period.

Buchner, Barbara
TI   On the Consequences of the U.S. Withdrawal from the Kyoto/Bonn Protocol. AU   Carraro. Carlo; Buchner, Barbara; Cersosimo. Igor.

Bullard, James
PD   January   2002.   TI   Escapist   Policy   Rules. AU   Bullard, James; Cho, In-Koo. AA   Bullard: Federal Reserve Bank of St. Louis. Cho: University of Illinois at Urbana-Champaign. SR   Federal Reserve Bank of St. Louis Working Paper: 2002/002A; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research.   PG   40. PR   no charge.   JE   E31, E52, E58.   KW   Learning. Monetary Policy Rules. Escape Dynamics.
AB   We study a simple microfounded macroeconomic system in which the monetary authority employs a Taylor-type policy rule. We analyze situations in which the self-confirming equilibrium is unique and learnable according to Bullard and Mitra (2001). We explore the prospects for the use of "large deviation" theory in the context, as employed by Sargent (1999) and Cho. Sargent. and Williams (2001). We show that our system can sometimes depart from the self-confirming equilibrium towards a non-equilibrium outcome characterized by persistently low nominal interest rates and persistently low inflation. Thus we generate events that have some of the properties of "liquidity traps" observed in the data, even though the policymaker remains committed to a Taylor-type policy rule which otherwise has desirable stabilization properties.

PD   May   2002.   TI   Intermediaries   and   Payments Instruments.   AU   Bullard, James; Smith, Bruce D. AA   Bullard: Federal Reserve Bank of St. Louis. Smith: University of Texas. SR   Federal Reserve Bank of St. Louis Working Paper: 2002/006A; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research.   PG   45. PR   no charge. JE   E31, E43, E44, E61. KW   Private Money.   Banknotes.   Intermediation.   Monetary   Theory. Endogenous Volatility.
AB   We study an economy in which intermediaries have incentives to issue circulating liabilities as part of an equilibrium. We show that, with arbitrarily small transactions costs, only the liabilities of intermediaries will circulate, and not those of other private sector agents. Therefore, our model connects intermediation activity with the issuance of payments media, a connection that has not been made in earlier literature. We also describe conditions under which equilibrium outcomes maybe volatile when private liabilities circulate. Finally, we use our model to suggest a resolution of the "banknote underissue puzzle" of Cagan (1993).

Burks, Stephen V.
TI   Fairness and Freight-Handlers: A Test of Fair-Wage Theory in a Trucking Firm. AU   Verhoogen, Eric; Burks, Stephen V.; Carpenter, Jeffrey P.

Burns, E.
TI   Economic   Evaluation   of   Smallholder   Subsistence Livestock   Production: Lessons   from   an   Ethiopian   Goat Development Program. AU   Ayalew, Workneh ; King, J. M.; Burns, E.; Rischkowsky, Barbara.

Burnside, A. Craig
PD   August 2001. TI   On the Fiscal Implications of Twin Crises. AU   Burnside, A. Craig; Eichenbaum, Martin; Rebelo, Sergio. AA   Burnside: World Bank. Eichenbaum and Rebelo: Northwestern University. SR   CEPR Discussion Paper: 2918; 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, F31. KW   Bailouts. Banking Crisis. Currency Crisis. Fiscal Reform. Seignorage.
AB   This paper explores the implications of different strategies for financing the fiscal costs of twin crises in inflation and depreciation rates. We use a first-generation type model of speculative attacks which has four key features: (i) the crisis is triggered by prospective deficits: (ii) there exists outstanding non-indexed government debt issued prior to the crises; (iii) a portion of the governments liabilities are not indexed to inflation; and (iv) there are nontradable goods and costs of distributing tradable goods, so that purchasing power parity does not hold. We show that the model can account for the high rates of devaluation and moderate rates of inflation often observed in the wake of currency crises. We use our model and the data to interpret the recent currency crises in Mexico and Korea. Our analysis suggests that the Mexican government is likely to pay for the bulk of the fiscal costs of its crisis through seignorage revenues. In contrast, the Korean government is likely to rely more on a combination of implicit and explicit fiscal reforms.

Burstein, Ariel
PD   January 2002. TI   Why Are Rates of Inflation So Low After Large Devaluations? AU   Burstein, Ariel; Eichenbaum, Martin;   Rebelo,   Sergio.   AA   Burstein: Northwestern University. Eichenbaum: Northwestern University, NBER, and Federal Reserve of Chicago. Rebelo: Northwestern University, NBER, and CEPR. SR   Rochester Center for Economic Research Working Paper: 486; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester. Rochester, NY 14627. Website: rcer.econ.rochester.edu. PG   33. PR $5.00 (3 first papers free of charge). JE   E31, E50, 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 the distribution costs and substitution away from imports to lower quality local goods can account quantitatively for the post-devaluation behavior of prices.

Bussolo, Maurizio
TI   How   Globalization   Improves   Governance. AU   Bonaglia, Federico; Braga de Macedo, Jorge; Bussolo, Maurizio.

Butler, Alexander W.
TI   Collateral and Competition. AU   Berlin, Mitchell;

Butler, Alexander W.

Calvo Armengol, Antoni

AB This paper examines the importance of the distribution of consumers in Hoteling's circle on the comparison between the optimal and the market equilibrium levels of diversity. It finds that when most consumers are located very close to the firms, the result of Salop that the equilibrium number of firms is larger than the optimal one (surplus maximizing) can be reversed.

Campbell, Jeffrey R.

AB Consumers living near the U.S.-Canada border can shift their expenditures between the two countries, so real exchange rate fluctuations can act as demand shocks to border areas' retail trade industries. Using annual county-level data, we estimate the effects of real exchange rates on the number of establishments and their average payroll in border counties for four retail industries. In three of the four industries we consider, the number of operating establishments responds either contemporaneously or with a lag of one year to real exchange rate movements. For these industries, the response of retailers' average size is less pronounced. The rapid response of net entry is inconsistent with any model of persistent deviations from purchasing power parity that depends on retailers' costs of changing nominal prices.

Canova, Fabio

AB We provide methods for forecasting variables and predicting turning points in panel Bayesian VARs. We specify a flexible model that accounts for both interdependencies in the cross section and time variations in the parameters. Posterior distributions for the parameters are obtained for hierarchical and for Minnesota-type priors. Formulas for multistep, multiunit point and average forecasts are provided. An application to the problem of forecasting the growth rate of output and of predicting turning points in the G-7 illustrates the approach. A comparison with alternative forecasting methods is also provided.

Card, David

AB This paper studies the accuracy of reported Medicaid coverage in the Survey of Income and Program Participation (SIPP) using a unique data set formed by matching SIPP survey responses to administrative records from the State of California. Overall, we estimate that the SIPP underestimates Medicaid coverage in the California population by about 10 percent. Among SIPP respondents who can be matched to administrative records, we estimate that the probability someone reports Medicaid coverage in a month when they are actually covered is around 85 percent. The corresponding probability for low-income children is even higher -- at least 90 percent. These estimates suggest the SIPP provides reasonably accurate coverage reports for those who are actually in the Medicaid system. On the other hand, our estimate of the false positive rate (the rate of reported coverage for those who are not covered in the administrative records) is relatively high: 2.5 percent for the sample as a whole, and up to 20 percent for poor children. Some of this is due to errors in the recording of Social Security numbers in the administrative system, rather than to problems in the SIPP.

Cardoso, Ana Rute

AB Changes in legislation in mid-80s Portugal provide remarkable conditions for economic analysis, as the minimum wage increased very sharply for a very specific group of workers. Relying on a matched employer-employee panel data set, we model gross job flows -- accessions and separations -- in continuing firms, as well as in new firms and those going out of business, using a Poisson regression model applied to proportions. Worker behavior is as well modeled. Employment trends for teenagers, the affected group, are contrasted against

older workers before and after the rise in the youth minimum wage. The major effect on teenagers is the reduction of separations from the employer, which compensates for the reduction of accessions and the rising dismissals from firms closing down. Indications that job attachment for low wage youngsters rises following an increase in their minimum wage suggest the relevance of supply side factors. In this sense, our results can reconcile some of the previous evidence that has been presented in the empirical literature when analyzing the overall impact of the minimum wage on youth employment without looking at its sources.

Carey, Mark

PD May 2002. TI A Guide to Choosing Absolute Bank Capital Requirements. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 726; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 31. PR no charge. JE G10, G11, G20, G21, G28. KW Risk Management. Credit Risk. Capital Requirements. Bank Regulation.
AB Resampling implementation of a stress-scenario approach to estimating portfolio default loss distributions is proposed as the basis for estimates of the appropriate absolute level of economic capital allocations for portfolio credit risk. Estimates are presented for stress scenarios of varying severity. Implications of use of different analysis time horizons are analyzed. Results for a numeraire portfolio are quite sensitive to such variations. Although the analysis is framed in terms of recent proposals to revise regulatory capital requirements for banks, the arguments and results are also relevant for bankers making capital structure decisions.

Carlin, Wendy

PD June 2001. TI Competition and Enterprise Performance in Transition Economies: Evidence from a Cross-Country Survey. AU Carlin, Wendy; Fries, Steven; Schaffer, Mark E.; Seabright, Paul. AA Carlin: University College London and CEPR. Schaffer: Heriot-Watt University. Seabright: Universite des Sciences Sociales de Toulouse. Fries: European Bank for Reconstruction and Development. SR CEPR Discussion Paper: 2840; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE L10, L33, O12, P20, P30. KW Business Environment. Competition. Privatization. Restructuring. Soft Budget Constraints.
AB We want to shed light on the factors that influence restructuring by firms and their subsequent performance as measured by growth in sales and in sales per employee. We begin by surveying what a decade of transition has taught us about the factors that determine how firms respond to the new market environment. We go on to analyze the impact on performance of ownership, soft budget constraints, the general business environment and a range of measures of the intensity of competition as perceived by a firm. We find that competition has an important and non-monotonic effect on the growth of sales and of labor productivity: some degree of perceived market power is associated with higher sales growth, but competitive pressure is also important. Similar competition effects are found upon firms' decisions to develop and improve

their products, but market power has an unambiguously negative impact on purely defensive restructuring activity. New firms have grown relatively fast, but among old firms ownership per se has no significant relationship to performance. Soft budget constraints have a broadly negative and the business environment a broadly positive impact on restructuring and performance.

Carlino, Gerald A.

PD September 2001. TI Knowledge Spillovers and the New Economy of Cities. AU Carlino, Gerald A.; Chatterjee, Satyajit; Hunt, Robert M. AA Federal Reserve Bank of Philadelphia. SR Federal Reserve Bank of Philadelphia Research Working Paper: 01/14; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. PG 19. PR no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE O31, R11, R12. KW Knowledge Spillovers. Innovations. Metropolitan Statistical Area. Patents. Employment. Density.
AB Despite much theorizing about the role of geographic concentration of employment in enhancing knowledge spillovers, local densities' role in promoting innovations has been largely unexamined. This paper considers the role of knowledge spillovers on innovations at the metropolitan statistical area (MSA) level. We use patents per capita in an MSA as our measure of innovations in that MSA. We find that the rate of patenting is positively related to the employment density of the highly urbanized portion of an MSA (its urbanized area). Specifically, we find, on average, that rate of patenting is 20 percent to 30 percent greater in an MSA with a local economy that is twice as dense as the local economy of another MSA. Since local employment density doubles more than four times in the sample, the implied gains in patents per capita due to urban density are substantial. Thus, these findings confirm the widely head view that the nation's densest locations play an important role in creating the flow of ideas that generates innovation and growth.

PD September 2002. TI Compensating Differentials and the Social Benefits of the NFL. AU Carlino, Gerald A.; Coulson, N. Edward. AA Carlino: Federal Reserve Bank of Philadelphia. Coulson: Pennsylvania State University. SR Federal Reserve Bank of Philadelphia Research Working Paper: 02/12; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. PG 14. PR no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE H41, L83. KW National Football League. Compensating Differentials. Franchise Expansion. Public Good.
AB We use hedonic rent and wage equations to measure the compensating differentials that obtain in central cities with franchises of the National Football League (NFL). We use repeated observations of cities over time and, thereby obtain identification of the NFL effect through franchise expansion and movement. We find that rents are roughly 8 percent higher and wages are 4 percent lower in cities with franchises, though the latter of these two effects is not significant. Thus, professional sports franchises appear to be a public good by adding to the quality-of-life in cities. Our findings suggest that

once the quality-of-life benefits are included in the calculus, the seemingly large public expenditure on new stadiums appears to be a good investment for cities and their residents.

PD September 2002. TI The Cyclical Behavior of State Employment During the Postwar Period. AU Carlino, Gerald A.; DeFina, Robert H.; Sill, Keith. AA Carlino: Federal Reserve Bank of Philadelphia. DeFina: Villanova University. Sill: Federal Reserve Bank of Philadelphia. SR Federal Reserve Bank of Philadelphia Research Working Paper: 02/14; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. PG 23. PR no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE E24, E32. KW Business Cycles. Employment. Volatility.
AB This study documents a substantial decline in employment volatility at business-cycle frequencies over the postwar period using state- industry level data. The distribution of total employment volatilities at the state level has become less disperse over time, and mean volatility has fallen. Similar results are obtained using employment data on one-digit sectors across states: all sectors have seen a decline in employment volatility over the postwar period, and state- sectors are more alike in terms of volatility levels. A key source of the decline in volatility appears to be widespread (across states and industries) decreases in the size of shocks hitting employment levels. Shifts in the demographic factors, and industrial structures of state economies have had little or no impact. Neither have inter-state employment shifts, such as migrations from the Frostbelt to the Sunbelt. The sources of the smaller employment shocks are unclear, although the evidence points to macroeconomic phenomena.

Carlson, Mark A.
PD January 2002. TI Determinants and Repercussions of the Composition of Capital Inflows. AU Carlson, Mark A.; Hernandez, Leonardo. AA Carlson: Federal Reserve Board. Hernandez: IMF. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 717; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 48. PR no charge. JE F30, F40, G15. KW Capital Flows. Crisis. Contagion. Capital Controls.
AB The Mexican, Asian, and Russian crises of the mid- and late 1990s, have renewed the interest among policymakers in the determinants and effects of private capital flows. This paper analyzes whether policies can affect the composition of capital inflows and whether different compositions aggravate crises. We find that, while fundamentals matter, capital controls can affect the mix of capital inflows that countries receive. We find that during the Asian crisis countries with more Yen denominated debt faired worse, while during the Mexican crisis larger short-term debt stocks increased the severity of the crisis.

Carman, Katherine Grace
TI The Mismatch Between Life Insurance Holdings and Financial Vulnerabilities: Evidence from the Survey of Consumer Finances. AU Bernheim, B. Douglas; Carman, Katherine Grace; Gokhale, Jagadeesh; Kotlikoff, Laurence J.

Carpenter, Jeffrey P.
TI Fairness and Freight-Handlers: A Test of Fair-Wage Theory in a Trucking Firm. AU Verhoogen, Eric; Burks, Stephen V.; Carpenter, Jeffrey P.

Carraro, Carlo
PD December 2001. TI On the Consequences of the U.S. Withdrawal from the Kyoto/Bonn Protocol. AU Carraro, Carlo; Buchner, Barbara; Cersosimo, Igor. AA Carraro: University of Venice and FEEM. Buchner and Cersosimo: FEEM. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2001/102; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it. PG 29. PR no charge; available only on website. JE H23, H31, H32. KW Agreements. Climate. Incentives. Negotiations. Equity. Policy. Transfers.
AB This paper analyses the consequences of the US decision to withdraw from the Kyoto/Bonn Protocol both on technological innovation and on the price of emission permits (and, as a consequence, on abatement costs). A first goal is to assess the impact of the US defection on the price of permits and compliance costs when technological innovation and diffusion is taken into account (the model embodies international technological spillovers). A second goal is to understand for what reasons in the presence of endogenous and induced technical change the reduction of the price of permits is lower than in most empirical analyses recently circulated. A third goal is to assess the role of Russia in climate negotiations, its increased bargaining power and its eventual incentives to follow the US defections.

Carroll, Christopher D.
PD October 2001. TI Liquidity Constraints and Precautionary Saving. AU Carroll, Christopher D.; Kimball, Miles S. AA Carroll: Johns Hopkins University and NBER. Kimball: University of Michigan and NBER. SR National Bureau of Economic Research Working Paper: 8496; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 39. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE C61, D91, E21. KW Precautionary Savings. Uncertainty. Consumption. Liquidity Constraints.
AB Economists working with numerical solutions to the optimal consumption/saving problem under uncertainty have long known that there are quantitatively important interactions between liquidity constraints and precautionary saving behavior. This paper provides the analytical basis for those interactions. First, we explain why the introduction of a liquidity constraint increases the precautionary saving motive around levels of wealth where the constraint becomes binding. Second, we provide a rigorous basis for the oft-noted similarity between the effects of introducing uncertainty and introducing constraints, by showing that in both cases the effects spring from the concavity in the consumption function which either uncertainty or constraints can induce. We further show that consumption function concavity, once created, propagates back to consumption functions in prior periods. Finally, our most surprising result is that the introduction of additional constraints beyond the first one, or the introduction of additional risks beyond a first risk, can actually reduce the precautionary saving motive, because the new constraint or risk can "hide" the effects of the preexisting constraints or risks.

Carvalho, Vasco M.

TI Models for Converging Economies. AU Harvey, Andrew C.; Carvalho, Vasco M.

AB This article reports the results of fitting unobserved components (structural) time series models to data on real income per capita in eight regions of the United States. The aim is to establish stylized facts about cycles and convergence. A new model is developed in which convergence components are combined with a common trend and cycles. These convergence components are formulated as a second-order error correction mechanism which allows temporary divergence while imposing eventual convergence. This model is able to characterize the convergence patterns of all but the two richest US regions; these appear to have been diverging from the others in recent years. The use of unit root tests for testing convergence is critically assessed in the light of these results.

Case, Anne

AB Quantifying the impact of income on health is difficult, given the simultaneous determination of health and income. In this paper, we quantify the impact on health status of a large, exogenous increase in income -- that associated with the South African state old age pension. Elderly Black and Colored men and women who did not anticipate receiving large pensions in their lifetimes, and who did not pay into a pension system, are currently receiving more than twice median Black income per capita. These elderly men and women generally live in large households, and this paper documents the effect of the pension on the pensioners, on other adult members of their households, and on the children who live with them. We find, in households that pool income, that the pension protects the health of all household members, working in part to protect the nutritional status of household members, in part to improve living conditions, and in part to reduce the stress under which the adult household members negotiate day to day life. The health effects of delivering cash provide a benchmark against which other health-related interventions can be evaluated.

Caselli, Francesco

AB We present a simple theory of the quality (competence and honesty) of elected officials. Our theory offers four main insights. Low-quality citizens have a "comparative advantage" in pursuing elective office, because their market wages are lower than those of high-quality citizens (competence), and/or because they reap higher returns from holding office (honesty). Hence, voters may find themselves supply constrained of high-quality candidates. Second, bad politicians generate negative externalities for good ones, making their rewards from office increasing in the average quality of office holders. This leads to multiple equilibria in quality. Third, incumbent policymakers can influence the rewards of future policymakers, leading to path dependence in quality: bad governments saw the seeds for more bad governments. Fourth, quality-constrained voters look for the optimal mix of honesty and ability, and this may lead to a negative correlation between these two qualities across political entities.

Caskey, John P.

AB This paper discusses changes in the financial sector that threaten traditional check-cashing outlets (CCOs). Specifically, the paper focuses on four developments that may radically alter the check-cashing industry over the coming decade: the growing use of electronic payments, the deployment of automated check-cashing machines, the rise of payday lending, and the development of "bank/CCO hybrids.".

Castro-Rodriguez, Fidel

AB We develop a theoretical model of long-run investment decisions on capacity in the context of a liberalized electricity market. The sector's idiosyncrasies such as the uncertainty surrounding future supply and demand, as well as technological constraints, are explicitly modeled. The model is sufficiently flexible to describe the situation in different systems. We derive the level of capacity that maximizes social welfare, and compare it to a decentralized outcome. We show that in the

absence of any regulation, private investment decisions on capacity unambiguously lead to a socially sub-optimal outcome, and we illustrate these results using simulations.

Cersosimo, Igor

TI On the Consequences of the U.S. Withdrawal from the Kyoto/Bonn Protocol. **AU** Carraro, Carlo; Buchner, Barbara; Cersosimo, Igor.

Chadha, Jagjit S.

PD April 2002. **TI** Inflation and Price Level Targeting in a New Keynesian Model. **AU** Chadha, Jagjit S.; Nolan, Charles. **AA** Chadha: University of Cambridge. Nolan: University of Durham. **SR** University of Cambridge, DAE Working Paper: 0203; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 35. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** E31, E32, F32, F41. **KW** Inflation Targets. Intertemporal Macro. Nominal Rigidities. Phillips Curve. New Keynesian Model.
AB In a New Keynesian macroeconomic model under credible commitment, price level targeting dominates inflation targeting. But with sufficient inflation aversion the inflation targeting central bank can produce quantitatively similar results to targeting the price level. The current degree of inflation aversion demonstrated by the Bank of England may be sufficient to reap the benefits of price level targeting.

PD April 2002. **TI** Output, Inflation and the New Keynesian Phillips Curve. **AU** Chadha, Jagjit S.; Nolan, Charles. **AA** Chadha: University of Cambridge. Nolan: University of Durham. **SR** University of Cambridge, DAE Working Paper: 0204; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 24. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** E12, E31. **KW** Inflation. Phillips Curve. Marginal Cost. Output Gap. Factor Markets. Price Stickiness. New Keynesian.
AB Explicit modeling of factor markets clarifies two fundamental aspects of the New Keynesian Phillips Curve (NKPC). First, we clarify the relationship between output and marginal cost. Second, for the NKPC in inflation-output space, we identify the key stochastic influences on inflation without recourse to ad hoc cost or excess demand shocks. The econometric implementation of this clarified NKPC, based on Campbell (1987), allows us jointly to derive inflation as a forecast of future variables and infer the degree of price stickiness in real-world data. Our approach clarifies the empirical successes and failures of the NKPC.

PD October 2002. **TI** Optimal Simple Rules for the Conduct of Monetary and Fiscal Policy. **AU** Chadha, Jagjit S.; Nolan, Charles. **AA** Chadha: University of Cambridge. Nolan: University of Durham. **SR** University of Cambridge, DAE Working Paper: 0224; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 35. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** E21, E32, E52, E63. **KW** Optimal Simple Rules. Monetary Policy. Fiscal Policy. Finite Lives. Business Cycle. Aggregate Demand.
AB We develop a simple model for studying the impact of monetary and fiscal policies on aggregate demand, at the business cycle frequencies. We focus on two questions principally. First, what are the key properties of the joint optimal simple rules governing the conduct of the systematic components of monetary and fiscal policy? Second, following Blanchard (1985) we construct an index of fiscal stance to disentangle the "expenditure" and wealth effects of fiscal policy. We find that underpinning the so-called "Taylor principle" is a fiscal policy maker giving full force to automatic stabilizers. We also find that the Mundellian assignment of policy instruments may have attractive properties.

Chaloupka, Frank J.

TI The Demand for Nicotine Replacement Therapies. **AU** Tauras, John A.; Chaloupka, Frank J.

PD July 2001. **TI** Alcohol and Marijuana Use Among College Students: Economic Complements or Substitutes? **AU** Chaloupka, Frank J.; Pacula, Rosalie Liccardo; Wechsler, Henry; Williams, Jenny. **AA** Chaloupka: University of Illinois at Chicago and NBER. Pacula: RAND Corporation and NBER. Wechsler: Harvard School of Public Health. Williams: University of Illinois at Chicago and University of Adelaide. **SR** National Bureau of Economic Research Working Paper: 8401; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** D12, I12. **KW** Alcohol. Marijuana. Substitutes. Complements.
AB College campuses have been cracking down on underage and binge drinking in light of recent highly publicized student deaths. Although there is evidence showing that stricter college alcohol policies have been effective at discouraging both drinking in general and frequent binge drinking on college campuses, recent evidence from the Harvard School Of Public Health College Alcohol Study (CAS) shows that marijuana use among college students rose 22 percent between 1993 and 1999. Are current policies aimed at reducing alcohol consumption inadvertently encouraging marijuana use? This paper begins to address this question by investigating the relationship between the demands for alcohol and marijuana for college students using data from the 1993, 1997, and 1999 CAS. We find that alcohol and marijuana are economic complements and policies that increase the full price of alcohol decrease participation in marijuana use.

Chari, V. V.

PD September 2002. **TI** Time Inconsistency and Free-Riding in a Monetary Union. **AU** Chari, V. V.; Kehoe, Patrick J. **AA** Chari: University of Minnesota and Federal Reserve Bank of Minneapolis. Kehoe: University of Minnesota, Federal Reserve Bank of Minneapolis, and NBER. **SR** Federal Reserve Bank of Minneapolis Staff Report: 308; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 26. **PR** no charge. **JE** E42, E58, E61, E63, F33, F41, F42. **KW** Monetary Regime. Fixed Exchange Rates. Dollarization. European Union.
AB We analyze the setting of monetary and nonmonetary policies in monetary unions. We show that in these unions a time inconsistency problem in monetary policy leads to a novel type of free-rider problem in the setting of nonmonetary policies, such as labor market policy, fiscal policy, and bank

regulation. The free-rider problem leads the union's members to pursue lax nonmonetary policies that induce the monetary authority to generate high inflation. The free-rider problem can be mitigated by imposing constraints on the nonmonetary policies, like unionwide rules on labor market policy, debt constraints on members' fiscal policy, and unionwide regulation of banks. When there is no time inconsistency problems, there is no free-rider problem, and constraints on nonmonetary policies are unnecessary and possibly harmful.

Charles, Kerwin

TI Accounting for the Black-White Wealth Gap: A Nonparametric Approach. AU Barsky, Robert; Charles, Kerwin; Bound, John; Lupton, Joseph.

Chatterjee, Satyajit

TI Knowledge Spillovers and the New Economy of Cities. AU Carlino, Gerald A.; Chatterjee, Satyajit; Hunt, Robert M.

PD May 2002. TI A Quantitative Theory of Unsecured Consumer Credit with Risk of Default. AU Chatterjee, Satyajit; Corbae, Dean; Nakajima, Makoto; Rios-Rull, Jose-Victor. AA Chatterjee: Federal Reserve Bank of Philadelphia. Corbae: University of Texas. Nakajima: University of Pennsylvania. Rios-Rull: University of Pennsylvania, NBER, CEPR, and CAERP. SR Federal Reserve Bank of Philadelphia Research Working Paper: 02/06; Working Papers. Department of Research. Federal Reserve Bank of Philadelphia. 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. PG 39. PR no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE D11, D14, G33. KW Consumer Credit. Default. Unsecured Credit. Bankruptcy.
AB We study, theoretically and quantitatively, the equilibrium of an economy with unsecured consumer credit with the following features. Credit suppliers take deposits at a given interest rate and offer loans to households via a menu of credit levels and associated interest rates. The loan industry is competitive, with free entry and zero costs, and borrowers have a default option that resembles, a bankruptcy filing under Chapter 7 of the U.S. Bankruptcy Code. The paper demonstrates the existence of a competitive equilibrium for such an economy and characterizes the circumstances under which a household defaults on its loans. We also show that the model can be specified in such a way as to account precisely for the quantitative properties of the main facts regarding bankruptcy and unsecured credit. We then use the model to address the implications of two policy experiments, one of which is a policy change that eliminates the Chapter 7 bankruptcy option for households with median or above-median income. We find that the welfare gain from this policy experiment is substantial, being equivalent to a lump-sum transfer payment of about one-quarter of average annual U.S. earnings.

Chau, Nancy H.

PD August 2001. TI The Adoption of Labor Standards Conventions: Who, When and Why? AU Chau, Nancy H.; Kanbur, Ravi AA Cornell University. SR CEPR Discussion Paper: 2904; Centre for Economic Policy Research, Discussion Paper Orders. 90-98 Goswell Road, London EC1V 7RR. United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE F16, J58.

KW Labor Standards. Legal Systems. Peer Effects. ILO Conventions.
AB The ratification of ILO Labor Standards Conventions is a key explanatory variable in the empirical literature linking labor standards to economic performance. The assumption is that ratification gives information about labor standards implemented in a country. This paper investigates the determinants of ratification directly and, indirectly, the determinants of labor standards. We find considerable variation across different Conventions, and across developing and developed countries. But there are some systematic and interesting patterns. While economic variables such as per capita income do not explain ratification, legal systems do. Most interestingly, for some Conventions, even after controlling for basic economic characteristics and domestic legal institutions, we find that peer effects are in play and the probability of adopting an international standard depends on how many other countries in a peer group have already adopted that standard.

Chay, Kenneth Y.

TI Does Low Birth Weight Matter? Evidence From the U.S. Population of Twin Births. AU Almond, Douglas; Chay, Kenneth Y.; Lee, David S.

Chen, Songnian

PD September 2002. TI Nonparametric Identification and Estimation of a Censored Regression Model with an Application to Unemployment Insurance Receipt. AU Chen, Songnian; Dahl, Gordon B.; Khan, Shakeeb. AA Chen: Hong Kong University of Science and Technology. Dahl: University of Rochester and UC Berkeley. Khan: University of Rochester. SR University of California, Berkeley, The Center for Labor Economics Working Paper: 54; The Center for Labor Economics, University of California, Berkeley, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: elsa.berkeley.edu/users/cle/wpapers.html. PG 24. PR free copies available electronically through website. JE C24, C41, J64. KW Censored Regression. Conditional Quantiles.
AB In this paper we consider identification and estimation of a censored nonparametric location scale model. We show that if the location function is greater or equal to the censoring point with positive probability, then the location function is identified on the entire support, including the region where the location function is below the censoring point. In the latter case we propose a simple estimation procedure based on combining conditional quantile estimators for three distinct quantiles. The new estimator is shown to converge at the optimal nonparametric rate with a limiting normal distribution. A small scale simulation study indicates that the proposed estimation procedure performs well in finite samples. We also present an empirical application on unemployment insurance duration using administrative level data from New Jersey. The survival curve for benefit receipt based on our new estimator closely matches the Kaplan-Meier estimate in the non-censored region and is relatively flat past the censoring point. We find that incorrect distributional assumptions can significantly bias the results for estimates past the censoring point.

Chernichovsky, Dov

PD August 2001. TI Toward a Framework for Improving Health Care Financing for an Aging Population: The Case of Israel. AU Chernichovsky, Dov; Markowitz, Sara.

AA Chernichovsky: Ben Gurion University of the Negev and NBER. Markowitz: Rutgers University and NBER. SR National Bureau of Economic Research Working Paper: 8415; 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 D82, I11, I18. KW Israel. Health Care. Aging. Financing Health Care.

AB The conventional wisdom is that because at any time the aged cost more than the young, there is a positive relationship between aging and health care spending. It is hard, however, to find evidence that aging correlates positively with such spending. Intrigued by the puzzle, we account for the factors that contribute to changes of the age distribution of medical costs and their potential effect on aggregate cost. As changes in costs are not age neutral, the health system needs to facilitate a dynamic shift of resources from those whose relative cost rise less -- the young -- to those whose relative costs rise more -- the old. The private market does not seem to effectively facilitate this shift. Growth in incomes and insurance coverage are likely to increase use of care particularly amongst the old. Rising levels of education would have the opposite effect, but among the relatively young. The effect of a key element, technology, remains unknown. The Israeli experience also points to the advantages of a unified publicly financed health system with a timely allocation mechanism.

PD September 2001. TI A Fuzzy Logic Approach Toward Solving the Analytic Maze of Health System Financing. AU Chernichovsky, Dov; Bolotin, Arkady; de Leeuw, David. AA Ben-Gurion University of the Negev and NBER. Bolotin and de Leeuw: not available. SR National Bureau of Economic Research Working Paper: 8470; National Bureau of Economic Research, 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 the U.S.). JE I11, I18. KW Fuzzy Logic. Health System. Health Financing. Welfare Weights.

AB Improved health, equity, macro-economic efficiency, efficient provision of care, and client satisfaction are the common goals of the health system. The relative significance of thee goals varies, however, across nations, communities, and with time. We claim that "health system finance" is not amenable to a clear set of structural relationships. Neither is there a universe that can be subject to statistical scrutiny: each health system is unique. "Fuzzy logic" and its underlying "Expert System" that model human reasoning by managing "knowledge" close to the way it is handled by human language, provides a powerful tool for systematic analysis of health system finance, and for guiding policy making. Assuming equal welfare weights for alternative goals, and mutually exclusive policy options under each health-financing element, the exploratory model we present here suggest that a German type health system is best. Other solutions depend on the welfare weights and mixes of policy options.

Cho, In-Koo

TI Escapist Policy Rules. AU Bullard, James; Cho, In-Koo.

Christiano, Lawrence J.

PD July 2001. TI Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy. AU Christiano, Lawrence J.; Eichenbaum, Martin; Evans, Charles.

AA Christiano: Northwestern University, NBER, Federal Reserve Bank of Chicago, and Federal Reserve Bank of Cleveland. Eichenbaum: Northwestern University, NBER, and Federal Reserve Bank of Chicago. Evans: Federal Reserve Bank of Chicago. SR National Bureau of Economic Research Working Paper: 8403; 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 E31, E32, E44, E52. KW Monetary Policy. Monetary Dynamics. Nominal Rigidities.

AB We present a model embodying moderate amounts of nominal rigidities which account for the observed inertia in inflation and persistence in output. The key features of our model are those that prevent a sharp rise in marginal costs after an expansionary shock to monetary policy. Of these features, the most important are staggered wage contracts of average duration three quarters, and variable capital utilization.

PD October 2001. TI Money Growth Monitoring and the Taylor Rule. AU Christiano, Lawrence J.; Rostagno, Massimo. AA Christiano: Northwestern University and NBER. Rostagno: European Central Bank. SR National Bureau of Economic Research Working Paper: 8539; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 54. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E31, E52, E63. KW Money Growth. Taylor Rule. Volatility. Monitoring. Central Bank.

AB Using a series of examples, we review the various ways in which a monetary policy characterized by the Taylor rule can inject volatility into the economy. In the examples, a particular modification to the Taylor rule can reduce or even entirely eliminate the problems. Under the modified policy, the central bank monitors the money growth rate and commits to abandoning the Taylor rule in favor of a money growth rule in case money growth passes outside a particular monitoring range.

Chung, Kim-Sau

PD November 2001. TI Implementation with Near-Complete Information. AU Chung, Kim-Sau; Ely, Jeffrey C. AA Northwestern University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1332; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: 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, D71, D81. KW Social Choice Rules. Nash Equilibrium.

AB Many refinements of Nash equilibrium yield solution correspondences which do not have closed graph. This has significance for implementation theory, especially under complete information. If a planner is concerned that all equilibria of this mechanism yield a desired outcome, and entertains the possibility that the players may have even the slightest uncertainty about payoffs, then the planner should insist on a solution concept with closed graph. We show that this requirement entails substantial restrictions on the set of implementable social choice rules. In particular, when preferences are strict, while any social choice function can be implemented in undominated Nash equilibrium, only

monotonic social choice functions can be implemented in the closure of the undominated Nash correspondence.

PD February 2002. **TI** Ex-Post Incentive Compatible Mechanism Design. **AU** Chung, Kim-Sau; Ely, Jeffrey C. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1339; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: 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** D23, D81, D84. **KW** Incentive Compatible. Mechanism Design. Decision Rules.
AB We characterize ex post incentive compatible public decision rules, and apply this characterization to (i) bilateral trade and (ii) public good provision.

Ciccarelli, Matteo
TI Forecasting and Turning Point Predictions in a Bayesian Panel VAR Model. **AU** Canova, Fabio; Ciccarelli, Matteo.

Cicia, Gianni
TI Valuing Farm Animal Genetic Resources by Means of Contingent Valuation and a Bio-Economic Model: The Case of the Pentro Horse. **AU** D'Ercole, Elisabetta; Cicia, Gianni; Marino, Davide.

Cipollone, Piero
PD June 2002. **TI** Rational Responses to Poorly Designed Policies: The Case of Subsidies to Open-End Contracts in Italy. **AU** Cipollone, Piero; Guelfi, Anita. **AA** Cipollone: Bank of Italy. Guelfi: Confindustria. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 52; The Center for Labor Economics, University of California, Berkeley, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: elsa.berkeley.edu/users/cle/wpapers.html. **PG** 52. **PR** free copies available electronically through website. **JE** H24, H25, J23, J32. **KW** Italy. Tax Credits. Open-Ended Contracts. Credito d' Imposta.
AB In this paper we look to tax credit policy as an instrument to foster hiring with open-end rather than with fixed-term contracts. In particular, we examine a specific regulation adopted in Italy in the year 2000 (Credito d' Imposta). This policy offers a generous and automatic tax credit to all firms hiring workers with open-end contracts. The eligibility criteria are very mild for both firms and workers. Our results seem to indicate, both formally and empirically, that firms rationally used this subsidy to hire under open-end contracts almost only those workers who would have been hired under such a contract regardless the subsidy, even though after a short transition into temporary employment. Our estimates suggest that, compared to 2000, in 2001 the subsidy did increase the probability to be hired with an open-end contract, conditional on being hired, but in a rather uneven way across workers. The probability rose of about 10 per cent for workers with a college degree, of about 4 per cent for people with high school, while did not change or might have even slightly declined for workers with middle school or less.

Citanna, Alessandro
TI Controlling Price Volatility Through Financial Innovation. **AU** Schmedders, Karl; Citanna, Alessandro.

Cleaver, Chad
TI Financial Centers and the Geography of Capital Flows. **AU** Warnock, Francis E.; Cleaver, Chad.

Clementi, Gian Luca
PD June 2002. **TI** A Theory of Financing Constraints and Firm Dynamics. **AU** Clementi, Gian Luca; Hopenhayn, Hugo A. **AA** Clementi: Carnegie Mellon University. Hopenhayn: University of Rochester. **SR** Rochester Center for Economic Research Working Paper: 492; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: rcer.econ.rochester.edu. **PG** 28. **PR** $5.00 (3 first papers free of charge). **JE** D82, G32, L14. **KW** Optimal Contract. Borrowing Constraints. Moral Hazard. Survival.
AB There is widespread evidence supporting the conjecture that borrowing constraints have important implications for firm growth and survival. In this paper, we model a multi-period borrowing/lending relationship with asymmetric information. We show that borrowing constraints emerge as a feature of the optimal long-term lending contract, and that such constraints relax as the value of the borrower's claim to future cash-flows increases. We also show that the optimal contract has interesting implications for firm dynamics. In agreement with the empirical evidence, as age and size increase, mean and variance of growth decrease, firm survival increases, and the sensitivity of investment to cash flows declines.

Coate, Stephen
TI Issue Unbundling via Citizens' Initiatives. **AU** Besley, Timothy; Coate, Stephen.

Cochrane, John H.
TI International Risk Sharing is Better Than You Think (or Exchange Rates are Much Too Smooth). **AU** Brandt, Michael W.; Cochrane, John H.; Santa-Clara, Pedro.

PD October 2001. **TI** A Rehabilitation of Stochastic Discount Factor Methodology. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8533; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 6. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** C13, C50, G10, G12. **KW** Stochastic Discount Factors. Maximum Likelihood Estimation. GMM.
AB In a recent Journal of Finance article, Kan and Zhou (1999) find that the "Stochastic discount factor" methodology using GMM is markedly inferior to traditional maximum likelihood even in a simple test of the static CAPM with i.i.d. normal returns. This result has gained wide attention. However, as Jagannathan and Wang (2001) point out, this result flows from a strange assumption: Kan and Zhou allow the ML estimate to know the mean market return ex-ante. This paper shows how this information advantage explains Kan and Zhou's results. In fact, when treated symmetrically, the discount factor-GMM and traditional methodologies behave almost identically in linear i.i.d. environments.

Cohen, Daniel
PD October 2001. **TI** Growth and Human Capital: Good

Data. Good Results. AU Cohen, Daniel; Soto, Marcelo. AA Cohen: Universite de Paris I and CEPR. Soto: OECD Development Centre. SR CEPR Discussion Paper: 3025; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE I21, O41. KW Education. Growth. Human Capital.

AB This paper presents a new set of data on human capital. It is constructed so as to stay as close as possible to the censuses compiled by national, Organization for Economic Co-operation and Development (OECD) or United Nations Educational, Scientific and Cultural Organization (UNESCO) sources. We then use these data to test a model that embeds the Mincerian approach to human capital into the Mankiw, Romer and Weil version of the neo-classical model. We find that the model performs extremely well. Physical and human capital appears to carry social returns that are essentially identical to the private ones.

Cohen, Jeffrey P.

TI Aviation Security and Terrorism: A Review of the Economic Issues. AU Coughlin, Cletus C.; Cohen, Jeffrey P.; Khan, Sarosh R.

Cole, Harold L.

PD October 2001. TI The Great U.K. Depression: A Puzzle and Possible Resolution. AU Cole, Harold L.; Ohanian, Lee E. AA Federal Reserve Bank of Minneapolis and University of California, Los Angeles. SR Federal Reserve Bank of Minneapolis Staff Report: 295; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. PG 31. PR no charge. JE E21, E23, E31, E34, E44. KW U. K. Depression. Hours Restriction. Unemployment Compensation.

AB Between 1913 and 1929, real GDP per person in the UK fell 1 percent, while this same measure of economic activity rose about 25 percent in the rest of the world. Why was Britain so depressed in a decade of strong economic activity around the world? This paper argues that the standard explanations of contractionary monetary shocks and an overvalued nominal exchange rate are not the prime suspects for killing the British economy. Rather, we argue that large, negative sectoral shocks, coupled with generous unemployment benefits and housing subsidies, are the primary causes of this long and deep depression.

Collins, William J.

PD May 2001. TI The Labor Market Impact of State-Level Anti-Discrimination Laws, 1940-1960. AA Vanderbilt University and NBER. SR National Bureau of Economic Research Working Paper: 8310; National Bureau of Economic Research, 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 the U.S.). JE J64, J70, J71, J82. KW Anti-Discrimination Laws. Unemployment. Difference-in-difference-in-difference Framework.

AB By the time Congress passed the 1964 Civil Rights Act, 98 percent of non-southern blacks (40 percent of all blacks) were already covered by state-level "fair employment" laws which prohibited labor market discrimination. This paper assesses the impact of fair employment legislation on black workers' income, unemployment, labor force participation, and occupational and industrial distributions relative to whites using a difference-in-difference-in-difference framework. In general, the fair employment laws adopted in the 1940s appear to have had larger effects than those adopted in the 1950s, and the laws had relatively small effects on the labor market outcomes of black men compared to those of black women.

Combes, Pierre-Philippe

PD September 2001. TI Labor Pooling, Labor Poaching and Spatial Clustering. AU Combes, Pierre-Philippe; Duranton, Gilles. AA Combes: CERAS, Paris and CEPR. Duranton: London School of Economics. SR CEPR Discussion Paper: 2975; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE J41, L13, R32. KW Agglomeration. Firm Clustering. Labor Poaching. Labor Pooling. Horizontal Differentiation.

AB When firms cluster in the same local labor market, they face a trade-off between the benefits of labor pooling (i.e., access to workers whose knowledge helps reduce costs) and the costs of labor poaching (i.e., loss of some key workers to competition and the indirect effect of a higher wage bill to retain the others). We explore this trade-off in a duopoly game. Depending on market size and on the degree of horizontal differentiation between products, we characterize the strategic choices of firms regarding locations, wages, poaching and prices. Our results show that co-location, although it is always efficient, is not in general the equilibrium outcome.

Conley, John P.

PD July 2001. TI Intergenerational Fiscal Constitutions: How to Protect Future Generations Using Land Taxes and Federalism. AU Conley, John P.; Rangel, Antonio. AA Conley: University of Illinois. Rangel: Stanford University and NBER. SR National Bureau of Economic Research Working Paper: 8394; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 27. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D73, D91, H21, H23, H39, H41, H73. KW Fiscal Constitutions. Intergenerational Public Goods. Land Taxes. Spillovers.

AB This paper studies how to design a fiscal constitution that, capitalizing intergenerational spillovers into land values, is able to protect future generations from expropriation and to generate optimal investment in intergenerational public goods. In particular, we study how to accomplish these goals by changing two dimensions of the fiscal constitution: (1) the level of government to which different types of intergenerational public goods are assigned, and (2) the tax base of the different jurisdictions. We show that the instruments required to generate capitalization of the intergenerational spillovers depend on the type of the spillover. Land taxation is the essential instrument for policies that mostly generate fiscal spillovers, such as debt and public infrastructure. By contrast, interjurisdictional competition is the essential instrument for policies that mostly generate direct spillovers, such as irreversible environmental damages. Furthermore, we show that it is possible to design a fiscal constitution that generates full capitalization of fiscal spillovers, but in general, not one that generates full capitalization of direct spillovers.

Conn, Charlie

AB   This study examines the impact of cross-border and domestic acquisitions on the long-run share returns of UK acquiring firms. We find evidence that the timing of cross-border acquisitions has a significant effect on post-acquisition returns. Cross-border post- acquisition returns do not differ significantly according to the country of the target company.

Cook, J.

AB   This paper studies the effects of deregulation following the UK Building Societies Act 1986, which opened the way for competition between building societies and commercial banks and introduced a procedure for the demutualization of a building society. It is argued that the Act brought about a rearrangement of property rights that destabilized the building society form. A wave of demutualizations followed in the 1990s. The beneficiaries of change included corporate managers whose earnings and status were enhanced following conversion, and speculative investors who profited from windfall gains. These were set against losses to borrowers, in the form of higher costs of loans, and to communities, in the form of reduced diversity of services. There is no guarantee that the recent trajectory of the sector is one of evolution to efficiency. Rather, its experience illustrates the often-unexpected consequences for corporate governance of changes in regulation and property.

Cooper, Russell W.

AB   We study the inferences about labor adjustment costs obtained by the "gap methodology" of Caballero and Engel (1993) and Caballero, Engel and Haltiwanger (1997). In that approach, the policy function of a manufacturing plant is assumed to depend on the gap between a target and the current level of employment. Using time series observations, these studies reject the quadratic cost of adjustment model and find that aggregate employment dynamics depend on the cross sectional distribution of employment gaps. We argue that these conclusions may not be justified. Instead these findings may reflect difficulties measuring the gap. Thus it appears that the gap methodology, as currently employed, may be unable to: (i) identify the costs of labor adjustment and (ii) assess the aggregate implications of labor adjustment costs.

AB   We study inferences about the dynamics of labor adjustment obtained by the "gap methodology" of Caballero and Engel (1993) and Caballero, Engel and Haltiwanger (1997). In that approach, the policy function for employment growth is assumed to depend on an unobservable gap between the target and current levels of employment. Using time series observations, these studies reject the partial adjustment model and find that aggregate employment dynamics depend on the cross-sectional distribution of employment gaps. Thus, nonlinear adjustment at the plant level appears to have aggregate implications. We argue that this conclusion is not justified: these finding of nonlinearites in time series data may reflect mismeasurement of the gaps rather that the aggregation of plant-level nonlinearities.

AB   Central to ongoing debates over the desirability of monetary unions is a supposed trade-off, outlined by Mundell (1961): a monetary union reduces transactions costs but renders stabilization policy less effective. If shocks across countries are sufficiently correlated, then, according to this argument, delegating monetary policy to a single central bank is not very costly and a monetary union is desirable. This paper explores this argument in a setting with both monetary and fiscal policies. In an economy with monetary policy alone, we confirm the presence of the trade-off and find that indeed a monetary union will not be welfare improving if the correlation of national shocks is too low. However, fiscal interventions by national governments, combined with a central bank that has the ability to commit to monetary policy, overturn these results.

In equilibrium, such a monetary union will be welfare improving for any correlation of shocks.

Copeland, Brian R.
PD October 2001. **TI** International Trade and the Environment: A Framework for Analysis. **AU** Copeland, Brian R.; Taylor, M. Scott. **AA** Copeland: University of British Columbia. Taylor: University of Wisconsin-Madison and NBER. **SR** National Bureau of Economic Research Working Paper: 8540; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 57. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F14, F15, F18, H40. **KW** International Trade. Environment. Pollution. General Equilibrium Analysis. Growth.
AB This paper sets out a general equilibrium pollution and trade model to provide a framework for examination of the trade and environment debate. The model contains as special cases a canonical pollution haven model as well as the standard Heckscher-Ohlin-Samuelson factor endowments model. We draw quite heavily from trade theory, but develop a simple pollution demand and supply system featuring marginal abatement cost and marginal damage schedules familiar to environmental economists. We have intentionally kept the model simple to facilitate extensions examining the environmental consequences of growth, the impact of trade liberalization, and strategic interaction between countries.

Corbae, Dean
TI A Quantitative Theory of Unsecured Consumer Credit with Risk of Default. **AU** Chatterjee, Satyajit; Corbae, Dean; Nakajima, Makoto; Rios-Rull, Jose-Victor.

Coricelli, Fabrizio
PD September 2001. **TI** Hardened Budgets and Enterprise Restructuring: Theory and an Application to Romania. **AU** Coricelli, Fabrizio; Djankov, Simien. **AA** Coricelli: Universita di Siena and CEPR. Djankov: World Bank. **SR** CEPR Discussion Paper: 2950; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** G34, P31. **KW** Romania. Soft Budgets.
AB We identify the presence of soft budgets and analyze their impact on enterprise restructuring in Romania over the initial transition period. A simple analytical framework is developed to show that hardened budget constraints foster rationalization of costs, but not active restructuring. The latter requires availability of external financing. The model emphasizes the importance of the credibility of hard budgets. The empirical findings are consistent with the predictions of the model. Using a sample of over 4,000 Romanian enterprises during 1992- 95, we show that hardened budget constraints induce labor shedding. There is no evidence of positive effects on active restructuring, which we define as new investments.

Corrado, Luisa
PD April 2002. **TI** Exchange Rate Monitoring Bands: Theory and Policy. **AU** Corrado, Luisa; Miller, Marcus; Zhang, Lei. **AA** Corrado: University of Rome Tor Vergata, Italy. Miller and Zhang: University of Warwick. **SR** University of Cambridge, DAE Working Paper: 0209; Department of Applied Economics, University of Cambridge,

Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 33. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D52, F31, G12. **KW** Monitoring Band. Non-Linearity. Mean-Reversion. Random Walk Dynamics. Real Exchange Rate.
AB Recent empirical research by Mark Taylor and coauthors has found evidence of hybrid dynamics for real exchange rates. While there is a random walk near equilibrium, for real exchange rates some distance from equilibrium there is mean-reversion which increases with the degree of misalignment. An interesting question is whether this nonlinear mean-reversion might be policy-induced. John Williamson (1998), for example, has proposed a "monitoring band" in which there is no intervention near equilibrium but there is substantial intervention triggered by exchange rate deviations outside a preset band. In this paper, we develop a theoretical model of such a monitoring band to see whether it can generate patterns of nonlinear mean-reversion akin to those reported in empirical research.

Cosh, Andy
TI Long-Run Share Performance of UK Firms Engaging in Cross-Border Acquisitions. **AU** Conn, Charlie; Cosh, Andy; Guest, Paul; Hughes, Alan.

PD September 2001. **TI** The Long-Run Performance of Hostile Takeovers: UK Evidence. **AU** Cosh, Andy; Guest, Paul. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP215; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 29. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** G34. **KW** Hostile Takeovers. Friendly Takeovers. Disciplinary Hypothesis. Pre- Takeover Performance. Post-Takeover Performance.
AB This paper examines the long-run pre and post takeover performance of hostile takeovers. Bidders in hostile takeovers are not superior performers in terms of profit levels, although share numbers are significantly high prior to takeover. However, in the post takeover period, hostile takeovers show significant improvements in profit returns, which are associated with significant asset disposals. In contrast, friendly takeovers do not improve profit returns and result in significantly negative long-run share returns.

PD September 2001. **TI** Managerial Discretion and Takeover Performance. **AU** Cosh, Andy; Guest, Paul; Hughes, Alan. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP216; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 33. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** G32, G34. **KW** Corporate Takeovers. Board Ownership. Profitability. Long Run Share Returns.
AB We investigate the relation between long run takeover performance and board share ownership in the acquiring company for a sample of 142 UK takeovers completed between 1985-95. We find evidence of a non- linear relationship both between board ownership and post-takeover share returns. We cast the analysis in a simultaneous equations framework using

non-linear two-stage least squares, and find that our results are robust to this alternative specification. The results are therefore consistent with a managerial alignment/entrenchment trade-off.

Coughlin, Cletus C.

PD June 2002. **TI** Aviation Security and Terrorism: A Review of the Economic Issues. **AU** Coughlin, Cletus C.; Cohen, Jeffrey P.; Khan, Sarosh R. **AA** Coughlin and Khan: Federal Reserve Bank of St. Louis. Cohen: University of Hartford. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/009A; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. **PG** 29. **PR** no charge. **JE** D73, H11, H23, H56, L93, L98. **KW** Aviation Security. Terrorism. Network Externality. Role of Government.
AB Following the terrorist attacks on September 11, 2001, the passage of the Aviation and Transportation Act mandated a substantial increase in resources devoted to aviation security. This paper summarizes the specific changes stemming from this legislation. In addition, the paper examines the economic issues underlying the regulation and provision of aviation security. The fact that security at one airport can affect the well being of those at other airports and elsewhere, an example of a network externality (spillover), provides an economic justification for governmental involvement in aviation security. A fundamental question is whether the federal role should be restricted to setting and monitoring security standards or whether the role should also include the financing and implementation of security. We argue that economic theory does not provide a clear answer to what is likely to be a continuing source of controversy -- the appropriate scope of governmental involvement in aviation security.

Coulson, N. Edward

TI Compensating Differentials and the Social Benefits of the NFL. **AU** Carlino, Gerald A.; Coulson, N. Edward.

Coyte, Peter C.

PD October 2001. **TI** Household Responses to Public Home Care Programs. **AU** Coyte, Peter C.; Stabile, Mark. **AA** Coyte: University of Toronto. Stabile: University of Toronto and NBER. **SR** National Bureau of Economic Research Working Paper: 8523; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 21. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** I10, I11, I18, J14. **KW** Public Home Care Programs. Informal Care-Giving. Health Status.
AB A choice-theoretic model of household decision-making with respect to care-giving time allocations and the use of publicly and privately financed home care services is proposed. Predictions concerning the effect of increased availability of publicly financed home care services on home care utilization, informal care-giving, and health status are derived. These predictions are assessed through use of Canadian inter-provincial survey data on home care use and care-giving that are matched with data on home care funding for the period of 1992 to 1998. Increased availability of publicly financed home care is associated with an increase in its utilization and a decline in informal care-giving, with this effect more pronounced among lower income Canadians. While self-reported health status was positively correlated with the increased variability of publicly financed home care; the

perceived need for home care was invariant to this change.

Crockett, Alasdair

PD August 2000. **TI** Variations in Churchgoing Rates in England in 1851: Supply-Side Deficiency or Demand-Led Decline? **AA** University of Oxford. **SR** University of Oxford, Discussion Papers in Economic and Social History: 36; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. **PG** 33. **PR** no charge. **JE** A13, D12, L31, N00, R12. **KW** Churchgoing. Secularization. Rational Choice. Religion.
AB In the sociology of religion of the past thirty years or so, one can identify three major approaches to the relation of religion and modernity: secularization theory, the Stark-Bainbridge rational choice theory, and the Finke-Stark "supply-side" theory. This paper studies churchgoing rates in England in 1851 to examine which of these three theoretical approaches appears the most valid. Victorian England provides a compelling case study. Not only are the data very good (uniquely so in the case of Britain), but also England in 1851 takes us back to one of the original locales of urban-industrial development. The conclusion is that both "supply-side" (of religion) and "secularization" processes were influencing English churchgoing rates in 1851. However, the former were much more limited and transient in their effect, being restricted to isolated rural areas. In the more urban places, where most people lived, secularization processes were operating. There are parallels between this "duality" of process operating in rural and urban England in 1851 and the fact that churchgoing appears to have increased during the nineteenth century up to that point, but declined, unabated, thereafter.

Crone, Theodore M.

PD May 2002. **TI** Consistent Economic Indexes for the 50 States. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 02/07; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. **PG** 16. **PR** no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** C22, C43, C51. **KW** Kalman Filter. Coincident Indexes. Seasonal Adjustment.
AB In the late 1980s James Stock and Mark Watson developed an alternative coincident index for the U.S. economy. They used the Kalman filter to estimate a latent dynamic factor for the national economy and designated the common factor as the coincident index. This paper uses the Stock/Watson methodology to estimate a consistent set of coincident indexes for the 50 states. The indexes are consistent in the following sense. (1) The input variables for estimating the common factor are the same for each state. (2) The timing of the coincident indexes is set to coincide with the same observable variable in each state (nonfarm employment). (3) And the trend of the index for each state is set to the trend of real gross state product in the state. The final indexes are available on the web at www.phil.frb.org/econ/stateindexes.

Croushore, Dean

PD March 2002. **TI** Is Macroeconomic Research Robust to Alternative Data Sets? **AU** Croushore, Dean; Stark, Tom. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal

Reserve Bank of Philadelphia Research Working Paper: 02/03; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. **PG** 22. **PR** no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** C52, C82. **KW** Robustness. Econometric Results. Macroeconomic Research. Spectral Analysis. Data Vintage.

AB This paper uses a real-time data set to analyze data revisions and to test the robustness of published econometric results. The data set consists of vintages, or snapshots, of the major macroeconomic data available at quarterly intervals in real time. The paper illustrates why such data may matter, examines the properties of several of the variables in the data set across vintages, and examines key empirical papers in macroeconomics, investigating their robustness to different vintages.

PD September 2002. **TI** Forecasting Coin Demand. **AU** Croushore, Dean; Stark, Tom. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 02/15; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. **PG** 25. **PR** no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** C53, E41, E47. **KW** Coin Shortage. Coin Demand.

AB In 1999 and 2000 the United States experienced a shortage of coins. This paper develops models for forecasting coin demand. A variety of models were developed, tested, and used in real-time forecasting. This paper describes the models that were developed and examines the forecast errors from the models both in quasi-ex-ante forecasting exercises and in real-time use. Tests for forecast efficiency are run on each model. Real-time forecasts are examined. The paper concludes with suggestions for further refinements of the models.

Cutler, David M.

PD October 2001. **TI** Changes in the Age Distribution of Mortality Over the 20th Century. **AU** Cutler, David M.; Meara, Ellen. **AA** Cutler: Harvard University and NBER. Meara: Harvard Medical School and NBER. **SR** National Bureau of Economic Research Working Paper: 8556; 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** I12, J11. **KW** Mortality. Age Distribution. Health.

AB Mortality has declined continuously in the United States over the course of the 20th century, and at relatively constant rates. But the constancy of mortality reductions masks significant heterogeneity by age, cause, and source. Using historical data on death by age and cause, this paper describes the characteristics of mortality decline over the 20th century. Early in the 20th century, mortality declines resulted from public health and economic measures that improved peoples' ability to withstand disease. Because nutrition and public health were more important for the young than the old, mortality reductions were concentrated at younger ages. By mid-century, medical care became more significant and other factors less so. Penicillin and sulfa drugs brought the first mortality reductions at older ages, which were coupled with continuing

improvements in health at younger ages. The pattern of mortality reduction was relatively equal by age. In the latter part of the 20th century, death became increasingly medicalized. Cardiovascular disease mortality was prevented in significant part through medical intervention. Most of the additional years added to life in the last few decades of the 20th century were at older ages.

D'Ercole, Elisabetta

PD December 2001. **TI** Valuing Farm Animal Genetic Resources by Means of Contingent Valuation and a Bio-Economic Model: The Case of the Pentro Horse. **AU** D'Ercole, Elisabetta; Cicia, Gianni; Marino, Davide. **AA** D'Ercole and Marino: Universita degli Studi del Molise. Cicia: Universita degli Studi di Napoli. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2001/108; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it. **PG** 44. **PR** no charge; available only on website. **JE** Q12, Q16. **KW** Animal Genetic Resources. Contingent Valuation. Bio-Economic Model. Cost-Benefit Analysis. Pentro Horse.

AB This paper presents the results of a cost-benefit analysis of a conservation program for the Pentro horse. This horse breed has been reared for millennia in a Southern Italian wetland where it is now strongly tied to the traditions of the region, but presently faces extinction as only 150 horses have survived. Horse herds live in a wild state, characterizing in a remarkable manner the landscape of the wetland. This results in a flow of social benefits that the market value of this breed fails to capture. The benefits from a conservation program for this currently unprotected local breed is estimated in a contingent valuation study, while a bio-economic model is used to estimate the costs associated with its in-situ conservation. The results show that this combined approach could be useful to support policy-making for conservation in regions with a long history of breeding domestic animals. Here the issue of allocating scarce funds to a large and growing number of economically not viable animal breeds facing extinction.

Dahl, Gordon B.

PD February 2002. **TI** Mobility and the Return to Education: Testing a Roy Model with Multiple Markets. **AA** University of Rochester. **SR** Rochester Center for Economic Research Working Paper: 488; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: rcer.econ.rochester.edu. **PG** 33. **PR** $5.00 (3 first papers free of charge). **JE** C14, C35, J31, J61. **KW** Selection Bias. Polychotomous Choice. Roy Model. Returns to Education. Migration.

AB Self-selected migration presents one potential explanation for why observed returns to a college education in local labor markets vary widely even though U.S. workers are highly mobile. To assess the impact of self-selection on estimated returns, this paper first develops a Roy model of mobility and earnings where workers choose in which of the 50 states (plus the District of Columbia) to live and work. Available estimation methods are either infeasible for a selection model with so many alternatives or place potentially severe restrictions on earnings and the selection process. This paper develops an alternative econometric methodology which combines Lee's (1983) parametric maximum order statistic approach to reduce the dimensionality of the error terms with

more recent work on semiparametric estimation of selection models (e.g., Ahn and Powell, 1993). The empirical work, which uses 1990 U.S. Census data, confirms the role of comparative advantage in mobility decisions.

TI Nonparametric Identification and Estimation of a Censored Regression Model with an Application to Unemployment Insurance Receipt. AU Chen, Songnian; Dahl, Gordon B.; Khan, Shakeeb.

Dahlquist, Magnus

PD October 2001. TI Foreigners Trading and Price Effects Across Firms. AU Dahlquist, Magnus; Robertsson, Goran. AA Dahlquist: Duke University and CEPR. Robertsson: Stockholm Institute for Financial Research. SR CEPR Discussion Paper: 3033; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE G11, G12, G14, G15. KW Feedback Trading. Momentum. Portfolio Flows.
AB We study the investment behavior of foreign investors in association with an equity market liberalization, and find a strong link between foreigners' trading and local market returns. In the period following the liberalization, foreigners' net purchases led to a permanent increase in prices, or equivalently, a permanent reduction of the cost of equity capital. We also find a strong link between a firm's fraction of foreign ownership and the magnitude of the reduction of cost of capital. Foreign investors seem to prefer large and well-known firms, and these firms realize the most sizeable cuts in capital costs. Furthermore, our analysis suggests that foreigners act like non-informed feedback traders. In particular, they increase their net holding in firms that have recently performed well. Analyzing foreigners' performance, we find very little evidence of informed trading, suggesting that risk sharing is the most plausible explanation for the reduction in the cost of equity capital.

TI Sovereign Risk and Return in Global Equity Markets. AU Bansal, Ravi; Dahlquist, Magnus.

Dai, Qinglei

TI To What Extent Will the Banking Industry be Globalized? A Study of Bank Nationality and Reach in 20 European Nations. AU Berger, Allen N.; Dai, Qinglei; Ongena, Steven; Smith, David C.

Danthine, Jean-Pierre

TI EMU and Portfolio Diversification Opportunities. AU Adjaoute, Kpate; Danthine, Jean-Pierre.

Darby, Michael R.

TI Commercializing Knowledge: University Science, Knowledge Capture, and Firm Performance in Biotechnology. AU Zucker, Lynne G.; Armstrong, Jeff S.; Darby, Michael R.

Darsinos, Theofanis

PD May 2002. TI The Implied Distribution for Stocks of Companies with Warrants and/or Executive Stock Options. AU Darsinos, Theofanis; Satchell, Stephen E. AA University of Cambridge. SR University of Cambridge, DAE Working Paper: 0217; Department of Applied Economics, University of Cambridge, Sidgwick Avenue,

Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 43. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE G12, G13. KW Warrants. Executive Stock Options. Risk-Neutral. Risk-Management.
AB This paper sets out to provide a risk-management tool (namely the distribution of the stock price of a warrant-issuing firm) and at the same time resolves an outstanding issue between the theory and the empirical evidence of the warrant pricing literature. Recent empirical studies suggest that assuming lognormality for the stock price distribution of a warrant-issuing firm gives a very good approximation for the value of a warrant (this is the so-called "option-like" warrant valuation approximation). We show that despite of the fact that the (risk-neutral) distribution of a warrant-issuing firm and a non-warrant issuing firm is different, valuation by taking expectations of the discounted payoff of the warrant over the two different risk-neutral distributions produces warrant prices very close to each other for a large number of cases. Exceptions occur for deep-out-of-the-money and close to maturity out-of-the-money warrants in general. In such cases the "option-like" approximation will significantly overprice warrants.

PD July 2002. TI On the Valuation of Warrants and Executive Stock Options: Pricing Formulae for Firms with Multiple Warrants/Executive Options. AU Darsinos, Theofanis; Satchell, Stephen E. AA University of Cambridge. SR University of Cambridge, DAE Working Paper: 0218; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 29. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE G12, G13. KW Valuation. Warrants. Stock Options. Capital Structure. Dilution.
AB Textbook treatment the valuation of warrants takes as a state variable the value of the firm and shows that the value of a warrant is equal to that of a call option on the equity of the firm multiplied by a dilution factor. This approach applies only to the case where the firm issues a single warrant, i.e. n warrants with a single exercise price and time to maturity. In this paper we derive distribution-free (and distribution-specific) formulae for the more realist case where firms issue warrants with different maturities, different strike prices and different dilution factors, and for firms that issue warrants of the same maturity but different strike prices (and different dilution factors). The distinction we make between warrants and executive stock options is simply a matter of whether the contract is traded or not. We use the term warrant to cover both cases.

Das, Samarjit

TI Testing Proportionality in Duration Models with Respect to Continuous Covariates. AU Bhattacharjee, Arnab; Das, Samarjit.

Dave, Dhaval

PD October 2001. TI Alcohol Taxes and Labor Market Outcomes. AU Dave, Dhaval; Kaestner, Robert. AA Dave: CUNY Graduate Center and NBER. Kaestner: University of Illinois at Chicago and NBER. SR National Bureau of Economic Research Working Paper: 8562; 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 H24, I12. KW Alcohol Taxation. Employment. Wages.

AB   In this paper, we present estimates of the effect of alcohol taxes on employment, hours of work per week, and wages. These are reduced form estimates derived from a structural model linking alcohol use to labor market outcomes. The reduced form estimates are meaningful in two ways: first, they provide estimates of the effect of an important public policy tool, alcohol taxes, on labor market outcomes, and second, they can be used to evaluate hypotheses about the structural effects of alcohol use on labor market outcomes. The results of the analysis suggest that alcohol taxes are unrelated to employment, hours of work, and wages. Estimates of the effect of alcohol taxes on labor market outcomes were large and imprecise, and characterized by significant variation in sign and magnitude across samples and types of alcohol taxes. This suggests that there is a weak and indeterminate relationship between alcohol taxes and labor market outcomes. This finding implies that alcohol use does not adversely affect labor market outcomes and is inconsistent with findings from previous studies.

David, Paul A.

AB   This essay examines the economics of patronage and the roles of asymmetric information and reputation in the early modern reorganization of scientific activities, specifically their influence upon the formation of key elements in the ethos and organizational structure of publicly funded open science. The emergence of the idea and practice of "open science" represented a break from the previously dominant ethos of secrecy in the pursuit of "Nature's Secrets." It was a distinctive and vital organizational aspect of the Scientific Revolution, from which crystallized a new set of norms, incentives, and organizational structures. The rise of "cooperative rivalries" in the revelation of new knowledge, is seen as a functional response to heightened asymmetric information problems posed for the Renaissance system of court-patronage of the arts and sciences; pre-existing informational asymmetries had been exacerbated by increased importance of mathematics. Analysis of the court-patronage system points to the significance of the feudal legacy of fragmented political authority in creating conditions of "common agency contracting in substitutes." These conditions are shown to have been conducive to more favorable contract terms for the agent-client members of Western Europe's nascent scientific communities.

AB   An acceleration of total factor productivity (TFP) growth in U.S. manufacturing followed World War I. This development contributed to the rise of the domestic economy's aggregate TFP residual. Two visions of the dynamics of productivity growth are germane to an understanding of these developments. One emphasizes the role of forces affecting broad sections of the economy, through spillovers of knowledge and the diffusion of general purpose technologies (GPTs). The second view considers that possible sources of productivity increases are multiple and idiosyncratic. The latter approach regards surges to TFP growth to be the result of aggregation over many independent underlying cost reductions. Although there is room for both views, we find the evidence more compelling in support of the first approach. The proximate source of the TFP surges lay in the switch from declining or stable capital productivity onto a rising output-capital ratio, which was not accompanied by slowed growth in labor productivity. The 1920s saw critical advances in the electrification of industry, the diffusion of a GPT that brought significant fixed capital-savings. But the same era also witnessed profound transformation in the American industrial labor market.

Davis, Donald R.

AB   The dominant paradigm of world trade patterns posits two principal features. Trade between North and South arises due to traditional comparative advantage, largely determined by differences in endowment patterns. Trade within the North, much of it intra-industry trade, is based on economies of scale and product differentiation. The paradigm specifically denies an important role for endowment differences in determining North-North trade. This paper provides the first sound empirical examination of this question. We demonstrate that trade in factor services among countries of the North is systematically related to endowment differences and large in economic magnitude. Intra- industry trade, rather than being a puzzle for a factor endowments theory, is instead the conduit for a great deal of this factor service trade.

AB   We consider the distribution of economic activity within a country in light of three leading theories -- increasing returns, random growth, and locational fundamentals. To do so, we examine the distribution of regional population in Japan from the Stone Age to the modern era. We also consider the Allied bombing of Japanese cities in WWII as a shock to relative city

sizes. Our results support a hybrid theory in which locational fundamentals establish the spatial pattern of relative regional densities, but increasing returns may help to determine the degree of spatial differentiation. One implication of these results is that even large temporary shocks to urban areas have no long-run impact on city size.

PD October 2001. **TI** Market Size, Linkages, and Productivity: A Study of Japanese Regions. **AU** Davis, Donald R.; Weinstein, David E. **AA** Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 8518; National Bureau of Economic Research, 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 the U.S.). **JE** D24, F10, R10. **KW** Productivity. Market Size. Japan. Linkages. Economic Activity.

AB One account of spatial concentration focuses on productivity advantages arising from market size. We investigate this for forty regions of Japan. Our results identify important effects of a region's own size, as well as cost linkages between producers and suppliers of inputs. Productivity links to a more general form of "market potential" or Marshall-Arrow-Romer externalities do not appear to be robust in our data. Landlocked status does not matter for productivity of regions in Japan. The effects we identify are economically quite important, accounting for a substantial portion of cross-regional productivity differences. A simple counterfactual shows that if economic activity were spread evenly over the forty regions of Japan, aggregate output would fall by nearly twenty percent.

PD October 2001. **TI** What Role for Empirics in International Trade? **AU** Davis, Donald R.; Weinstein, David E. **AA** Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 8543; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** not available. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** B41, F17. **KW** International Trade. Empirical Research.

AB In the field of international trade, data analysis has traditionally had quite modest influence relative to that of pure theory. At one time, this might have been rationalized by the paucity of empirics in the field or its weak theoretical foundations. In recent years empirical research has begun to provide an increasingly detailed view of the determinants of trade relations. Yet the field as a whole has been slow to incorporate these findings in its fundamental worldview. In this paper, we outline and extend what we view as key robust findings from the empirical literature that should be part of every international economist's working knowledge.

Davis, Steven J.

PD August 2001. **TI** Economic Perspectives on Software Design: PC Operating Systems and Platforms. **AU** Davis, Steven J.; MacCrisken, Jack; Murphy, Kevin M. **AA** Davis and Murphy: University of Chicago Graduate School of Business and NBER. MacCrisken: Chicago Partners, LLC. **SR** National Bureau of Economic Research Working Paper: 8411; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 80. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** L13, L41, L86. **KW** Technological Change. Computer Technologies. PC Industry.

AB Improvements in the software that provides hardware management, user interface and platform functions have played a central role in the growth and transformation of the personal computer (PC) industry. Several forces shape the design of these "operating system" products and propel their evolution over time, including: The need to efficiently manage the interacting components of PC systems so as to keep pace with rapid advances in computer technologies, simplify computer use and facilitate the development of applications software; the need to maintain compatibility with existing applications while preserving the flexibility to incorporate additional functions that support new applications; the desire to economize on customer support costs and assign clear responsibility for making the interacting components of the PC work together; the desire to bundle multiple software features into a single package so as to more effectively meet the demand for complementary applications or reduce the diversity in product valuations among consumers. We analyze these forces and the factors that determine whether and when new features and functions are included in commercial operating system products. We also explain how this integration and bundling spurs growth in the PC industry and fosters innovation.

PD October 2001. **TI** Entry, Pricing and Product Design in an Initially Monopolized Market. **AU** Davis, Steven J.; Murphy, Kevin M.; Topel, Robert H. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8547; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 38. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** D42, D43, L12, L13. **KW** Entry. Pricing. Product Design. Differentiated Products. Monopoly.

AB We analyze entry, pricing and product design in a model with differentiated products. Under plausible conditions, entry into an initially monopolized market leads to higher prices for some, possibly all, consumers. Entry can induce a misallocation of goods to consumers, segment the market in a way that transfers surplus to producers and undermine aggressive pricing by the incumbent. Post entry, firms have strong incentives to modify product designs so as to raise price by strengthening market segmentation. Firms may also forego socially beneficial product improvements in the post-entry equilibrium, because they intensify price competition too much. Multi-product monopoly can lead to better design incentives than the non-cooperative pricing that prevails under competition.

de Abreu Pessoa, Samuel

TI Can the Costs of Education Explain the Poverty of Nations? Measuring the Impact of Factors Taxation and Life Expectancy on Income Differences. **AU** Ferreira, Pedro Cavalcanti; de Abreu Pessoa, Samuel.

PD June 2002. **TI** Vintage Capital, Distortions and Development. **AU** de Abreu Pessoa, Samuel; Rob, Rafael. **AA** de Abreu Pessoa: Graduate School of Economics (EPGE), Fundacao Getulio Vargas, Brazil. Samuel: University of Pennsylvania. **SR** University of Pennsylvania, CARESS Working Paper: 02/05; CARESS, University of Pennsylvania, 3718 Locust Walk, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/CARESS/. **PG** 42. **PR** $3.00 for U.S. and Canada; $5.00 for Foreign; make checks payable to Trustees of the University of Pennsylvania.

JE D24, D30, E25, O11, O47. KW Vintage Capital. Putty-Clay. Total Factor Productivity. Distortions. Income Inequality.

AB This paper asks to what extent distortions to the adoption of new technology cause income inequality across nation. We work in the framework of embodied technological progress with an individual, C.E.S. production function. We estimate the parameters of this production function from international data and calibrate the model, using U.S. National Income statistics. Our analysis suggests that distortions account for a bigger portion of income inequality than hitherto has been assessed.

TI A Model of Capital Accumulation and Rent-Seeking.
AU Barelli, Paulo; de Abreu Pessoa, Samuel.

De Grauwe, Paul

PD June 2001. TI Is Inflation Always and Everywhere a Monetary Phenomenon? AU De Grauwe, Paul; Polan, Magdalena. AA De Grauwe: Katholieke Universiteit Leuven and CEPR. Polan: Katholieke Universiteit Leuven. SR CEPR Discussion Paper: 2841; 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, E40, E50. KW Inflation. Money. Quantity Theory of Money. Output Growth.

AB Using a sample of about 160 countries over the last thirty years we test for the quantity theory relationship between money and inflation. When analyzing the full sample of countries we find a strong positive relation between the long-run inflation and money growth rate. The relation is not, however, proportional. The strong link between inflation and money growth is almost wholly due to the presence of high (or hyper-) inflation countries in the sample. The relationship between inflation and money growth for low inflation countries (on average less than 10 percent per annum over the last 30 years) is weak. We find that the long-run average inflation and country-specific factors have a significant influence on the strength of the relationship. We also confirm that money growth and output growth are orthogonal in the long- run; i.e. higher growth rates of money do not lead to higher growth rates of output.

PD November 2001. TI Union-Wide Aggregates versus National Data Based Monetary Policies: Does it Matter for the Eurosystem? AU De Grauwe, Paul; Piskorski, Tomasz. AA De Grauwe: Katholieke Universiteit Leuven, CESifo, and CEPR. Piskorski: Katholieke Universiteit Leuven. SR CEPR Discussion Paper: 3036; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE E42, E52, E58. KW EMU. Monetary Union. Loss Function. Linear Feedback Rules. Monetary Policy. ECB.

AB This paper studies effectiveness of alternative loss functions assigned to the common central bank of a monetary union. The alternative policy objectives are a function of the degree of aggregation of decision variables. We consider, respectively, the policy based on the union-wide aggregates and the policy based on the national data of the member states. To assess the performance of two alternative policy objectives in the environment of Euroland, we derive the implied optimal linear feedback rules using the framework similar to those proposed by Rudebusch and Svensson (1999). The dynamic simulations within the calibrated model of the European Monetary Union (EMU) indicate that the policy based on the union-wide aggregates yields stabilization performances that are close to the policy based on the national data of the member states. The main implication of the paper is that the announced monetary policy strategy of the European Central Bank (ECB) based on the union-wide aggregates may be a reasonable proxy of the optimal policy rule based on the national data of the member states.

de Leeuw, David
TI A Fuzzy Logic Approach Toward Solving the Analytic Maze of Health System Financing. AU Chernichovsky, Dov; Bolotin, Arkady; de Leeuw, David.

de Vries, Casper G.
PD August 2001. TI Asset Market Linkages in Crisis Periods. AU de Vries, Casper G.; Hartmann, Philipp. AA de Vries: Erasmus University Rotterdam. Hartmann: European Central Bank. SR CEPR Discussion Paper: 2916; 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 C49, F31, F36, F41, G15. KW Bivariate Extreme Value Analysis. Contagion. Extreme Co-Movements. Financial Crises. Flight to Quality.

AB We characterize asset return linkages during periods of stress by an extremal dependence measure. Contrary to correlation analysis, this non-parametric measure is not predisposed towards the normal distribution and can account for non-linear relationships. Our estimates for the G-5 countries suggest that simultaneous crashes in stock markets are about two times more likely than in bond markets. Moreover, stock-bond contagion is about as frequent as flight to quality from stocks into bonds. Extreme cross-border linkages are surprisingly similar to national linkages, illustrating a potential downside to international financial integration.

Deakin, Simon
TI The Limits of Statutory Trade Union Recognition.
AU Brown, William; Deakin, Simon; Hudson, Maria; Pratten, Cliff.

PD June 2001. TI Partnership, Ownership and Control: The Impact of Corporate Governance on Employment Relations. AU Deakin, Simon; Hobbs, Richard; Konzelmann, Sue; Wilkinson, Frank. AA University of Cambridge. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP200; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. PG 42. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE G34, J53, K22, K23. KW Corporate Governance. Industrial Partnership. Stakeholding. Cooperation. Ownership.

AB Most large UK private sector organisations are listed companies that are subject to intense pressures to enhance shareholder value. The question arises of whether this constrains the ability of UK managers to pursue genuine partnership arrangements with long-term stakeholders, including employees. Empirical evidence is presented in the form of case studies of partnership relations between labour and management since the mid-1990s in companies operating under different forms of ownership. While some companies

have been able to reconcile shareholder demands with a partnership approach, in other cases, shareholder pressure has undermined partnership relations of the kind which have endured under more concentrated forms of ownership. Where the corporate governance system can be seen to support partnership, it is in conjunction with market regulation underpinning quality standards, relative stability in product markets, and a willingness on the part of senior management to mediate between the claims of different stakeholder groups.

PD June 2001. **TI** The Contract of Employment: A Study in Legal Evolution. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP203; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 31. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** J38, J41, J53, K31. **KW** Contract of Employment. Master-Servant Model. Collective Bargaining. English Law.
AB This paper reconstructs the evolutionary path of the contract of employment in English law. It demonstrates that the contract of employment is a more recent innovation than is widely thought, and that its essential features owe as much to legislation as they do to the common law of contract. The master-servant model of the nineteenth century was only displaced by the modern contract of employment as a result of twentieth century social legislation and collective bargaining. The paper discusses present-day mutations in the legal form of employment in the light of this analysis.

TI Insolvency, Employment Protection and Corporate Restructuring: The Effects of TUPE. **AU** Armour, John; Deakin, Simon.

TI Mutuality and Corporate Governance: The Evolution of UK Building Societies Following Deregulation. **AU** Cook, J.; Deakin, Simon; Hughes, Alan.

TI Collective Employee Representation and the Impact of Law: Initial Response to the Employment Relations Act 1999. **AU** Oxenbridge, Sarah; Deakin, Simon; Brown, William; Pratten, Cliff.

Deaton, Angus
PD June 2001. **TI** Health, Inequality, and Economic Development. **AA** Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 8318; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 61. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** D31, D63, I12, O10. **KW** Economic Development. Health. Income Inequality. Mortality.
AB This paper explores the connection between income inequality and health in both poor and rich countries. The paper discusses a range of mechanisms, including nonlinear income effects, credit restrictions, nutritional traps, public goods provision, and relative depreciation. It reviews the evidence on the effects of income inequality on mortality. Much of the literature needs to be treated skeptically, if only because of the low quality of much of the data on income inequality. Although there are many puzzles that remain, the paper concludes that there is no direct link from income inequality to ill-health; individuals are no more likely to die if they live in more

unequal places. The raw correlations that are sometimes found are likely the result of factors other than income inequality, some of which are intimately linked to broader notions of inequality and unfairness. That income inequality itself is not a health risk does not deny the importance for health of other inequalities, nor of the social environment. Whether income redistribution can improve population health does not depend on a direct effect of income inequality and remains an open question.

PD October 2001. **TI** Mortality, Income, and Income Inequality Over Time in Britain and the United States. **AU** Deaton, Angus; Paxson, Christina. **AA** Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 8534; 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** D63, I12, O30. **KW** Mortality. Income Inequality. Income Growth. Income. Medical Technology.
AB We investigate age-specific mortality in Britain and the US since 1950. Neither trends in income nor in income inequality provide plausible explanations. Britain and the US had different patterns of income growth but similar patterns of mortality decline. Patterns of income inequality were similar in both countries, but adult and elderly mortality rates declined most rapidly during the period when inequality increased. Changes in the rate of mortality decline in the US led changes in Britain by about four years, most notably for infant and older adult mortality. British mortality is lower, but the schedules cross at around age 65. This pattern was established before Medicare, and most likely comes from rationing by age in Britain. Merged income, income inequality, and mortality data on an age/year basis show no evidence that income has effect on mortality in Britain. Education is protective, but less so than in the US. Understanding the effect of income on mortality presents many puzzles, between countries, and between analyses at different levels of aggregation. Our results suggest an important role for medical technology in determining the rate of mortality decline since 1950.

Debrun, Xavier
TI Is Fiscal Policy Coordination in EMU Desirable? **AU** Beetsma, Roel; Debrun, Xavier; Klaassen, Franc.

Dedola, Luca
PD April 2002. **TI** Why are Business Cycles Alike Across Exchange-Rate Regimes? **AU** Dedola, Luca; Leduc, Sylvain. **AA** Dedola: Banca D'Italia. Leduc: Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 02/11; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. **PG** 24. **PR** no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** E32, E52, F31, F33, F41. **KW** Business Cycles. Price-Adjustment Costs. Exchange Rate Regime. Volatility.
AB Since the adoption of flexible exchange rates in the early 1970s, real exchange rates have been much more volatile than they were under Bretton Woods. However, the literature showed that the volatilities of most other macroeconomic variables have not been affected by the change in exchange-rate

regime. This poses a puzzle for standard international business cycle models. In this paper, we study this puzzle by developing a two-country, two-sector model with nominal rigidities featuring deviations from the law of one price because a fraction of firms set prices in buyers' currencies. We show that a model with such building blocks can improve the match between the model and the data across exchange-rate regimes. By partially insulating goods markets across countries and thus mitigating the international expenditure- switching effect, local currency pricing considerably dampens the responses of net exports to shocks huffing the economies therefore helping to account for the puzzle.

DeFina, Robert H.

PD May 2002. **TI** The Impact of Unemployment of Alternative Poverty Measures. **AA** Villanova University. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 02/08; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. **PG** 20. **PR** no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** C43, I32. **KW** Poverty Measurement. Poverty Indexes. Unemployment. Income Distribution. Business Cycles.
AB The analysis uses data from the March Current Population Survey to estimate state-level cross-section/time-series models of the effects of unemployment on alternative poverty indexes. The indexes include the official headcount rate and alternatives based on improved identification and aggregation procedures. The estimated effects turn critically on the measurement approaches, both for the total sample population and for selected sub-groups. For some broader, distribution- sensitive indexes, the declines in unemployment of the last decade had no significant impact on poverty. The findings thus provide important lessons for researchers exploring the links between economic conditions and poverty and for policymakers developing strategies to reduce poverty.

TI The Cyclical Behavior of State Employment During the Postwar Period. **AU** Carlino, Gerald A.; DeFina, Robert H.; Sill, Keith.

Dekel, Eddie

PD May 2000. **TI** Rationalizable Outcomes of Large Independent Private-Value First- Price Discrete Auctions. **AU** Dekel, Eddie; Wolinsky, Asher. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1308; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 16. **PR** $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C72, D44. **KW** Discrete Auctions. Rationalizable Outcome.
AB We consider discrete versions of independent, private-value, first- price auctions. We show for any fixed finite set of possible bids, if the number of participants is large enough, then the set of rationalizable bids involves all players bidding the highest bid that is lower than their private value.

Dekle, Robert

PD June 2001. **TI** Domestic Bank Regulation and

Financial Crises: Theory and Empirical Evidence from East Asia. **AU** Dekle, Robert; Kletzer, Kenneth M. **AA** Dekle: University of Southern California. Kletzer: University of California, Santa Cruz and IMF. **SR** National Bureau of Economic Research Working Paper: 8322; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 43. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** F31, F41, G21, O53. **KW** Bank Regulations. Financial Crisis. Asia. Capital Inflows. Firm Debts.
AB A model of the domestic financial intermediation of foreign capital inflows based on agency costs is developed for studying financial crises in emerging markets. In equilibrium for the model economy, the banking system becomes progressively more fragile under imperfect prudential regulation and public sector loan guarantees until a crisis occurs with an expected reversal of capital flows. The crisis in this model evolves endogenously as the banking system becomes increasingly vulnerable through the renegotiation of firm debts. Firm revenues are subject to idiosyncratic firm-specific technology shocks, but there are no aggregate shocks. The model generates dynamic relationships between foreign capital inflows, domestic investment, firm debt and the value of firm and bank equity in an endogenous growth model. Prior to crisis, foreign capital inflows and bank debt rise relative to investment and domestic production. The aggregate portfolio of the banking sector deteriorates and the total value of bank equities declines in proportion to that for goods producers progressively. The model's assumptions and implications for the behavior of the economy before and after crisis are compared to the experience of five East Asian economies.

Demirguc-Kunt, Asli

TI Deposit Insurance Around the Globe: Where Does it Work? **AU** Kane, Edward J.; Demirguc-Kunt, Asli.

Den Haan, Wouter

PD September 2001. **TI** Shocks and Institutions in a Job Matching Model. **AU** Den Haan, Wouter; Haefke, Christian; Ramey, Gary. **AA** Den Haan: UCSD and CEPR. Christian: Universitat Pompeu Fabra. Ramey: UCSD. **SR** CEPR Discussion Paper: 2970; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E24, J64. **KW** Job Matching Model. Total Factor Productivity. Slowdown. Turbulence. Unemployment Benefits.
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 Total Factor Productivity 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 increase 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.

AB This paper analyzes the effect of repatriation taxes on dividend payments by the foreign affiliates of American multinational firms. The United States taxes the foreign incomes of American companies, grants credits for any foreign income taxes paid, and defers any taxes due on the unrepatriated earrings for those affiliates that are separately incorporated abroad. This system thereby imposes repatriation taxes that vary inversely with foreign tax rates and that differ across organizational forms. As a consequence, it is possible to measure the effect of repatriation taxes by comparing the behavior of foreign subsidiaries that are subject to different tax rates and by comparing the behavior of foreign incorporated and unincorporated affiliates. Evidence form a large panel of foreign affiliates of U.S. firms from 1982 to 1997 indicates that one percent lower repatriation tax rates are associated with one percent higher dividends. This implies that repatriation taxes reduce aggregate dividend payouts by 12.8 percent, and, in the process, generate annual efficiency losses equal to 2.5 percent of dividends. These effects would disappear if the United States were to exempt foreign income from taxation.

Devereux, Michael B.

AB This paper illustrates a model of predetermined pricing based on the work of Fischer (1977), where firms set a fixed schedule of nominal prices at the time of price readjustment. This type of price-setting specification cannot produce any excess persistence in a fixed duration model of staggered prices. But we show that with a probabilistic model of price adjustment, as in Calvo (1983), a predetermined pricing specification can produce excess persistence. Moreover, in response to a money shock, the aggregate dynamics are very similar to those under a specification of fixed prices, the assumption underlying most recent dynamic sticky-price models.

AB Many papers in the recent literature in open economy macroeconomics make different assumptions about the currency in which firms set their export prices when nominal prices must be preset. But to date, all of these studies take the currency of price setting as exogenous. This paper sets up a simple two-country general equilibrium model in which exporting firms can choose the currency in which they set prices for sales to foreign markets. We make two alternative assumptions about the structure of international financial markets: one where there are complete markets for hedging consumption risk internationally, and the other without risk-sharing possibilities. Our results are quite sharp: exporters will generally wish to set prices in the currency of the country that has the most stable monetary policy. When monetary stability is similar among countries, there is an equilibrium where firms from all countries set their price in the currency of the buyer (local currency pricing). But except for a special case where money variances are exactly identical across countries, there is no equilibrium where all firms set export prices in their own currencies (producer currency pricing).

Dewatripont, Mathias

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

Diamond, Wayne J.

Research Working Paper: 8483; National Bureau of Economic Research, 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 the U.S.). **JE** J51, O31, O33. **KW** Unionization. Employee Organization. Internet Organizing.

AB This paper argues that the low cost of information, communication, and interaction on the Web offers trade unions opportunities to improve services and attract members and thus reinvent themselves for the 21 Century. Analyzing current use of the Internet by unions in the United Kingdom and United States, we develop five hypothesis about the impact of the Internet on unions. 1) the Customized Services hypothesis that unions will individualize services; 2) the Cyber-organizing hypothesis that the Web will ease organization and produce virtual minority unions at many non-union firms; 3) the Cyber-democracy hypothesis that the Web will enhance democracy in unions; 4) the Cyber-dispute hypothesis that the Web will become an important space for industrial disputes; and 5) the New Internationalism hypothesis that the Web will strengthen the international labor community. If unions fail to exploit the opportunities on the Web to gain members, we expect other organizations, Internet recruitment sites, specialized advice centers, and the like, to fill the e-union niche.

Diedhiou, M. L.
TI Does Breed Matter to Cattle Farmers and Buyers? Evidence from West Africa. **AU** Jabbar, M. A.; Diedhiou, M. L.

Diermeier, Daniel
PD August 2000. **TI** Spontaneous Collective Action. **AU** Diermeier, Daniel; Van Mieghem, Jan A. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1302; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 17. **PR** $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C71, D71, D74. **KW** Collective Action. Mass Protests. Probabilistic Models.

AB We propose a dynamic, probabilistic model of collective action. While agents' incentives are approximately captured by the normal form suggested in Palfrey and Rosenthal (1984), agents' behavior is only boundedly rational. The model defines a discrete time, discrete state Markov process. We identify the process' unique limiting distribution and show that in the long-run even in large populations mass protests may occur as rare, sudden events of comparatively short duration. Moreover, mass collective action is possible in the absence of any coordination device. We then show that our model can be used to give a formal "as-if" interpretation of game-theoretic analyses of collective action.

PD November 2000. **TI** Coordination in Turnout Games. **AU** Diermeier, Daniel; Van Mieghem, Jan A. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1309; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 16. **PR** $3.00

U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C72, D72. **KW** Turnout Games. Voting Factions. Electorate.

AB We present a stochastic model of coordination in turnout games. In each period a randomly selected voter receives information about current play through noisy polls and then, based on this information, forms expectations about the current configuration of play and chooses a best response. We prove the existence of a unique limiting distribution for the process and show that even in large electorates substantial expected turnout is possible if voting factions are similar in size. A key requirement for substantial turnout is that polls never provide precise feedback on the current state of the electorate. The effect of noise, however, is non-monotonic: no noise or too much noise results in vanishing turnout, while moderate noise may result in substantial turnout. The model's predictions are also consistent with the usual empirical regularities about turnout. We then derive continuum approximation results for large electorates using a partial differential formulation and apply the results to the case of perfectly informative polls. We show that under (perturbed) best response voters are able to spontaneously coordinate their actions on a single state.

Dittmar, Robert D.
TI Stochastic Capital Depreciation and the Comovement of Hours and Productivity. **AU** Dueker, Michael J.; Fischer, Andreas M.; Dittmar, Robert D.

Djankov, Simeon
PD September 2001. **TI** The Regulation of Entry. **AU** Djankov, Simeon; La Porta, Rafael; Lopez de Silanes, Florencio; Schleifer, Andrei. **AA** Djankov: World Bank and CEPR. La Porta: Dartmouth College and NBER. Lopez de Silanes: Yale School of Management and NBER. Schleifer: Harvard University and NBER. **SR** CEPR Discussion Paper: 2953; 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** H11, K22, L51. **KW** Business Entry. Regulation.

AB We present new data on the regulation of entry of start-up firms in 85 countries. The data covers the number of procedures, official time, and official cost that a start-up must bear before it can operate legally. The official costs of entry are extremely high in most corruption and larger unofficial economies, but not better quality of public or private goods. Countries with more democratic and limited governments have lighter regulation of entry. The evidence is inconsistent with public interest theories of regulation, but supports the public choice view that entry regulation benefits politicians and bureaucrats.

Djankov, Simien
TI Hardened Budgets and Enterprise Restructuring: Theory and an Application to Romania. **AU** Coricelli, Fabrizio; Djankov, Simien.

Dodson, Marvin E., III
TI Inefficient Education Spending in Public School Districts: A Case for Consolidation. **AU** Garrett, Thomas A.; Dodson, Marvin E., III.

Doidge, Craig

PD October 2001. TI Why are Foreign Firms Listed in the U.S. Worth More? AU Doidge, Craig; Karolyi, G. Andrew; Stulz, Rene M. AA Doidge and Karolyi: Ohio State University. Stulz: Ohio State University and NBER. SR National Bureau of Economic Research Working Paper: 8538; 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 G15, G30, G32. KW Valuation of Firms. Cross-listing. Controlling Shareholders. Growth Opportunities.

AB The foreign companies listed in the U.S. have a Tobin's q ratio that exceeds the q ratio of firms from the same country that are not listed in the U.S. We propose a theory that explains this valuation difference. We hypothesize that controlling shareholders of firms listed in the U.S. cannot extract as many private benefits from control compared to those of firms not listed in the U.S., but that their firms are better able to take advantage of growth opportunities. Consequently, the cross-listed firms should be those firms where the interests of the controlling shareholder are better aligned with the interests of other shareholders. The growth opportunities of cross-listed firms will be more highly valued than those of firms not listed in the U.S. both because cross-listed firms are better able to take advantage of these opportunities and because a smaller fraction of the cash flow of these firms is expropriated by controlling shareholders. We find that our theory explains the greater valuation of cross-listed firms. We find expected sales growth is valued more highly for firms listed in the United States.

Domah, Preetum

PD November 2002. TI Modelling the Costs of Electricity Regulation: Evidence of Human Resource Constraints in Developing Countries. AU Domah, Preetum; Pollitt, Michael G.; Stern, Jon. AA Domah and Pollitt: University of Cambridge. Stern: London Business School and NERA. SR University of Cambridge, DAE Working Paper: 0229(CMI11); Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 43. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE L33, L94, N40, O15. KW Electricity. Regulation. International Comparisons. Human Resources.

AB Successful electricity industry reform depends on the presence of an appropriately staffed regulatory agency for the liberalized sector. However developing countries can have resource constraints that make the establishment of an effective regulatory agency difficult. This paper attempts an econometric modeling of staff numbers in electricity regulatory institutions. We specify a model of the determinants of staff numbers that reflects electricity system complexity as well as national economic and regulatory environments. We empirically estimate a translog cost function specification of the model using data on 60 electricity regulators collected from an international questionnaire survey in 2000-01. We conclude that there are significant differences between the regulatory cost functions of developed and developing countries and that, in establishing independent regulatory agencies, developing countries face high fixed costs relative to market size.

PD November 2002. TI Technical Efficiency in Electricity Generation -- The Impact of Smallness and Isolation of Island Economies. AA University of Cambridge. SR University of Cambridge, DAE Working Paper: 0232(CMI14); Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 26. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE D24, L25, L94, N70. KW Electricity. Data Envelopment Analysis. Small Islands. Stochastic Frontier Analysis. Technical Efficiency.

AB This paper conducts a comparative technical efficiency analysis of electricity generators in 16 small island economies using panel data, and two methodologies: data envelopment analysis (DEA) and stochastic frontier analysis (SFA). The results indicate neither apparent differences in the production structure between islands and non-islands electric utilities, nor any evidence suggesting that they are less technically efficient. At a theoretical level, our results suggest that benchmarking of small islands, using non-island generating utilities as comparators, is both feasible and desirable given the lack of historical generation data for most small islands. On a more empirical basis, our study bridges an important gap in research on the efficiency of small and interconnected electricity systems.

Dooley, Michael P.

PD June 2001. TI Rescue Packages and Output Losses Following Crises. AU Dooley, Michael P.; Verma, Sujata. AA Dooley: University of California, Santa Cruz and NBER. Verma: University of California, Santa Cruz. SR National Bureau of Economic Research Working Paper: 8315; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 21. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE F33, F34. KW Output Losses. Insurance Crisis. IMF. External Debt. Default.

AB This paper examines the role of the third party (the IMF) in resolving sovereign default on external debt. We first show that the effects of third party intervention in debt negotiations are quite sensitive to the assumed enforcement mechanism for sovereign debt. The model is then adapted to an insurance crisis. The main result is that the unanticipated component of third party intervention can either intensify or mitigate the dead weight loss following default.

Doraszelski, Ulrich

PD April 2001. TI Communication and Voting with Double-Sided Information. AU Doraszelski, Ulrich; Gerardi, Dino; Squintani, Francesco. AA Doraszelski and Gerardi: Northwestern University. Squintani: University of Rochester. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1276; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 24. PR $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C78, D72, D82. KW Voting. Communication. Uncertainty. Partnerships.

AB We analyze how communication and voting interact when there is uncertainty about players' preferences. We consider two players who vote on forming a partnership with uncertain rewards. It may or may not be worthwhile to team up. Both players want to make the right decision but differ in their

attitudes toward making an error. Players' preferences are private information and each player is partially informed about the state of the world. Before voting, players can talk to each other. We completely characterize the equilibria and show that communication is beneficial. The main role of communication is to provide a double check: When there is a conflict between a player's preferences and her private information about the state, she votes in accordance with her private information only if it is confirmed by the message she receives from her opponent. In a scenario where only one of the players is allowed to talk, the benefits of communication are independent of the identity of the sender.

TI . The Role of Permanent Income and Demographics in Black/White Differences in Wealth. AU Altonji, Joseph G.; Doraszelski, Ulrich.

Dornbusch, Rudi
PD June 2001. TI Fewer Monies, Better Monies. AA MIT and NBER. SR National Bureau of Economic Research Working Paper: 8324; National Bureau of Economic Research, 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 the U.S.). JE E31, F30, F31, F41. KW Emerging Markets. Crisis. Monetary Policies. Dollarization.
AB In the aftermath of emerging market crises from Russia to Asia and Latin America, there is a quest for better monetary arrangements that are more crisis-proof. Fixed rates are out, flexible rates are in with a policy focus on inflation targeting. But there is, of course, the alternative of abolishing exchange rates all together. This paper revisits the issue of dollarization or currency boards to review what arguments in the debate stand up. The case for flexible exchange rates emphasizes the need for a tool to accomplish relative price adjustment. This paper argues that in an intertemporal perspective, most shocks require financing in the capital market rather than adjustment. Moreover, countries frequently do not use their flexible rate to play a cyclical role and, as a result, only pay a premium for the option to depreciate but do not take advantage of the flexibility; on the contrary, they engineer systematic overvaluation in the context of inflation targeting.

PD June 2001. TI · Malaysia: Was it Different? AA MIT and NBER. SR National Bureau of Economic Research Working Paper: 8325; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 14. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE F30, F33, O53. KW Malaysia. IMF. Stabilization. Asian Crisis. Capital Controls.
AB In the Asian crisis of 1997-98, some countries followed IMF prescriptions for stabilization and recovery. Malaysia went another route, placing an emphasis on capital controls. Did this strategy work out to lower the costs of the crisis and foster a more rapid recovery as claimed by some observers and notably the Malaysian authorities? It remains to explore whether that claim is indeed appropriate or whether it is primarily domestic grand standing of a weakened and challenged leadership which uses the international issue to deflect from severe domestic political problems. In evaluating the Malaysian experience it must be understood that for this country two crises were unfolding simultaneously. One was the Asian financial crisis that brought down countries with vulnerable financial structures. The other one was the domestic political. The paper concludes that there is no evidence of a better performance and not surprisingly so. Capital controls were imposed after the crisis was over, as interest rates in all Asian crisis economies, including Malaysia, were already declining rapidly and as US interest rate cuts fostered a more stable environment.

PD June 2001. TI A Primer on Emerging Market Crises. AA MIT and NBER. SR National Bureau of Economic Research Working Paper: 8326; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 11. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE D31, F30, H60. KW Emerging Markets. Crises. Balance Sheets. Costs of Crises.
AB Over the past 20 years there has been a proliferation of emerging market crises and a vast accumulation of commentary -- descriptive, theoretical and applied -- highlighting the origins and mechanics of each crisis and of crises in general. And there is plenty of analysis on how to deal with crises both in terms of prevention and of cures. Is it possible now to distill from all this a simple set of propositions that summarize the experience and capture the chief lessons? This paper sets out a few propositions that summarize what is known and accepted. The interest in doing so is to promote a set of presumptions about what is unsound practice with a presumption that it cannot fail to engender, in time, a crisis. At the center of that discussion is the role of balance sheets. Moreover, crises are not just financial experiences but rather involve large and lasting social costs and important redistribution of income and wealth. That makes it especially important to secure agreement on what constitutes bad practice and identify areas of continuing controversy.

Dotsey, Michael
PD August 2001. TI Pricing, Production and Persistence. AU Dotsey, Michael; King, Robert G. AA Dotsey: Federal Reserve Bank of Richmond. King: Boston University, NBER, and Federal Reserve Bank of Richmond. SR National Bureau of Economic Research Working Paper: 8407; 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 E12, E31, E32. KW Real Flexibilities. Persistence. Sticky Price Models.
AB We trace the lack of persistence in standard sticky price macro models to the view of the cyclical behavior of real marginal cost built into these models. Using both a small log-linear macroeconomic model and a larger fully articulated model, we show how an alternative view of real marginal cost can lead to substantial persistence. This alternative view is based on three features of the "supply side" of the economy that we believe are realistic: an important role for produced inputs, variable capacity utilization, and labor supply variability through changes in employment. Importantly, these "real flexibilities" work together to dramatically reduce the elasticity of marginal cost with respect to output, from levels much larger than unity in CKM to values much smaller than unity in our analysis. These "real flexibilities" consequently reduce the extent of price adjustments by firms in time-dependent pricing economies and the incentive for paying fixed . costs of adjustment in state-dependent pricing economies. The structural features also lead the sticky price model to display volatility and comovement of factor inputs and factor prices that are more closely in line with conventional wisdom about

business cycles.

Doyle, Brian M.
TI International Coordination of Macroeconomic Policies: Still Alive in the New Millennium? AU Meyer, Laurence H.; Doyle, Brian M.; Gagnon, Joseph E.; Henderson, Dale W.

Drucker, Adam
TI Valuing Animal Genetic Resources in Peasant Economies: The Case of the Box Keken Creole Pig in Yucatan. AU Scarpa, Riccardo; Drucker, Adam; Anderson, Simon; Ferraes-Ehuan, Nancy; Gomez, Veronica; Risopatron, Carlos, R.; Rubio-Lionel, Olga.

TI Valuing Indigenous Cattle Breeds in Kenya: An Empirical Comparison of Stated and Revealed Preference Value Estimates. AU Scarpa, Riccardo; Kristjanson, P.; Drucker, Adam; Radeny, Maren; Ruto, Eric; Rege, J. Edward.

TI Economic Analysis of Crossbreeding Programmes in Sub-Saharan Africa: A Conceptual Framework and Kenyan Case Study. AU Karugia, Joseph T.; Mwai, Okeyo A.; Kaitho, Robert; Drucker, Adam G.; Wollny, Clemens B. A.; Rege, J. Edward.

Dueker, Michael J.
PD December 2001. TI Fixing Swiss Potholes: The Importance of Improvements. AU Dueker, Michael J.; Fischer, Andreas M. AA Dueker: Federal Reserve Bank of St. Louis. Fischer: Swiss National Bank and CEPR. SR Federal Reserve Bank of St. Louis Working Paper: 2001/025A; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. PG 7. PR no charge. JE E22, E32. KW Maintenance. Improvements. Capital Utilization.
AB This note sheds new light on the dynamic properties of maintenance and repair and examines the behavior of a further form of capital spending -- that of improvements. The analysis examines a unique long-run data set on Swiss road spending.

PD January 2002. TI Stochastic Capital Depreciation and the Comovement of Hours and Productivity. AU Dueker, Michael J.; Fischer, Andreas M.; Dittmar, Robert D. AA Dueker and Dittmar: Federal Reserve Bank of St. Louis. Fischer: Swiss National Bank and CEPR. SR Federal Reserve Bank of St. Louis Working Paper: 2002/003A; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. PG 23. PR no charge. JE C63, E22, E32. KW Markov Switching. Nonlinear Decision Rules. Hours-Productivity Corr.
AB In this article, we demonstrate that a small degree of stochastic variation in the depreciation rate of capital can greatly reduce the comovement between hours worked and labor productivity in a neoclassical growth model. The depreciation rate is modeled as a Markov process to place a strict upper bound and to ensure that variation and not the level of the rate is driving the result. Markov switching implies nonlinear decision rules in the dynamic stochastic general equilibrium model (DSGE). Our contribution to DSGE solution methodologies in the presence of Markov switching is to apply Judd's (1998) projection method to nonlinear decision rules. This approach allows for nonlinear decision rules in a richer set of models with many more state variables than can be solved

with grid-based approximations. The results presented here suggest that Markov switching parameters offer a powerful extension to DSGE models.

Dulleck, Uwe
PD October 2001. TI On Doctors, Mechanics and Computer Specialists or Where are the Problems with Credence Goods? AU Dulleck, Uwe; Kerschbamer, Rudolf. AA Dulleck: University of Vienna. Kerschbamer: University of Innsbruck and CEPR. SR CEPR Discussion Paper: 3016; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE D40, D82, L15. KW Credence Goods. Experts. Fraud.
AB In recent years various contributions have analyzed the credence goods problem under a wide variety of assumptions yielding equilibria exhibiting various degrees of inefficiencies and fraud. The variety of results has fostered the impression that the equilibrium behavior of experts and consumers in credence goods markets sensitively depends on the details of the models. The present paper shows that the results for the majority of the specified models can be reproduced in a very simple unifying framework. Our model is constructed so that an efficient solution is reached if a small number of critical assumptions are satisfied, and virtually all existing results on inefficiencies in the credence good market are obtained by relaxing one of these conditions. Existing results are generalized, some previous interpretations of the forces leading to the striking differences in outcomes are questioned, and a new source for inefficiencies is identified.

Duranton, Gilles
PD September 2001. TI From Sectoral to Functional Urban Specialization. AU Duranton, Gilles; Puga, Diego. AA Duranton: London School of Economics and CEPR. Puga: University of Toronto. SR CEPR Discussion Paper: 2971; 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 L23, R12. KW Business Services. Cities. Functional Specialization. Headquarters.
AB We document and then develop a model explaining and relating changes in firms' organization and in urban structure. Sharing of business services by headquarters and of sector-specific intermediates by production plants within a city reduces costs, while congestion increases with city size. A fall in the costs of remote management leads to a shift in urban structure, from a configuration where cities specialize by sector and host integrated headquarters and production plants, to a configuration where cities specialize by function, with headquarters from different sectors and business services clustered in a few large cities and production plants from each sector clustered in smaller separate cities.

TI Labor Pooling, Labor Poaching and Spatial Clustering. AU Combes, Pierre-Philippe; Duranton, Gilles.

Earle, John S.
TI Gross Job Flows in Russian Industry Before and After Reforms: Has Destruction Become More Creative? AU Brown, J. David; Earle, John S.

TI Competition Enhancing Policies and Infrastructure:

Evidence from Russia. **AU** Brown, J. David; Earle, John S.

Earle, Robert L.

PD October 2001. **TI** Demand Uncertainty and Risk-Aversion: Why Price Caps May Lead to Higher Prices. **AU** Earle, Robert L.; Schmedders, Karl. **AA** Earle: Charles River Associates. Schmedders: Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1330; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 8. **PR** $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C63, D42, D43. **KW** Price Cap. Demand Uncertainty. Risk Aversion. Cournot Model.

AB Standard oligopoly theory suggests that price caps will tend to constrain the price of a good over the short-term and increase production. Firms become price-takers when the amount produced is less than where the price cap intersects the demand function. Recently imposed price caps in California, however, have resulted in anecdotal evidence that suggests that this might not always be the case. Typical explanations for increases in price and decreases in production are sociological and psychological in nature. While these lines of reasoning may go a long way in explaining the observed fact, the absence of an economic explanation is rather unsatisfying. In this note we give such an economic explanation by examining a simple economic model. We enhance a standard Cournot model through the introduction of demand uncertainty and agents' risk aversion. Multiple examples show that the introduction of a price cap in this model may indeed lead to higher prices and lower production quantities. Very interestingly, even a price cap set above the equilibrium prices obtained with no price cap, can result in lower output and higher prices.

PD March 2002. **TI** Price Caps and Uncertain Demand. **AU** Earle, Robert L.; Schmedders, Karl; Tatur, Tymon. **AA** Earle: Charles River Associates. Schmedders and Tatur: Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1340; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 27. **PR** $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** L11, L12, L13, L51. **KW** Price Cap. Demand Uncertainty. Comparative Statics. Electric Power.

AB Price caps are sometimes used as a form of price control in order to protect consumers against putatively inequitable prices or eliminate supposedly inefficient outcomes. This paper considers price caps in the context of a simple Cournot game in which firms choose quantities before a potentially uncertain demand is realized. We show that several monotone static results which hold if demand is deterministic, cease to hold if demand is uncertain. In particular, if demand is uncertain the introduction of price caps above marginal cost will often lead to a decrease of production and a loss in total welfare. In most cases also total consumer welfare will decrease as lower prices are not able to offset the loss in consumer welfare associated with a breakdown of production. Another surprising phenomenon is that lowering the price cap may sometimes result in an increase of average prices. The paper ends with a

short discussion of the relevance of the above observations for the literature on the recent electricity crisis in California.

Edison, Hali J.

PD August 2001. **TI** A Simple Measure of the Intensity of Capital Controls. **AU** Edison, Hali J.; Warnock, Francis E. **AA** Edison: IMF and Federal Reserve Board. Warnock: Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 708; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 31. **PR** no charge. **JE** F30, G15. **KW** Emerging Markets. International Financial Liberalization. Openness. Portfolio Investment.

AB We present a readily available monthly measure of the intensity of capital controls across 29 emerging market countries that is based on the degree of restrictions on foreign ownership of equities. The initial opening of a market as given by our measure corresponds well with the liberalization dates of Bekaert and Harvey (2000a). In addition, our measure provides information on the extent of the initial opening as well as the evolution of the liberalization over time. We discuss two versions of the measure. One version provides the better indication of the extent of controls at a point in time, and is thus better suited for cross-sectional analysis. The other version -- smoothed of the relative price effects of asymmetric shocks -- provides a better indication of changes in controls, and is thus more appropriate for time series work. After describing the measure, we compare it to other existing measures of capital controls and briefly describe some empirical applications.

Edwards, Sebastian

PD October 2001. **TI** Volatility Dependence and Contagion in Emerging Equity Markets. **AU** Edwards, Sebastian; Susmel, Raul. **AA** Edwards: UCLA and NBER. Susmel: University of Houston. **SR** National Bureau of Economic Research Working Paper: 8506; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 14. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** F36, G12, G15. **KW** Latin America. Stock Market Data. Volatility. Cross-Country Correlation. Switching Models.

AB In this paper, we use weekly stock market data for a group of Latin American countries to analyze the behavior of volatility through time. We are particularly interested in understanding whether periods of high volatility are correlated across countries. The analysis uses both on univariate and bivariate switching volatility models. Our results do not rely on the correlation coefficients, but on the codependence of volatility regimes. The results indicate that high-volatility episodes are, in general, short-lived, lasting from two to twelve weeks. We find strong evidence of volatility co-movements across countries, especially among the Mercosur countries.

PD October 2001. **TI** Exchange Rate Regimes, Capital Flows and Crisis Prevention. **AA** UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 8529; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 43. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** F10, F21, F30, F31, F33. **KW** Exchange Rate Regimes. Capital Flows.

Currency Crises. Emerging Economies.

AB This paper analyzes, within the context of the new "financial architecture," the relationship between exchange rate regimes, capital flows and currency crises in emerging economies. The paper draws on lessons learned during the 1990s, and deals with some of the most important policy controversies that emerged after the Mexican, East Asian, Russian and Brazilian crises. The paper evaluates some recent proposals for reforming the international financial architecture that have emphasized exchange rate regimes and capital mobility. It discusses emerging markets ability to have floating exchange rate regime, and analyzes issues related to "dollarization.".

Egli, Dominik

PD January 2002. TI On the Sequencing of Projects, Reputation Building, and Relationship Finance. AU Egli, Dominik; Ongena, Steven; Smith, David C. AA Egli: University of Bern. Ongena: Tilburg University. Smith: Federal Reserve Board. SR Board of Governors of the Federal Reserve System. International Finance Discussion Paper: 718; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 39. PR no charge. JE G21, G32. KW Relationship Financing. Reputation Building. Staged Financing. Contract Enforcement.

AB We study the decision an entrepreneur faces in financing multiple projects and show that relationship financing will arise endogenously in an environment where strategic defaults are likely, even when firms have access to arm's-length financing. Relationship financing allows an entrepreneur to build a private reputation for repayment that reduces the cost of financing. However, in an environment where the risk of strategic default is low, the benefits from reputation building are outweighed by holdup rents extractable by the incumbent lender. Entrepreneurs then choose to finance projects from single or multiple, arm's-length lenders.

Eichenbaum, Martin

TI Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy. AU Christiano, Lawrence J.; Eichenbaum, Martin; Evans, Charles.

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

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

Eichengreen, Barry

TI When Does Capital Account Liberalization Help More than it Hurts? AU Arteta, Carlos; Eichengreen, Barry; Wyplosz, Charles.

TI When Does Capital Account Liberalization Help More Than it Hurts? AU Arteta, Carlos; Eichengreen, Barry; Wyplosz, Charles.

Ellerman, A. Denny

PD November 2002. TI The Temporal Efficiency of SO2 Emissions Trading. AU Ellerman, A. Denny; Montero, Juan-Pablo. AA Ellerman: CEEPR and MIT. Montero: Catholic University of Chile. SR University of Cambridge, DAE Working Paper: 0231(CMI13); Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 26. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE Q25, Q28. KW Emissions Trading. Banking. Acid Rain. Tradable Permits. Sulphur Dioxide.

AB This paper provides an empirical evaluation of the temporal efficiency of the US Acid Rain Program, which implemented a nationwide market for trading and banking sulphur dioxide (SO2) emission allowances. We first develop a model of efficient banking and select appropriate parameter values. Then we use aggregate data from the first seven years of the Acid Rain Program to access the temporal efficiency of the observed banking behavior. We find that banking has been surprisingly efficient and we discuss why this finding disagrees with the common perception of excessive banking in this program.

Ellison, Sara Fisher

PD September 2001. TI Pharmaceutical Prices and Political Activity. AU Ellison, Sara Fisher; Wolfram, Catherine. AA Ellison: MIT. Wolfram: UC Berkeley and NBER. SR National Bureau of Economic Research Working Paper: 8482; National Bureau of Economic Research, 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 the U.S.). JE L5, L6. KW Drug Prices. Pharmaceutical Prices. Policy Reform. Political Activity.

AB Drug prices have been a conspicuous political issue in much of recent history, but no more so than during health care reform debates in 1993 and 1994. This paper investigates possible effects of political activity on pharmaceutical prices, with a particular focus on the health care reform period. It evaluates the extent to which pharmaceutical companies slowed the rates at which they increased prices in an attempt to preempt government intervention. To do so, we characterize companies based on their vulnerability to future price regulation. We then consider patterns in price movements across companies. The results suggest that companies whose drugs had longer patent lives and who had recently increased contributions to their corporate Political Action Committees (PACs) slowed price increases during 1992 and 1994 more than their competitors. It is difficult to distinguish pricing differences across companies in 1993, perhaps because most companies had pledged to keep price increases below the rate of inflation.

Ellwood, David T.

PD June 2001. TI The Sputtering Labor Force of the 21st Century: Can Social Policy Help? AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 8321; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 70. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE J21, J24, J68, J82, J88. KW Social Policy. Labor Market. Labor Force. Education. Immigration.

AB This paper examines the questions: how will the labor force change over the next 20 years, and can social policy significantly alter its size and shape. In the next twenty years, there will be virtually no growth in the prime age workforce. Growth will be almost exclusively among older workers and

people of color in part due to immigration. A troubling finding is that the educational level of the workforce will improve far less. At best, college graduates might rise from 30 percent to 35 percent. The second part of the paper examines what we know about the incentive effects of a variety of social programs from welfare, to the Earned Income Tax Credit, to UI, to disability programs to Social Security. There is clear evidence that incentives matter. But when what plausible policy changes might accomplish is examined, the aggregate impact is not large. Moreover, most of these changes would tend to bring least educated and most marginal workers into the labor force. Only strategies that would encourage more wives to work or that would significantly retard retirement are likely to generate many more educated workers.

Elmendorf, Douglas W.

PD September 2001. TI Fiscal Policy and Social Security Policy During the 1990s. AU Elmendorf, Douglas W.; Liebman, Jeffrey B.; Wilcox, David W. AA Elmendorf and Wilcox: Federal Reserve Board. Liebman: Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 8488; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 79. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE E62, H6, H55. KW Social Security Reform. Fiscal Policy.

AB The 1990s witnessed two fundamental changes in U.S. fiscal policy: a dramatic improvement in the current and projected budget balance, and a shift to a new political consensus in favor of balancing the budget excluding Social Security rather than the unified budget. In contrast, the 1990s did not witness significant changes in Social Security policy, although alternative visions of Social Security reform received tremendous analytic and popular attention. The 1994-1996 Advisory Council on Social Security presented three reform plans that place important emphasis on additional prefunding. Each involved some form of investment in equities -- either centrally, through the trust fund, or in a decentralized manner, through individual accounts. Late in the decade, with the emergence of on-budget surpluses, the possibility of general revenue contributions to the Social Security system came under serious consideration. In the end, President Clinton decided to pursue Social Security reform based on general revenue contributions to the trust fund and centralized investment in equities rather than creating individual accounts, but his proposal was not adopted.

Eltis, Walter

PD December 2001. TI Lord Overstone and the Establishment of British Nineteenth-Century Monetary Orthodoxy. AA University of Oxford and University of Reading. SR University of Oxford, Discussion Papers in Economic and Social History: 42; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. PG 29. PR no charge. JE N13, N23. KW Money Supply. Central Bank. Liquidity. Monetary Legislation. Crisis.

AB This paper seeks to show how Lord Overstone's analysis had a decisive influence from 1844 until 1914 on British monetary legislation, and upon the rules the Bank of England was expected to follow to control the money supply and the balance of payments. Many elements in the orthodoxy, which he played so large a part in establishing, have strong modern echoes.

Ely, Jeffrey C.

TI Implementation with Near-Complete Information. AU Chung, Kim-Sau; Ely, Jeffrey C.

TI Ex-Post Incentive Compatible Mechanism Design. AU Chung, Kim-Sau; Ely, Jeffrey C.

Engel, Charles

PD October 2001. TI The Adjustment of Prices and the Adjustment of the Exchange Rate. AU Engel, Charles; Morley, James C. AA Engel: University of Wisconsin and NBER. Morley: Washington University. SR National Bureau of Economic Research Working Paper: 8550; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 24. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F31, F47. KW Purchasing Power Parity. Exchange Rates. Convergence.

AB The purchasing power parity puzzle relates to the adjustment of real exchange rates. Real exchange rates are extremely volatile, suggesting that temporary shocks emanate from the monetary sector. But the half- life of real exchange rate deviations is extremely large -- 2.5 to 5 years. This half-life seems too large to be explained by the slow adjustment of nominal prices. We offer a different interpretation. We maintain that nominal exchange rates and prices need not converge at the same rate, as is implicit in rational-expectations sticky-price models of the exchange rate. Evidence from an unobserved components model for nominal prices and nominal exchange rates that imposes relative purchasing power parity in the long run indicates that nominal exchange rates converge much more slowly than nominal prices. The real puzzle is why nominal exchange rates converge so slowly.

TI Endogenous Currency of Price Setting in a Dynamic Open Economy Model. AU Devereux, Michael B.; Engel, Charles.

Engerman, Stanley L.

PD October 2001. TI The Evolution of Suffrage Institutions in the New World. AU Engerman, Stanley L.; Sokoloff, Kenneth L. AA Engerman: University of Rochester and NBER. Sokoloff: UCLA and NBER. SR National Bureau of Economic Research Working Paper: 8512; National Bureau of Economic Research, 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 the U.S.). JE D72, N20. KW Voting. Suffrage. American Colonies. Political Influence. Inequality.

AB This paper contributes to our knowledge of where institutions have come from by examining how the rules governing the extension of suffrage, a key measure of the distribution of political influence, evolved over time within the United States and across the societies of the Americas. We have previously argued that there was enormous variation in the initial extent of inequality across the New World colonial societies established by the Europeans because of differences in their factor endowments present early in their histories. In this paper, we show that the early patterns of the extension of the franchise, the proportions of the respective populations voting, and other aspects of the conduct of elections are indeed generally consistent with the notion that the extent of initial

inequality and population heterogeneity was associated across societies -- even within the Untied States -- with the nature of the political institutions that evolved. Specially, where there was greater inequality, the proportion of the population that had the right to vote was generally lower, and the timing of the extensions of this right from elite groups to a broad population generally later, than in areas where there was relative homogeneity in the population.

Engle, Robert F.

PD October 2001. **TI** Theoretical and Empirical Properties of Dynamic Conditional Correlation Multivariate GARCH. **AU** Engle, Robert F.; Sheppard, Kevin. **AA** Engle: University of California, San Diego and NBER. Sheppard: University of California, San Diego. **SR** National Bureau of Economic Research Working Paper: 8554; 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** C32, C51, G10. **KW** GARCH. Multi-Variate. Assets. Volatility Models.

AB In this paper, we develop the theoretical and empirical properties of a new class of multi-variate GARCH models capable of estimating large time-varying covariance matrices, Dynamic Conditional Correlation Multivariate GARCH. We show that the problem of multivariate conditional variance estimation can be simplified by estimating univariate GARCH models for each asset, and then, using transformed residuals resulting from the first stage, estimating a conditional correlation estimator. The standard errors for the first stage parameters remain consistent, and only the standard errors for the correlation parameters need be modified. We use the model to estimate the conditional covariance of up to 100 assets using Standard and Poor's (S&P) 500 Sector Indices and Dow Jones Industrial Average stocks, and conduct specification tests of the estimator using an industry standard benchmark for volatility models. This new estimator demonstrates vary strong performance especially considering ease of implementation of the estimator.

Erbas, Bircan

PD September 2001. **TI** Statistical Methodological Issues in Studies of Air Pollution and Respiratory Disease. **AU** Erbas, Bircan; Hyndman, Rob J. **AA** Erbas: University of Melbourne. Hyndman: Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 06/2001; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. **PG** 13. **PR** no charge. **JE** C14, C51, C52. **KW** Air Pollution. Autocorrelation. Generalized Additive Models. Seasonal Adjustment. Respiratory Disease.

AB Epidemiological studies have consistently shown short term associations between levels of air pollution and respiratory disease in countries of diverse populations, geographical locations and varying levels of air pollution and climate. The aims of this paper are: (1) to assess the sensitivity of the observed pollution effects to model specification, with particular emphasis on the inclusion of seasonally adjusted covariates; and (2) to study the effect of air pollution on respiratory disease in Melbourne, Australia.

Eso, Peter

PD September 2001. **TI** Precautionary Bidding in Auctions. **AU** Eso, Peter; White, Lucy. **AA** Eso: Northwestern University. White: Nuffield College and University of Toulouse. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1331; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 35. **PR** $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** D44, D81. **KW** Risk. Risk-Aversion. Prudence. First-Price Auctions. Second-Price Auctions. All-Pay Auctions.

AB We analyze bidding behavior in auctions when risk-averse bidders bid for an object whose value is risky. We show that, as risk increases, decreasingly risk-averse bidders will reduce their bids by more than the risk premium. Ceteris paribus, bidders will be better off bidding for a more risky object in first-price, second-price, English, and all- pay auctions with affiliated private values. We then extend the results to common value settings. This "precautionary bidding" effect arises because the expected marginal utility of income increases with risk, so bidders are reluctant to bid so highly. We show that precautionary bidding also arises in response to common values risk. This precautionary bidding behavior can make decreasingly risk-averse bidders better off when they face a "winner's curse" than when they do not.

Estrin, Saul

TI The Effect of Ownership and Competitive Pressure on Firm Performance in Transition Countries, Micro Evidence from Bulgaria, Romania and Poland. **AU** Angelucci, Manuella; Estrin, Saul; Konings, Jozef; Zolkiewski, Zbigniew.

Evans, Charles

TI Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy. **AU** Christiano, Lawrence J.; Eichenbaum, Martin; Evans, Charles.

Everingham, Susan

TI Comparing the Cost-Effectiveness of Federal Mandatory Minimum Sentences and Other Federal Enforcement Programs. **AU** Reuter, Peter; Everingham, Susan.

Falk, Armin

PD September 2001. **TI** On the Nature of Fair Behavior. **AU** Falk, Armin; Fehr, Ernst; Fischbacher, Urs. **AA** Falk: IZA, University of Bonn, and CEPR. Fehr: University of Zurich, CESifo and CEPR. Fischbacher: University of Zurich. **SR** CEPR Discussion Paper: 2984; 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** C78, D63. **KW** Fairness. Intentions. Models of Fairness. Ultimatum Game.

AB This paper shows that identical offers in an ultimatum game generate systematically different rejection rates depending on the other offers that are available to the proposer. This result casts doubt on the consequentialist practice in economics of defining the utility of an action solely in terms of the consequences of the action irrespective of the set of alternatives. It means, in particular, that negatively reciprocal

behavior cannot be fully captured by equity models that are exclusively based on preferences over the distribution of material pay- offs. Models that take into account players' fairness intentions and distributional preferences are consistent with our data while models that focus exclusively on intentions or on the distribution of material pay-offs are not.

PD October 2001. TI A Theory of Reciprocity. AU Falk, Armin; Fischbacher, Urs. AA Falk: IZA, University of Bonn, and CEPR. Fischbacher: University of Zurich. SR CEPR Discussion Paper: 3014; 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 C72, H41. KW Cooperation. Fairness. Game Theory. Reciprocity.
AB This paper presents a formal theory of reciprocity. Reciprocity means that people reward kind actions and punish unkind ones. The theory takes into account that people evaluate the kindness of an action not only by its consequences but also by the intention underlying this action. The theory explains the relevant stylized facts of a wide range of experimental games. Among them are the ultimatum game, the gift-exchange game, a reduced best-shot game, the dictator game, the prisoner's dilemma, and public goods games. Furthermore, the theory explains why the same consequences trigger different reciprocal responses in different environments. Finally, the theory explains why in bilateral interactions outcomes tend to be "fair" whereas in competitive markets even extremely unfair distributions may arise.

PD October 2001. TI Reputation and Reciprocity: Consequences for Labor Relations. AU Falk, Armin; Gaechter, Simon. AA Falk: IZA, University of Bonn, and CEPR. Gaechter: Universitat St. Gallen and CESifo. SR CEPR Discussion Paper: 3018; 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 C72, J41. KW Incomplete Contracts. Reciprocity. Repeated Games. Reputation.
AB Recent evidence highlights the importance of social norms in many economic relations. Many of these relationships are long-term and provide repeated game incentives for performance. We experimentally investigate interaction effects of reciprocity and repeated game incentives in two treatments (one-shot and repeated) of a gift-exchange game. In both treatments we observe reciprocity, which is strengthened in the repeated game. A detailed analysis shows that in the repeated game some subjects imitate reciprocity. Thus, reciprocity and repeated game incentives reinforce each other. Observed behavior is robust against experience. We conclude that a long-term interaction is a "reciprocity-compatible" contract enforcement device.

Farr, Dorsey D.

TI Variable Factor Utilization and International Business Cycles. AU Baxter, Marianne; Farr, Dorsey D.

TI The Effects of Variable Capital Utilization on the Measurement and Properties of Sectoral Productivity: Some International Evidence. AU Baxter, Marianne; Farr, Dorsey D.

Fauli-Oller, Ramon

TI Divisionalization in Vertical Structures. AU Bru, Luis; Ordonez de Haro, Jose-Manuel; Fauli-Oller, Ramon.

Faust, Jon

PD July 2001. TI An Empirical Comparison of Bundesbank and ECB Monetary Policy Rules. AU Faust, Jon; Rogers, John H.; Wright, Jonathan H. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 705; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 23. PR no charge. JE C32, E31, E43, E50. KW Taylor Rule. Monetary Policy. European Central Bank. Bundesbank. Inflation.
AB We estimate a monetary policy reaction function for the Bundesbank and use it as a benchmark to assess the monetary policy of the ECB since the launch of the Euro in January 1999. We find that Euro interest rates are low relative to this benchmark. We consider several possible reasons for this, including the divergence between core and headline inflation, inflation having turned out to be higher than could have been foreseen by the ECB and the possibility that the ECB is focusing only on macroeconomic conditions in a subset of member countries. We argue that these potential explanations cannot account for the difference between recent interest rates and our estimated Bundesbank benchmark. Our results suggest that the reaction function of the ECB features a high weight on the output gap relative to the weight on inflation, compared to the Bundesbank.

PD December 2001. TI Exchange Rate Forecasting: The Errors We've Really Made. AU Faust, Jon; Rogers, John H.; Wright, Jonathan H. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 714; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 33. PR no charge. JE C53, F31. KW Monetary Model. Real Time Data. Random Walk. Exchange Rates.
AB We examine the forecasting performance of standard macro models of exchange rates in real time. We calculate out-of-sample forecasts as they would have been made at the time, and compare them to a random walk alternative. The resulting "time series" of forecast performance indicates that both data revisions and changes in the sample period typically have large effects on exchange rate predictability. We show that the favorable evidence of long-horizon exchange rate predictability for the DM and Yen in Mark (1995) is present in only a narrow two-year window of data vintages around that used by Mark. In addition, approximately one-third of the improved forecasting performance of Mark's monetary model over a random walk is eventually undone by data revisions. Related to this, we find the models consistently perform better using original release data than using fully revised data. Finally, we find that model-based exchange rate forecasts are sometimes better when using Federal Reserve Staff forecasts of future fundamentals instead of actual future values of fundamentals. This contradicts a cherished presumption in the literature that dates all the way back to Meese and Rogoff (1983).

PD February 2002. TI Identifying VARs Based on High Frequency Futures Data. AU Faust, Jon; Swanson, Eric;

Wright, Jonathan H. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 720; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 42. PR no charge. JE C32, E50. KW Partial Identification. Monetary Policy. Vector Auto Regressions.

AB Using the prices of federal funds futures contracts, we measure the impact of the surprise component of Federal Reserve policy decisions on the expected future trajectory of interest rates. We show how this information can be used to identify the effects of a monetary policy shock in a standard monetary policy VAR. This constitutes an alternative approach to identification that is quite different, and, we would argue, more plausible, than the conventional short-run restrictions. We find that the usual recursive identification of the model is rejected, but we nevertheless agree with the literature's conclusion that only a small fraction of the variance of output can be attributed to monetary policy shocks.

Favero, Carlo A.

PD June 2001. TI Does Macroeconomics Help Us to Understand the Term Structure of Interest Rates? AA IGIER, Universita Bocconi and CEPR. SR CEPR Discussion Paper: 2849; 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 E43, E44, E52, F41. KW Expectations Model. Small Macro-Models. Term Structure of Interest Rates.

AB The expectations model of the term structure states that the yields to maturity of long-term bonds are equal to the average of expected future short-term bond yields. This venerable model has been subjected to numerous empirical tests and almost invariably rejected. The empirical failure is generally attributed either to systematic expectations errors, or to shifts in the risk premia. In fact, the empirical tests, based on the estimation of single-equation models, are not able to discriminate between these two hypotheses. A recent strand of the macro-economic literature has analyzed monetary policy by including the central bank reaction function in small empirical macro models. By simulating these models forward it is possible to derive the full forward path of short-term interest rates and hence to construct any long-term interest rate consistent with the expectations model. A direct test of the theory, based on full information, can then be immediately constructed by comparing observed long-term rates with the simulated ones and the associated 95 percent confidence interval. Our results shed new light on the empirical validity of the expectations model.

Fehr, Ernst

TI On the Nature of Fair Behavior. AU Falk, Armin; Fehr, Ernst; Fischbacher, Urs.

PD October 2001. TI Do Incentive Contracts Crowd Out Voluntary Cooperation? AU Fehr, Ernst; Gaechter, Simon. AA Fehr: University of Zurich, CESifo, IZA, and CEPR. Gaechter: Universitat St. Gallen and CESifo. SR CEPR Discussion Paper: 3017; 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 C91, J41.

KW Experiments. Incentive Contracts. Incomplete Contracts. Reciprocity. Voluntary Cooperation.

AB In this paper we provide experimental evidence indicating that incentive contracts may cause a strong crowding out of voluntary cooperation. Economists have largely neglected this crowding-out effect, which constitutes costs of incentive provision. In our experiments the crowding-out effect is so strong that the incentive contracts are less efficient than contracts without any incentives. Principals, nonetheless, prefer the incentive contracts because they allow them to appropriate a much larger share of the (smaller) total surplus and are, hence, more profitable for them.

Feinstein, Charles H.

PD July 2001. TI A Plea for Errors. AU Feinstein, Charles H.; Thomas, Mark. AA University of Oxford. SR University of Oxford, Discussion Papers in Economic and Social History: 41; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. PG 29. PR no charge. JE C80, C81, C82. KW Margins Of Error. Historical Data. Reliability.

AB This paper argues that all historical data series should be accompanied by formal estimates of their margins of error. We discuss the nature of errors in data series and review earlier attempts to assess their reliability. We show how overall margins of error may be calculated for historical series from judgments on the reliability of their components, and how these allow readers both to appraise the estimate and to test the implications of applying different standards. An illustration is provided for Hoffmann's index of British industrial output, 1770-1831. The calculations emphasize the value of this approach to the recent debate on growth rates during the industrial revolution and suggest its merits more generally.

Feldstein, Martin

PD September 2001. TI The Future of Social Security Pensions in Europe. AA NBER. SR National Bureau of Economic Research Working Paper: 8487; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 11. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE E21, H55. KW Social Security. Europe. Pension Plans.

AB This paper discusses a possible solution to the double problem that faces European governments in dealing wit the future of Social Security pensions. Like other governments around the world, they must deal with the rising cost of pensions that will result from the increasing life expectancy of the population. But the European governments have the extra problem that any solution must be compatible with a European Union labor market in which individuals from any member country are free to work anywhere within the European Union. The solution to this double problem that is developed in this paper combines an investment- based system of individual accounts with a "notional defined contribution" system financed by pay-as-you-go taxes.

Felli, Leonardo

TI Courts of Law and Unforeseen Contingencies. AU Anderlini, Luca; Felli, Leonardo; Postlewaite, Andrew.

Fernandez, Raquel
PD October 2001. TI Sorting, Education and Inequality. AA New York University and CEPR. SR CEPR Discussion Paper: 3020; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE I21, I22, J12, J31. KW Education. Human Capital. Inequality. Sorting.

AB This paper examines the education literature through the lens of sorting. It argues that the way in which individuals sort across neighborhoods, schools and households (spouses) can have important consequences for the acquisition of human capital and inequality. It discusses the implications of different education finance systems for sorting and analyses the efficiency and welfare properties of these in static and dynamic frameworks.

Ferraes-Ehuan, Nancy
TI Valuing Animal Genetic Resources in Peasant Economies: The Case of the Box Keken Creole Pig in Yucatan. AU Scarpa, Riccardo; Drucker, Adam; Anderson, Simon; Ferraes-Ehuan, Nancy; Gomez, Veronica; Risopatron, Carlos, R.; Rubio-Lionel, Olga.

TI Valuing Animal Genetic Resources in Peasant Economies: The Case of the Box Keken Creole Pig in Yucatan. AU Scarpa, Riccardo; Drucker, Adam; Anderson, Simon; Ferraes-Ehuan, Nancy; Gomez, Veronica; Risopatron, Carlos, R.; Rubio-Lionel, Olga.

Ferreira, Pedro Cavalcanti
PD April 2002. TI Can the Costs of Education Explain the Poverty of Nations? Measuring the Impact of Factors Taxation and Life Expectancy on Income Differences. AU Ferreira, Pedro Cavalcanti; de Abreu Pessoa, Samuel. AA Graduate School of Economics (EPGE), Fundacao Getulio Vargas, Brazil. SR University of Pennsylvania, CARESS Working Paper: 02/04; CARESS, University of Pennsylvania, 3718 Locust Walk, Philadelphia, PA 19104-6297. Website: www.econ.upenn.edu/Centers/CARESS/. PG 37. PR $3.00 for U.S. and Canada; $5.00 for Foreign; make checks payable to Trustees of the University of Pennsylvania. JE J24, O11, O17, O47, O57. KW Distortions. Human Capital. Income Diversity. Education.

AB This paper explores the distortions on the cost of education, associated to government policies, as an additional determinant of cross-country income differences. Human capital follows a Mincerian approach and accumulation of skills is done at school, outside the labor market. There are two sectors, one producing goods and the other providing educational services. The model is calibrated and simulated for 122 economies. We find that human capital taxation has a relevant impact on incomes, which is amplified by its indirect effect on returns to physical capital. For comparable values, distortions to the latter have an overall effect on incomes smaller than human capital taxation. Life expectancy plays an important role in determining long-run output: the expansion of the population working life increases the present value of the flow of wages, which induces further human capital investment and raises incomes.

Ferrell, Allen
TI Federal Intervention to Enhance Shareholder Choice. AU Bebchuk, Lucian Arye; Ferrell, Allen.

Fischbacher, Urs
TI On the Nature of Fair Behavior. AU Falk, Armin; Fehr, Ernst; Fischbacher, Urs.

TI A Theory of Reciprocity. AU Falk, Armin; Fischbacher, Urs.

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

TI Stochastic Capital Depreciation and the Comovement of Hours and Productivity. AU Dueker, Michael J.; Fischer, Andreas M.; Dittmar, Robert D.

Fisher, Elliott
TI The Efficiency of Medicare. AU Skinner, Jonathan; Fisher, Elliott; Wennberg, John E.

Fisher, Jonathan D.
PD May 2002. TI Duration Dependence in Personal Bankruptcy. AA U.S. Bureau of Labor Statistics. SR U.S. Bureau of Labor Statistics Economic Working Paper: 359; BLS Economic Working Paper Series, c/o Glenda Driggers, 4945 Postal Square Building, 2 Massachusetts Avenue NE, Washington, DC 20212. Website: www.bls.gov/ore/orecatlg.htm. PG 22. PR no charge. JE C41, D12, G33. KW Personal Bankruptcy. Hazard. Duration.

AB This paper represents the first use of the Panel Study of Income Dynamics to examine whether there is duration dependence in personal bankruptcy. The results suggest that there is positive duration dependence in the first three spell-years, followed by negative duration dependence. Another interesting finding is that the median financial benefit for the filers in the year they filed is less than the median benefit in the year before they filed. This indicates that not all households file for bankruptcy when its financial benefit is largest. These findings suggest that some filers avoid bankruptcy even when bankruptcy is financially beneficial.

Fisman, Raymond
PD October 2001. TI Tax Rates and Tax Evasion: Evidence from "Missing Imports" in China. AU Fisman, Raymond; Wei, Shang-Jin. AA Fisman: Columbia University. Wei: Brookings Institution, Harvard University, and NBER. SR National Bureau of Economic Research Working Paper: 8551; 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 F14, H25, H26. KW Tax Evasion. China. Tariffs. Tax Rates. Imports.

AB Tax evasion, by its very nature, is difficult to observe. In this paper, we present a case study of tax evasion in China. The novel feature of our approach is that at an extremely disaggregated level of individual products, we can measure evasion relatively precisely, by comparing the values that China reports as imports from Hong Kong, with what Hong Kong reports as exports to China. We can match up this "evasion gap" with the tariff (and VAT tax) schedule at the product level. The result is striking: using the data in 1998, we

find that on average, a 1 percent increase in the tax rate results in a 3 percent increase in evasion; these results hold using data from 1998. This relationship is nonlinear: the evasion elasticity is larger at high tax levels. Furthermore, the evasion gap is negatively correlated with the tax rates on closely related products, suggesting that part of the evasion takes place by mis-reporting the type of imports, in addition to under-reporting the value of imports. This effect is even more pronounced when the evasion gap is measured using quantities rather than values.

Fixler, Dennis

PD June 2002. TI An Examination of the Difference Between the CPI and the PCE Deflator. AU Fixler, Dennis; Jaditz, Ted. AA U.S. Bureau of Labor Statistics. SR U.S. Bureau of Labor Statistics Economic Working Paper: 361; BLS Economic Working Paper Series, c/o Glenda Driggers, 4945 Postal Square Building, 2 Massachusetts Avenue NE, Washington, DC 20212. Website: www.bls.gov/ore/orecatlg.htm. PG 14. PR no charge. JE C43, E31. KW Price Inflation. Index Numbers.
AB Both the Bureau of Labor Statistics (BLS) and the Bureau of Economic Analysis (BEA) produce measures of the change in prices the consumers pay on the goods that they consume. These measures sometimes give different pictures of inflation over short horizons. There are several reasons why these indexes differ. First, the two indexes use different formulas. Second, the two indexes have different underlying concepts. The BLS product measures the prices paid by (urban) consumers, while the BEA product measures the prices of final consumption goods, wherever they are purchased. Finally, differences in how the detailed components are implemented lead to differences in how prices are measured and differences in the weights attached to specific indexes. For 1992 to 1997, there is no one "smoking gun" that explains the discrepancy between the indexes. Rather, the overall discrepancy is the result of the accumulation of a number of small effects.

Foley, C. Fritz

TI Repatriation Taxes and Dividend Distortions. AU Desai, Mihir A.; Foley, C. Fritz; Hines, James R., Jr..

Forbes, Catherine S.

PD February 2002. TI Bayesian Estimation of a Stochastic Volatility Model Using Option and Spot Prices. AU Forbes, Catherine S.; Martin, Gael M.; Wright, Jill. AA Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 02/2002; Department of Econometrics and Business Statistics, Monash University. Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG 35. PR no charge. JE C11, G13. KW Option Pricing. Stochastic Volatility. Volatility Risk. Bayesian Inference. Markov Chain Monte Carlo.
AB In this paper we apply Bayesian methods to estimate a stochastic volatility model using both the prices of the asset and the prices of options written on the asset. Implicit posterior densities for the parameters of the volatility model, for the latent volatilities and for the market price of volatility risk are produced. The method involves augmenting the data generating process associated with a panel of option prices with the probability density function describing the dynamics of the underlying bivariate spot price and volatility process. Posterior

results are produced via a hybrid Markov Chain Monte Carlo sampling algorithm. Candidate draws which assume a given dynamic process for the volatility are re-weighted according to the information in both the option and spot price data. The method is illustrated using the Heston (1993) stochastic volatility model, based on data simulated to mimic the features of recent S&P500 spot and option price data. The way in which alternative option pricing models can be ranked, via Bayes Factors and via fit, predictive and hedging performance, is demonstrated.

PD May 2002. TI Non-Linear Modelling of the Australian Business Cycle using a Leading Indicator. AU Forbes, Catherine S.; Shami, Roland G. AA Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 05/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG 23. PR no charge. JE C11, C15, C22, C51, E32. KW Structural Model. Markov Switching. Gibbs Sampling. Business Cycle. Leading Indicator.
AB This paper develops a new non-linear model to analyze the business cycle by exploiting the relationship between the asymmetrical behaviour of the cycle and leading indicators. The model proposed is an innovations form of the structural model underlying simple exponential smoothing that is augmented by a latent Markov switching process. Furthermore, the probabilities that drive the Markov process vary with the growth of the leading indicator. The proposed model is used to analyse the Australian business cycle using the gross domestic product as a proxy and the industrial materials prices index as the exogenous leading indicator influencing the transition probabilities. Model parameters are estimated using a Gibbs sampling algorithm and subsequently used for forecasting purposes.

PD July 2002. TI Model Selection Criteria for Segmented Time Series from a Bayesian Approach to Information Compression. AU Forbes, Catherine S.; Hanlon, Brian. AA Forbes: Monash University. Hanlon: Defence Department, Australian Government. SR Monash Department of Econometrics and Business Statistics Working Paper: 08/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG 24. PR no charge. JE C11, C13, C52. KW Complexity Theory. Segmentation. Break Points. Change Points. Model Selection. Model Choice.
AB The principle that the simplest model capable of describing observed phenomena should also correspond to the best description has long been a guiding rule of inference. In this paper a Bayesian approach to formally implementing this principle is employed to develop model selection criteria for detecting structural change in financial and economic time series. Model selection criteria which allow for multiple structural breaks and which seek the optimal model order and parameter choices within regimes are derived. Comparative simulations against other popular information based model selection criteria are performed. Application of the derived criteria are also made to example financial and economic time series.

PD October 2002. TI Reconstructing the Kalman Filter for Stationary and Non Stationary Time Series. AU Forbes,

Catherine S.; Snyder, Ralph D. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 14/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. **PG** 28. **PR** no charge. **JE** C13, C22, C44. **KW** Time Series Analysis. Forecasting. Kalman Filter. State Space Models. Object-Oriented. Programming.

AB A Kalman filter, suitable for application to a stationary or a non- stationary time series, is proposed. It works on time series with missing values. It can be used on seasonal time series where the associated state space model may not satisfy the traditional observability condition. A new concept called an "extended normal random vector" is introduced and used throughout the paper to simplify the specification of the Kalman filter. It is an aggregate of means, variances, covariances and other information needed to define the state of a system at a given point in time. By working with this aggregate, the algorithm is specified without direct recourse to those relatively complex formulae for calculating associated means and variances, normally found in traditional expositions of the Kalman filter. A computer implementation of the algorithm is also described where the extended normal random vector is treated as an object; the operations of addition, subtraction and multiplication are overloaded to work on instances of this object; and a form of statistical conditioning is implemented as an operator.

Franco, April

TI Learning from Failure. **AU** Blume, Andreas; Franco, April.

Frankenberg, Elizabeth

PD December 1998. **TI** Health, Family Planning and Well-Being in Indonesia During an Economic Crisis: Early Results From the Indonesian Family Life Survey. **AU** Frankenberg, Elizabeth; Beegle, Kathleen; Sikoki, Bondan; Thomas, Duncan. **AA** Frankenberg and Beegle: RAND Corporation. Sikoki: Lembaga Demografi and University of Port Harcourt. Thomas: RAND Corporation and UCLA. **SR** RAND Corporation Report: DRU/2013/FGI/NICHD/UNFPA; Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. **PG** 95. **PR** not available. **JE** I10, J13, O53. **KW** Indonesia. Family Planning. Health. Human Fertility. Family Life Survey.

AB Indonesia has experienced vast changes in both the economic and political environment during 1998. For the purpose of understanding how the economic crisis has affected welfare, this report compares the responses of individuals interviewed in the second half of 1997 to responses obtained through reinterviews with those same individuals in the second half of 1998. The report focuses on three questions: who has been affected most by the crisis, how they have been affected and how they have responded to the crisis. The report has presented information on changes in a number of dimensions of individual well-being between 1997 and 1998: expenditure levels, use of family planning, use of health care, health status, and education and employment. The paper concludes that while few have been left unscathed by the crisis, the short-term effects and the medium-term effects are likely to be very different for different sub-groups of the population.

TI Measuring Change in Indonesia. **AU** Beegle, Kathleen; Frankenberg, Elizabeth; Thomas, Duncan.

Franks, Julian R.

PD September 2001. **TI** Who Disciplines Management in Poorly Performing Companies? **AU** Franks, Julian R.; Mayer, Colin; Renneboog, Luc. **AA** Franks: London Business School and CEPR. Mayer: University of Oxford and CEPR. Renneboog: Tilburg University. **SR** CEPR Discussion Paper: 2949; 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** Board Turnover. Control. Corporate Governance. Regulation. Restructuring.

AB Economic theory points to five parties active in disciplining management of poorly performing firms: holders of large share blocks, acquirers of new blocks, bidders in take-overs, non-executive directors, and investors during periods of financial distress. This paper reports the first comparative evaluation of the role of these different parties in the discipline of management. We find that, in the UK, most parties, including holders of substantial share blocks, exert little discipline and that some, for example, inside holders of share blocks and boards dominated by non-executive directors, actually impede it. Bidders replace a high proportion of management of companies acquired in take-overs but do not target poorly performing management. In contrast, during periods of financial constraints prompting distressed rights issues and capital restructuring, investors focus control on poorly performing companies. These results stand in contrast to the US, where there is little evidence of a role for new equity issues but non-executive directors and acquirers of share blocks perform a disciplinary function. The different governance outcomes are attributed to differences in minority investor protection in two countries with supposedly similar common law systems.

Frazis, Harley

PD March 2002. **TI** Estimating Linear Regressions with Mismeasured, Possibly Endogenous, Binary Explanatory Variables. **AU** Frazis, Harley; Loewenstein, Mark A. **AA** U.S. Bureau of Labor Statistics. **SR** U.S. Bureau of Labor Statistics Economic Working Paper: 355; BLS Economic Working Paper Series, c/o Glenda Driggers, 4945 Postal Square Building, 2 Massachusetts Avenue NE, Washington, DC 20212. Website: www.bls.gov/ore/orecatlg.htm. **PG** 28. **PR** no charge. **JE** C21, C31. **KW** Measurement Error. Binary Regressor. Instrumental Variables.

AB This paper is concerned with mismeasured binary explanatory variables in a linear regression. Modification of a technique in Hausman et al. (1998) allows simple computation of bounds under relatively weak assumptions. When one has instruments, we show how to obtain consistent parameter estimates using GMM. We show how to incorporate the estimated measurement error bounds into the GMM estimates, and we develop a specification test based on the compatibility of the GMM estimates with the measurement error bounds. When the mismeasured variable is endogenous, the IV estimate and the measurement error bounds can be used to bound the mismeasured variable's coefficient.

Freeman, Richard B.
TI   Will Unionism Prosper in Cyber-Space? The Promise of the Internet for Employee Organization. AU   Diamond, Wayne J.; Freeman, Richard B.

Freixas, Xavier
PD   February 2002. TI   An Overall Perspective on Banking Regulation. AU   Freixas, Xavier; Santomero, Anthony M. AA   Freixas: Universitat Pompeu Fabra. Santomero: Federal Reserve Bank of Philadelphia and University of Pennsylvania. SR   Federal Reserve Bank of Philadelphia Research Working Paper: 02/01; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. PG   20. PR   no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE   D82, G18, G21, G28. KW   Regulation. Financial Innovation. Asymmetric Information. Banking. Microfinancial Foundations.
AB   Recently, the theory of banking regulation has undergone important changes. This has been the consequence of a number of compounding effects that have been occurring in the financial sector. First among these is on-going financial innovation, which has caused a virtual revolution in both financial instruments and markets. At the same time, a second force of change has emerged in academic circles where a new paradigm central to our understanding of both financial markets and the regulation of these markets has been developing. Asymmetric information theory, a setting in which economic agents are presumed to operate in a world of incomplete and, at times biased, information, has developed. In this paper we review the impact of imperfect information on our understanding of why financial markets exist, how they operate, and how best to regulate them. We identify the market failures that are specific to the banking industry. We also consider the design of regulation as well as its impact. This survey links the theory of banking regulation to its microfinancial foundations and reviews the main contributions in the field.

Friedman, Jed
PD   October 2001. TI   The Distributional Impacts of Indonesia's Financial Crisis on Household Welfare: A "Rapid Response" Methodology. AU   Friedman, Jed; Levinsohn, James. AA   Friedman: RAND Corporation. Levinsohn: University of Michigan and NBER. SR   National Bureau of Economic Research Working Paper: 8564; 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   C14, G28, N25. KW   Financial Crisis. Indonesia. Household Welfare. Non-Parametric Estimation.
AB   Analyzing the distributional impacts of economic crises is important and, unfortunately, an ever more pressing need. If policymakers are to intervene to help those most adversely impacted, then policymakers need to identify those who have been most harmed and the magnitude of that harm. Furthermore, policy responses to economic crises typically must be timely. In this paper, we develop a simple methodology to fill the order and we've applied our methodology to analyze the impact of the Indonesian economic crisis on household welfare there. Using only pre-crisis household information, we estimate the compensating variation for Indonesian households following the 1997 Asian currency crisis and then explore the results with flexible non-parametric methods. We find that virtually every household was severely impacted, although it was the urban poor that fared the worst. The ability of poor rural households to produce food mitigated the worst consequence of the high inflation. The distributional consequences are the same whether we allow households to substitute towards relatively cheaper goods or not. However the geographic location of the household mattered even within urban or rural areas and household income categories. Additionally, households with young children may have suffered disproportionately adverse effects.

Fries, Steven
TI   Competition and Enterprise Performance in Transition Economies: Evidence from a Cross-Country Survey. AU   Carlin, Wendy; Fries, Steven; Schaffer, Mark E.; Seabright, Paul.

Froot, Kenneth A.
PD   September 2001. TI   The Information Content of International Portfolio Flows. AU   Froot, Kenneth A.; Ramadorai, Tarun. AA   Froot: Harvard Business School and NBER. Ramadorai: Harvard Business School. SR   National Bureau of Economic Research Working Paper: 8472; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   14. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE   F21, G11, G15. KW   Equities Forecasting. International Flows. Portfolio Flows.
AB   We examine the forecasting power of international portfolio flows for local equity market and attempt to attribute it to either information about fundamentals on the part of international investors, or to price pressure. Price pressure is a potential explanation because flows have positive contemporaneous price impacts and are strongly positively autocorrelated. We find that cross-border flows forecast both individual country equity market prices and associated US closed- end country fund prices, even after controlling for closed-end fund purchases. Cross-border flows have no discernable impact on the difference, the closed-end fund discount. We also use our approach to test for the presence of trend following in cross-border flows based on relative, as well as absolute returns. Like other studies, we find evidence of trend following based on absolute returns. Interestingly, however, we find also that flows are trend reversing based on relative returns. Flows therefore seem to be stabilizing with respect to notions of relative, but not absolute value.

Fry, Tim R. L.
PD   June 2002. TI   The DOGEV Model. AU   Fry, Tim R. L.; Harris, Mark N. AA   Fry: University of Melbourne. Harris: University and Melbourne and Central European University. SR   Monash Department of Econometrics and Business Statistics Working Paper: 07/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG   25. PR   no charge. JE   C25, C35. KW   Generalized Extreme Value. Choice Set Generation. Ordinal Data.
AB   At present, there appears to be no qualitative dependent model that can simultaneously account for data sets in which

the variable of interest is potentially ordered but also has strong heterogeneity of the observed outcomes. This heterogeneity of particular outcomes, inherently attracts individuals to them, in addition to that determined by the individual's observed characteristics. An example of such unobserved heterogeneity would be brand-loyalty (or "captivity") in a model of consumer choice. Such heterogeneity of the outcomes, may well result in a pronounced multi-modal distribution of the variable of interest. This paper introduces the Dogit Ordered Generalized Extreme Value (DOGEV) model, which does account for both ordering and captivity (and/or multiple modes) in the data. In the spirit of Manski (1977), the DOGEV model combines a model for choice set generation with the Ordered Generalized Extreme Value model. We illustrate the model using three different empirical examples: a model of employment contract types; an inflationary expectations data set and; a survey of students' evaluations of teaching. These three examples are chosen as they represent different values that the additional ancillary parameters are likely to take in practice.

Fumagalli, Chiara
PD August 2001. **TI** Buyers' Coordination and Entry. **AU** Fumagalli, Chiara; Motta, Massimo. **AA** Fumagalli: Universita Bocconi. Motta: European University Institute. **SR** CEPR Discussion Paper: 2908; 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** D43, L13, L22, L41, M21. **KW** Contractual Clauses. Countervailing Power. Entry. Exclusion. Miscoordination.
AB Miscoordination of buyers might prevent entry in an industry with an incumbent and a more efficient potential entrant. Buyers' power therefore favors entry by eliminating coordination problems. We also identify a mechanism which facilitates entry: if the potential entrant could credibly offer to pay a penalty for unfulfilled orders, miscoordination would be eliminated. Without the penalty, we show that downstream competition also facilitates entry. The stronger the competition among buyers the less likely that miscoordination arises.

Gaechter, Simon
TI Do Incentive Contracts Crowd Out Voluntary Cooperation? **AU** Fehr, Ernst; Gaechter, Simon.

TI Reputation and Reciprocity: Consequences for Labor Relations. **AU** Falk, Armin; Gaechter, Simon.

Gagnon, Joseph E.
PD July 2001. **TI** Monetary Policy and Exchange Rate Pass-Through. **AU** Gagnon, Joseph E.; Ihrig, Jane. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 704; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 33. **PR** no charge. **JE** E42, E52, E58, F31, F41. **KW** Inflation Targeting. Taylor Rule. Exchange Rate Pass-Through. Monetary Policy.
AB Recent research suggests that the pass-through of exchange rate changes into domestic inflation has declined in many countries since the 1980s. We develop a theoretical model that attributes the change in pass-through (defined as the correlation of inflation with exchange rate changes) to

increased emphasis on inflation stabilization by many central banks. This hypothesis is tested on eleven industrial countries between 1971 and 2000. We find widespread evidence of both a decline in pass-through and a decline in the variability of inflation in the 1990s. We also find a statistically significant link between measured pass-through and inflation variability. However, our efforts to correlate the decline in pass-through with estimated changes in monetary policy behavior are inconclusive due to poor estimates of policy behavior.

TI International Coordination of Macroeconomic Policies: Still Alive in the New Millennium? **AU** Meyer, Laurence H.; Doyle, Brian M.; Gagnon, Joseph E.; Henderson, Dale W.

Galenson, David W.
PD October 2001. **TI** Masterpieces and Markets: Why the Most Famous Modern Paintings Are Not by American Artists. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8549; 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** Z11. **KW** Art History. Art Markets. Incentives.
AB A survey of the illustrations in art history textbooks reveals that the most important modern American painters, including Pollock, Johns, and Warhol, failed to produce individual paintings as famous as the masterpieces of a number of major French artists, such as Picasso, Manet, and Seurat. Analysis of the textbooks reveals that art historians do not consider the American artists to be less important than their French predecessors, or judge the Americans' innovations to be less important. The absence of American masterpieces instead appears to be a consequence of market conditions, as changes over time in the primary methods of showing and selling fine art reduced the incentive for artists to produce important individual works.

Gardeazabal, Javier
TI The Economic Costs of Conflict: A Case-Control Study for the Basque Country. **AU** Abadie, Alberto; Gardeazabal, Javier.

Garner, Thesia I.
PD May 2002. **TI** The Influence of Demographics and Household Specific Price Indices on Consumption Based Inequality and Welfare: A Comparison of Spain and the United States. **AU** Garner, Thesia I.; Ruiz-Castillo, Javier; Sastre, Mercedes. **AA** Garner: U.S. Bureau of Labor Statistics. Ruiz-Castillo: Universidad Carlos III. Sastre: Universidad Complutense de Madrid. **SR** U.S. Bureau of Labor Statistics Economic Working Paper: 357; BLS Economic Working Paper Series, c/o Glenda Driggers, 4945 Postal Square Building, 2 Massachusetts Avenue NE, Washington, DC 20212. Website: www.bls.gov/ore/orecatlg.htm. **PG** 39. **PR** no charge. **JE** D39, E21, E31. **KW** Inequality. Welfare. Demographics. Household Expenditures.
AB Research suggests that income inequality is lower in Spain than in the U.S. Whether this ranking is maintained when household consumption expenditures are used to study inequality and welfare is examined in this paper. Household expenditures from each country's 1990-91 consumer expenditure survey are analyzed. For tractability, equivalence scales depend only on the number of people in the household.

Household specific price indices are used to express 1990-91 expenditure distributions at 1981 and 1991 prices. Results reveal that inequality and welfare comparisons are drastically different for smaller and larger households. Considering all households in the two populations, the income inequality ranking is only maintained for expenditure distributions when economies of scale are small or non-existent. Welfare is always higher in the U.S. than in Spain. Inflation during the 1980s in both countries has had an essentially neutral impact on the distribution; thus, all results appear to be robust to the choice of time period.

TI Experimental Poverty Measures Under Alternative Treatments of Medical Out-of-Pocket Expenditures: An Application of the Consumer Expenditure Survey. AU Short, Kathleen; Garner, Thesia I.

Garrett, Thomas A.

PD July 2002. TI Inefficient Education Spending in Public School Districts: A Case for Consolidation. AU Garrett, Thomas A.; Dodson, Marvin E., III. AA Garrett: Federal Reserve Bank of St. Louis. Dodson: University of Central Arkansas. SR Federal Reserve Bank of St. Louis Working Paper: 2002/010A; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. PG 18. PR no charge. JE D21, H52. KW Education. Scale Economies. Consolidation.
AB Local school districts continue to face increased demand for education services while available funding remains scant. This article estimates economies of scale in public education for both rural and urban school districts in Arkansas and Kansas. We undertake this project in order to elaborate on methods of increasing the effectiveness of current funding levels. The estimated cost elasticities reveal that significant economies of scale exist across the districts in these states. Our results suggests that these districts, especially rural districts, would experience a measurable degree of cost-savings from consolidation. In support of this result we produce a hypothetical consolidation case in both states in order to estimate a dollar measure of the cost-savings. Our estimates indicate that an individual Arkansas school district could save a minimum of $103,632 per academic year due to consolidation. The savings in Kansas districts is even greater, reaching $208,591. At the state level, consolidation of rural districts in Arkansas would save $34 million. The statewide level of savings in Kansas would be $61 million.

PD July 2002. TI State Lottery Revenue: The Importance of Game Characteristics. AU Garrett, Thomas A.; Sobel, Russell S. AA Garrett: Federal Reserve Bank of St. Louis. Sobel: West Virginia University. SR Federal Reserve Bank of St. Louis Working Paper: 2002/011A; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. PG 20. PR no charge. JE D81, D84. KW Lotteries. Lottery Revenue. State Revenue.
AB Previous studies find state lottery sales are significantly influenced by socioeconomic characteristics of the population. We extend this literature by examining how the overall expected value, the top prize, and the total combinations influence sales after controlling for these other socioeconomic factors. We perform our empirical analysis on an unparalleled set of data that includes information for 135 on-line lottery games in the United States. Our results show that sales are significantly influenced the top prize amount and odds of winning it, but that sales are not significantly affected by the expected value of the remaining lower prizes.

PD July 2002. TI The Political Economy of FEMA Disaster Payments. AU Garrett, Thomas A.; Sobel, Russell S. AA Garrett: Federal Reserve Bank of St. Louis. Sobel: West Virginia University. SR Federal Reserve Bank of St. Louis Working Paper: 2002/012A; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. PG 25. PR no charge. JE D78, H77. KW Disaster Relief. Politics. Congressional Dominance.
AB We explore whether presidential and congressional influences affect the rate of disaster declaration and the allocation of FEMA (Federal Emergency Management Agency) disaster expenditures across states. We find that states politically important to the president have a higher rate of disaster declaration by the president, and that FEMA disaster expenditures are higher in states having congressional representation on FEMA oversight committees. Our models predict that nearly half of all disaster relief is motivated politically rather than by need. The findings reject a purely altruistic model of FEMA assistance and question the relative effectiveness of government versus private disaster relief.

Gaynor, Martin

PD October 2001. TI Incentives in HMOs. AU Gaynor, Martin; Taylor, Lowell J.; Rebitzer, James B. AA Gaynor and Taylor: Carnegie Mellon University. Rebitzer: Case Western Reserve University and NBER. SR National Bureau of Economic Research Working Paper: 8522; National Bureau of Economic Research, 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 the U.S.). JE I10, I11, J33, J44. KW Health Maintenance Organizations. Incentives. Contracts.
AB We study the effect of physician incentives in an HMO network. Physician incentives are controversial because they may induce doctors to make treatment decisions that differ from those they would choose in the absence of incentives. We set out a theoretical framework for assessing the degree to which incentive contracts do in fact induce physicians to deviate from a standard guided only by patient interests and professional medical judgement. Our empirical evaluation of the model relies on details of the HMO's incentive contracts and access to the firm's internal expenditure records. We estimate that the HMO's incentive contract provides a typical physician an increase, at the margin, of $0.10 in income for each $1.00 reduction in medical utilization expenditures. The average response is a 5 percent reduction in medical expenditures. We also find suggestive evidence that financial incentives linked to commonly used "quality" measures may stimulate an improvement in measured quality.

Gehrig, Thomas

PD August 2001. TI Information Sharing in Banking: A Collusive Device? AU Gehrig, Thomas; Stenbacka, Rune. AA Gehrig: Universitat Freiburg and CEPR. Stenbacka: Swedish School of Economics, Helsinki. SR CEPR Discussion Paper: 2911; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V

7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D82, G21, L15. **KW** Collusion. Imperfect Competition. Credit Markets. Information Sharing.
AB We show that information sharing among banks may serve as a collusive device. An informational sharing agreement is an a-priori commitment to reduce informational asymmetries between banks in future lending. Hence, information sharing tends to increase the intensity of competition in future periods and, thus, reduces the value of informational rents in current competition. We contribute to the existing literature by emphasizing that a reduction in informational rents will also reduce the intensity of competition in the current period, thereby reducing competitive pressure in current credit markets. We provide a large class of economic environments, where a ban on information sharing would be strictly welfare enhancing.

PD August 2001. **TI** Screening Cycles. **AU** Gehrig, Thomas; Stenbacka, Rune. **AA** Gehrig: Universitat Freiburg and CEPR. Stenbacka: Swedish School of Economics, Helsinki. **SR** CEPR Discussion Paper: 2915; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D83, E32, E44. **KW** Banking Competition. Financial Stability. Lending Cycles. Screening.
AB We demonstrate how endogenous information acquisition in credit markets creates lending cycles when competing banks undertake their screening decisions in an uncoordinated way, thereby highlighting the role of intertemporal screening externalities induced by lending market competition as a structural source of instability. We show that uncoordinated screening behavior of competing banks may be not only the source of an important financial multiplier, but also an independent source of fluctuations inducing business cycles. The screening cycle mechanism is robust to generalizations along many dimensions such as the lending market structure, the lending rate determination and the imperfections in the screening technology.

Gentry, William M.

PD September 2001. **TI** Dividend Taxes and Share Prices: Evidence from Real Estate Investment Trusts. **AU** Gentry, William M.; Kemsley, Deen; Mayer, Christopher J. **AA** Gentry: Columbia University and NBER. Kemsley: Columbia University. Mayer: University of Pennsylvania. **SR** National Bureau of Economic Research Working Paper: 8486; National Bureau of Economic Research, 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 the U.S.). **JE** G12, G32, H25. **KW** Dividend Taxes. Share Prices. Firm Valuation.
AB Financial economists have debated the impact of dividend taxes on firm valuation for decades, but existing empirical evidence is mixed. In this study, we avoid certain complications inherent in previous empirical work by exploiting institutional characteristics of Real Estate Investment Trusts (REITs). For REITs, dividend policy is largely non-discretionary, share repurchases are not tax advantaged relative to dividends, and the market value of a firm's assets is relatively transparent to investors. In addition, REITs are exempt from corporate taxes, so their tax deductions flow directly to shareholders as reductions in dividend taxes.

Within this environment, we regress the market value of a REIT's equity on the market value of its assets and its tax basis in assets, which creates tax deductions that lower future dividend taxes. We find that tax basis has a positive effect on firm value, which suggests that investors capitalize future dividend taxes into share prices.

Gerardi, Dino
TI Communication and Voting with Double-Sided Information. **AU** Doraszelski, Ulrich; Gerardi, Dino; Squintani, Francesco.

Gerfin, Michael
PD October 2001. **TI** A Microeconometric Evaluation of Active Labor Market Policy in Switzerland. **AU** Gerfin, Michael; Lechner, Michael. **AA** Gerfin: University of Bern. Lechner: University of St. Gallen. **SR** CEPR Discussion Paper: 2993; 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** C14, C40, J64, J68. **KW** Balancing Score. Evaluation of Programs. Matching. Swiss Labor Market. Treatment Effects.
AB In the second half of the 1990s, Switzerland introduced an ambitious active labor market policy (ALMP) encompassing a variety of programs. We evaluate the effects of these programs on individual employment probability using unusually informative data originating from administrative records. Using a matching estimator for multiple programs, we find positive effects for one particular program that is a unique feature of the Swiss ALMP. It consists of a wage subsidy for temporary jobs in the regular labor market that would otherwise not be taken up by the unemployed. We also find negative effects for traditional employment programs operated in sheltered labor markets. For training courses the results are mixed.

Geroski, Paul A.
PD June 2001. **TI** Corporate Growth Convergence in Europe. **AU** Geroski, Paul A.; Gugler, Klaus Peter. **AA** Geroski: Competition Commission, London Business School and CEPR. Gugler: London Business School. **SR** CEPR Discussion Paper: 2838; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** L10, L25, L60. **KW** Convergence. Corporate Growth. Europe. Gibrat's Law.
AB It is widely believed that the implementation of the Single Market Program in 1992 has had an impact on national markets in Europe, and some people have argued that it has induced a convergence in industrial structures across countries. Using a newly available database, however, covering nearly every firm above 100 employees in 14 European countries over the time period 1994 to 1998, we do not find strong evidence for "convergence" in manufacturing in Europe. "Full" convergence in corporate sizes within industries is unambiguously rejected by the data, although there may be some industries where some form of conditional convergence is observed. A Gibrat process best describes the growth of very large and mature firms; but smaller and younger firms depart from this prediction. While we can identify significant correlates of growth such as firm size, age or the internal

organization of the firm, most of the variation in corporate growth remains unpredictable.

Geweke, John

AB This paper develops new econometric methods to infer hospital quality in a model with discrete dependent variables and non-random selection. Mortality rates in patient discharge records are widely used to infer hospital quality. However, hospital admission is not random and some hospitals may attract patients with greater unobserved severity of illness than others. In this situation the assumption of random admission leads to spurious inference about hospital quality. This study controls for hospital selection using a model in which distance between the patient's residence and alternative hospitals are key exogenous variables. Bayesian inference in this model is feasible using a Markov Chain Monte Carlo posterior simulator and attaches posterior probabilities to quality comparisons between individual hospitals and groups of hospitals. The study uses data on 74,848 Medicare patients admitted to 114 hospitals in Los Angeles County from 1989 through 1992 with a diagnosis of pneumonia. It finds the smallest and largest hospitals to be of high quality and public hospitals to be of low quality. There is strong evidence of dependence between the unobserved severity of illness and the assignment of patients to hospitals. Consequently a conventional probit model leads to inferences about quality markedly different than those in this study's selection model.

Gilbert, Richard

AB We ask what conditions transmission contracts increase or mitigate market power. We show that the allocation process of transmission rights is crucial. In an efficient arbitraged uniform price auction, generators will only obtain contracts that mitigate their market power. However, if generators inherit transmission contracts or buy them in a "pay-as-bid" auction, then these contracts can enhance market power. In the two-node network case, banning generators from holding transmission contracts that do not correspond to delivery of their own energy mitigates market power. Meshed networks differ in important ways as constrained links no longer isolate

prices in competitive markets from market manipulation. The paper suggests ways of minimizing market power considerations when designing transmission contracts.

Gilchrist, Simon

AB In this paper, we embed the microeconomic decisions associated with investment under uncertainty, capacity utilization, and machine replacement in a general equilibrium model based on putty-clay technology. We show that the combination of log-normally distributed idiosyncratic productivity uncertainty and Leontief utilization choice yields an aggregate production function that is easily characterized in terms of hazard rates for the standard normal distribution. At low levels of idiosyncratic uncertainty, the short-run elasticity of supply is substantially lower than the elasticity of supply obtained from a fully-flexible Cobb-Douglas alternative. In the presence of irreversible factor proportions, an increase in idiosyncratic uncertainty about the productivity of an investment project typically reduces investment at the micro level, but it raises aggregate investment. Increases in uncertainty also have important dynamic implications, causing sustained increases in investment and hours and a medium-term expansion in the growth rate of labor productivity.

Girma, Sourafel

AB This paper investigates whether the acquisition of a domestic establishment by a foreign owner has any effects, positive or negative, on the survival prospects and employment growth of that plant. The empirical analysis uses data from the Annual Respondents Database (ARD) for the UK electronics industry for the period 1980 to 1993. Estimating a standard hazard model including a dummy variable for the incidence of acquisition yields the result that foreign take-over reduces the lifetime of the acquired plant. Estimations of the determinants of employment growth in domestic plants provide some evidence that the incidence of take-over reduces employment growth, in particular for unskilled labor. Both survival and employment growth estimations do not appear to be subject to endogeneity problems.

PD October 2001. **TI** Regional Underdevelopment: Is FDI the Solution? A Semiparametric Analysis. **AU** Girma, Sourafel; Wakelin, Katharine. **AA** Girma: University of Leicester. Wakelin: University of Nottingham. **SR** CEPR Discussion Paper: 2995; 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** C14, F23, L63, R58. **KW** Foreign Direct Investment. Production Functions. Regional Development. Spillovers.
AB In this paper, we aim to examine the regional impact of foreign- owned establishments on the performance of domestic establishments in the electronics industry in the UK. We use establishment-level data taken from the UK Census of Production (the ARD) to this end. In the econometric specification, we allow for the time-varying endogeneity of the factors of production function, and correct for the sample-selection bias generated by plants with larger capital stocks surviving in spite of lower productivity realizations. The FDI spillover literature has so far abstracted from the selection problem generated by plant exit. To our knowledge, this is the first paper that simultaneously attempts to correct the production parameter estimates for selectivity induced by plant exit as well as time-varying endogeneity (the "not so fixed" effect), before identifying the impact of foreign direct investment on domestic plant's productivity. The results indicate that positive spillovers exist but are mostly confined to the region in which the MNE locates. A number of characteristics influence their level, they are higher from non-US firms (in particular Japanese firms) and in more-developed regions.

Gittleman, Maury
TI Maternal Employment and Adolescent Risky Behavior.
AU Aughinbaugh, Alison; Gittleman, Maury.

Glaeser, Edward
TI Why Doesn't the US Have a European-Style Welfare System? **AU** Alesina, Alberto; Sacerdote, Bruce; Glaeser, Edward.

Glick, Reuven
PD July 2001. **TI** Does 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 and NBER. **SR** National Bureau of Economic Research Working Paper: 8396; 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** F15, F33. **KW** Currency Unions. International Trade.
AB Does leaving a currency union reduce international trade? We answer this question using a large annual panel data set covering 217 countries from 1948 through 1997. During this sample a large number of countries left currency unions; 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.

Goerg, Holger
TI Blessing or Curse? Domestic Plants' Survival and Employment Prospects After Foreign Acquisition. **AU** Girma, Sourafel; Goerg, Holger.

Gokhale, Jagadeesh
TI The Mismatch Between Life Insurance Holdings and Financial Vulnerabilities: Evidence from the Survey of Consumer Finances. **AU** Bernheim, B. Douglas; Carman, Katherine Grace; Gokhale, Jagadeesh; Kotlikoff, Laurence J.

TI The Mismatch Between Life Insurance Holdings and Financial Vulnerabilities: Evidence from the Survey of Consumer Finances. **AU** Bernheim, B. Douglas; Carman, Katherine Grace; Gokhale, Jagadeesh; Kotlikoff, Laurence J.

Goldberg, Pinelopi Koujianou
PD July 2001. **TI** Market Integration and Convergence to the Law of One Price: Evidence from the European Car Market. **AU** Goldberg, Pinelopi Koujianou; Verboven, Frank. **AA** Goldberg: Yale University and NBER. Verboven: Katholieke Universiteit Leuven and CEPR. **SR** National Bureau of Economic Research Working Paper: 8402; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 24. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F02, F14, L62. **KW** Market Integration. Price Convergence. Car Market.
AB This paper exploits the unique experiment of European market integration to investigate the relationship between integration and price convergence in international markets. Using a panel data set of car prices we examine how the process of integration has affected cross-country price dispersion in Europe. We find surprisingly strong evidence of convergence towards both the absolute and the relative versions of Purchasing Power Parity. Our analysis illuminates the main sources of segmentation in international markets and suggests the type of institutional changes that can successfully reduce it.

Goldin, Claudia
PD September 2001. **TI** Making a Name. **AU** Goldin, Claudia; Shim, Maria. **AA** Goldin: Harvard University and NBER. Shim: Harvard University. **SR** National Bureau of Economic Research Working Paper: 8474; 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** J12, J16, J24. **KW** Surname Retention. Marriage Trends.
AB This paper tracks the fraction of college graduate women who kept their surnames upon marriage and after childbirth and explores some of the correlates of surname retention. We use two decades of data from The New York Times and twenty years of information on the Harvard class of 1980. A time series on surname retention at marriage for college graduate women, gleaned from wedding announcements in The New York Times, shows a large increase from 1980 to 1984, a leveling off to 1998, and a possible subsequent increase. About 35 percent kept their surname at marriage in 2001, but fewer than 10 percent did in 1980. Among the women in the Harvard class of 1980, about 52 percent kept their surname at some time after marriage and only a small fraction of this group changes their surname after having children. The observable characteristics of importance in surname retention are those revealing that the bride had already "made a name" for herself.

Goldman, Dana

AB Better-educated people are healthier, but the magnitude of the relationship between health and education varies substantially across groups and over time. We undertake a theoretical and empirical study of how health disparities by education vary over time and across the population, according to underlying health characteristics and market forces. One surprising implication of the theory we develop is that health disparities actually increase as the price of health inputs falls. Therefore, government subsidies for health care research or even universal health insurance may worsen health inequality. Moreover, technological progress in health care will tend to raise inequality over time. The theory also implies that health disparities will be larger for sicker, older and more vulnerable groups. The first prediction is consistent with significant expansions in health disparities over the last thirty years in the US. The second is consistent with observed patterns in the national Health Interview Survey, the Medicare Current Beneficiary Survey, and the Framingham Heart Study. The returns to schooling are twice as high for the chronically ill and for those out of the labor force, and they tend to rise with age.

Gomes, Armando R.

AB This paper considers the efficiency and convergence properties of dynamic processes of social and economic interactions. The key feature of the economy is that agents can implement any move from one state to another as long as a pre-specified subset of agents approve. By means of examples, we show that inefficiencies may occur even in the long- run. Persistent inefficiencies take the form of cycles between states or of convergence to an inefficient state. When agents are sufficiently patient, we show that the initial state from which the process starts plays no role in the long-run properties of equilibria. Also, when there exists an efficient state that is externality-free (in the sense that a move away from that state does not hurt the agents whose consent is not required for the move), then the system must converge to this efficient state in the long-run. Conversely, long-run efficiency can only be attained in a robust way if there exists an efficient externality-free state. It is thus more important to design transitions guaranteeing the existence of an efficient externality-free state rather than to implement a fine initialization of the process.

Gompers, Paul A.

AB Financial economists in recent years have closely examined and intensely debated the performance of initial public offerings (IPOs) using data after the formation of the National Association of Securities Dealers Automated Quotation System (NASDAQ). The paper seeks to shed light on this controversy by undertaking a large, out-of-sample study: we examine the performance for up to five years after listing of nearly 3,661 initial public offerings in the United States from 1935 to 1972. The sample displays some evidence of underperformance when event- time buy-and-hold abnormal returns are used. The underperformance disappears, however, when cumulative abnormal returns are utilized. A calendar-time analysis also shows that over the entire sample period -- i.e., from 1935 to 1976 -- IPOs return as much has the market. Finally, the intercepts in Capital Asset Pricing Model (CAPM) and Fama-French three-factor regressions are insignificantly different from zero, suggesting no abnormal performance.

Goolsbee, Austan

AB This paper examines the introduction of Direct Broadcast Satellites as an alternative to cable television and the welfare gains such satellites generated for consumers. The extent to which satellites compete with cable has become an important issue in the debate over re- regulation of cable prices. We estimate a consumer level demand system for satellite, basic cable, premium cable and local antenna using extensive micro data on the television choices of more than 15,000 people as well as price and characteristics data on cable companies through the nation. The results indicate that, after properly controlling for unobservable product attributes and the endogeneity of prices, the direct welfare gain to satellite buyers averages about $50 dollars per year or approximately $450 million annually in the aggregate. Estimates that do not control for unobserved attributes and endogenous prices overstate the welfare gains by almost a factor of fifteen. The price sensitivity of satellite to both its own price and the price of cable is extremely high. The price sensitivity of cable, however, is low, likely indicating that satellite is not a close substitute at the time of our sample.

Gordon, Roger H.

AA UCSD and CEPR. **SR** CEPR Discussion Paper: 2977; 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** H25, H32, L32. **KW** Corporate Taxes. Privatization. State-Owned Firms.

AB Why have state-owned firms been so common? One explanation, proposed in the past, is that if state firms can be induced to maximize pretax profits, then state ownership may be less inefficient than private ownership when corporate tax rates are high. If this argument were right, the capital intensity of state-owned firms should fall with privatization. The data instead show that firms lay off workers when they are privatized. Why? This paper argues that the government can use cheap loans from state-owned banks to maintain the capital stock of privately owned firms at an efficient level, in spite of a high corporate tax rate. State-owned firms should then have the same capital intensity as equivalent privately owned firms. The paper then argues that many other distortions to a private firm's incentives, e.g. the minimum wage, result in their employing too few low-skilled workers. State-owned firms, in contrast, can be induced to hire the desired number of such workers. This gain must be weighted against the presumed loss in productivity more generally from state ownership.

Gorg, Holger
TI Foreign Direct Investment, Agglomerations and Demonstration Effects: An Empirical Investigation. **AU** Barry, Frank; Gorg, Holger; Strobl, Eric.

Gosling, Amanda
PD August 2001. **TI** Labour Market Reforms and Changes in Wage Inequality in the United Kingdom and the United States. **AU** Gosling, Amanda; Lemieux, Thomas. **AA** Gosling: University of Essex and IFS. Lemieux: University of British Columbia and NBER. **SR** National Bureau of Economic Research Working Paper: 8413; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** J31, J38, J51, J58. **KW** Wage Inequalilty. Labor Market Reforms. United Kingdom. USA.

AB This paper compares trends in male and female hourly wage inequality in the United Kingdom and the United States between 1979 and 1998. Our main finding is that the extent and pattern of wage inequality became increasingly similar in the two countries during this period. We attribute this convergence to "U.S. style" reforms in the U.K. labor market. In particular, we argue that the much steeper decline in unionization in the United Kingdom explains why inequality increased faster than in the United States. For women, we conclude that the fall and subsequent recovery in the real value of the U.S. minimum wage explains why wage inequality increased faster in the United States than in the United Kingdom during the 1980s, while the opposite happened during the 1990s. Interestingly, the introduction of the National Minimum Wage in the U.K. in 1999 also contributed to the convergence in labor market institutions and wage inequality between the two countries.

Gowrisankaran, Gautam
TI Bayesian Inference for Hospital Quality in a Selection Model. **AU** Geweke, John; Gowrisankaran, Gautam; Town, Robert J.

Gradstein, Mark
PD June 2001. **TI** Elections with Contribution-Maximizing Candidates. **AA** Ben Gurion University of the Negev and CEPR. **SR** CEPR Discussion Paper: 2847; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D70, D72. **KW** Elections. Political Contributions. Voting.

AB Much of the analysis of campaign contributions, in accordance with the Downsian model, has supposed that candidates seek contributions for electoral purposes. This paper takes the opposite approach, by assuming that each candidate aims to maximize the contributions he collects. We let a citizen contribute to a candidate with the aim of increasing that candidate's chances of winning. These assumptions generate several plausible results: in equilibrium citizens make campaign contributions; the positions the candidates adopt differ; the willingness of the rich to make larger contributions than the poor moves the candidates to adopt positions the wealthy prefer. A cap on political contributions reduces spending by voters, but also increases the divergence in the platforms adopted by the candidates. If some voters are richer than others are, a cap will benefit the poor and hurt the rich, although the overall welfare implications are ambiguous.

Grant, Oliver Wavell
PD August 2002. **TI** Productivity in German Agriculture: Estimates of Agricultural Productivity From Regional Accounts for 21 German Regions: 1880/4, 1893/7 and 1905/9. **AA** University of Oxford. **SR** University of Oxford, Discussion Papers in Economic and Social History: 47; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. **PG** 34. **PR** no charge. **JE** N13, N53, N930. **KW** Agriculture. Productivity. Germany. Technology.

AB This paper presents estimates of agricultural productivity (net value added per full-time labor unit) for 21 German regions for the years 1880/4, 1893/7, and 1905/9. The estimates are derived from regional accounts for agricultural production and costs. The methods used to draw up these accounts are discussed, and there is also an analysis of Hoffmann's national agricultural accounts. The estimates show that productivity in East-Elbian agriculture was growing rapidly in the period, and tending to converge on the German average. Productivity in southern Germany was not growing so fast. The reasons for this improvement east of the Elbe are examined using a Kreis-level data set. This shows that yield improvements were not limited to large farms and estates, but that smaller holdings also had access to new technology and improved husbandry methods. In short, East-Elbian agriculture should not be seen as backward or bound by tradition: it was a modern sector capable of rapid improvements in techniques and methods of production.

PD September 2002. **TI** Does Industrialization Push Up Inequality? New Evidence on the Kuznets Curve From Nineteenth-Century Prussian Tax Statistics. **AA** University of Oxford. **SR** University of Oxford, Discussion Papers in Economic and Social History: 48; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. **PG** 46. **PR** no charge. **JE** N13, N33. **KW** Inequality. Kuznets. Germany. Industrialization.

AB This paper presents new estimates of income inequality

derived from Prussian tax statistics for the years 1822-1914. Confidence intervals are also calculated. The results show a rise in inequality in the nineteenth century, with a peak around 1906, thus supporting the view put forward by Simon Kuznets that industrialization will initially lead to a rise in inequality. The paper goes on to consider whether this was due to factors which were particular to Germany in the period, or whether the Kuznets curve is the result of forces which affect all industrializing societies. The conclusion reached is that Kuznets curve is an avoidable trap, not an automatic consequence of industrialization.

Gray, Wayne B.

PD September 2001. **TI** Plant Vintage, Technology, and 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: 8480; National Bureau of Economic Research, 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 the U.S.). **JE** Q24, Q25. **KW** Environmental Regulation. Abatement Costs. Plant Vintage.
AB Does the impact of environmental regulation differ by plant vintage and technology? We answer this question using annual Census Bureau information on 116 pulp and paper mills' vintage, technology, productivity, and pollution abatement operating costs for 1979-1990. We find a significant negative relationship between pollution abatement costs and productivity levels. This is due almost entirely to integrated mills (those incorporating a pulping process), where a one standard deviation increase in abatement cost is predicted to reduce productivity by 5.4 percent. Older plants appear to have lower productivity but are less sensitive to abatement costs, perhaps due to "grandfathering" of regulations. Sample calculations of the impact of pollution abatement on productivity show the importance of allowing for differences based on plant technology. In a model incorporating technology interactions we estimate that total pollution abatement costs reduce productivity levels by an average of 4.7 percent across all the plants. The comparable estimate without technology interactions is 3.3 percent, approximately 30 percent lower.

Green, Richard

PD October 2001. **TI** Failing Electricity Markets: Should We Shoot the Pools? **AA** University of Hull. **SR** CEPR Discussion Paper: 3010; 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** L94. **KW** Electricity Markets. Hedging Contracts. Spot Markets. Market Power.
AB This paper discusses the electricity reforms in California and in England and Wales. In both cases, a centralized spot market played a major role, and both markets have now been abolished. This paper argues that their disappearance is not evidence that future electricity restructuring should avoid the use of spot markets. Instead, the problems in England and Wales were largely due to market power. In California, problems arising from market power and a tightening demand-supply balance were turned into a disaster because the spot market had not been backed up by hedging contracts.

Greenstone, Michael

PD September 2001. **TI** The Impacts of Environmental Regulations on Industrial Activity: Evidence from the 1970 and 1977 Clean Air Act Amendments and the Census of Manufactures. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8484; National Bureau of Economic Research, 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 the U.S.). **JE** O47, Q28, Q38. **KW** Environmental Regulation. Industrial Activity.
AB This paper estimates the effects of environmental regulations on industrial activity. The analysis is conducted with the most comprehensive data available on both regulations from the Clean Air Act Amendments' division of counties into pollutant-specific nonattainment and attainment categories and manufacturing activity from the 1.75 million plant observations that comprise the 1967-87 Censuses of Manufactures. Emitters of the controlled pollutants are subject to greater regulatory oversight in nonattainment countries. I find that in the first 15 years after the Amendments became law (1972-1987), nonattainment counties (relative to attainment ones) lost approximately 590,000 jobs, $37 billion in capital stocks, and $75 billion (1987$) of output in pollution intensive industries. Although the decline in manufacturing activity was substantial in nonattainment counties, it was modest compared to the size of the entire manufacturing sector.

Greenwood, Jeremy

PD January 2002. **TI** The US Demographic Transition. **AU** Greenwood, Jeremy; Seshadri, Ananth. **AA** Greenwood: University of Rochester. Seshadri: University of Wisconsin, Madison. **SR** Rochester Center for Economic Research Working Paper: 487; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: rcer.econ.rochester.edu. **PG** 13. **PR** $5.00 (3 first papers free of charge). **JE** E10, J10, J11, O33, O51. **KW** Fertility. Technological Progress. Agriculture. Manufacturing.
AB Between 1800 and 1940 the U.S. went through a dramatic demographic transition. In 1800, the average woman had 7 children, and 94 percent of the population lived in rural areas. By 1940, the average woman birthed just 2 kids, and only 43 percent of populace lived in the country. The question is: What accounted for this shift in the demographic landscape? The answer given here is that technological progress in agriculture and manufacturing explains these facts.

PD March 2002. **TI** More on Marriage, Fertility and the Distribution of Income. **AU** Greenwood, Jeremy; Guner, Nezih; Knowles, John A. **AA** Greenwood: University of Rochester. Guner: Pennsylvania State University. Knowles: University of Pennsylvania. **SR** Rochester Center for Economic Research Working Paper: 489; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: rcer.econ.rochester.edu. **PG** 41. **PR** $5.00 (3 first papers free of charge). **JE** D30, E10, J12, J13. **KW** Fertility. Marriage and Divorce. Nash Bargaining. Income Distribution. Public Policy.
AB According to Pareto (1896), the distribution of income

depends on "the nature of the people comprising a society, on the organization of the latter, and, also, in part, on chance." In the model developed here, the "nature of the people" is captured by attitudes toward marriage, divorce, fertility, and children. Singles search for mates in a marriage market. Married agents bargain about work, and the quantity and quality of children. They can divorce. Social policies, such as child support requirements, reflect the "organization of the society." Finally, "chance" is modeled by randomness in income, marriage opportunities, and marital bliss.

PD July 2002. **TI** The Baby Boom and Baby Bust: Some Macroeconomics for Population Economics. **AU** Greenwood, Jeremy; Seshadri, Ananth; Vandenbroucke, Guillaume. **AA** Greenwood and Vandenbroucke: University of Rochester. Seshadri: University of Wisconsin. **SR** University of Rochester, Economie d'Avant Garde Research Report: 1; available only on website. Website: www.econ.rochester.edu/EAG/EAG.html. **PG** 24. **PR** no charge. **JE** J11, J13, O33. **KW** Baby Boom. Fertility. Technological Progress. Real Wages. Baby Bust.
AB What caused the baby boom? And, can it be explained within the context of the secular decline in fertility that has occurred over the last 200 years? The hypothesis is that: 1) The secular decline in fertility is due to the relentless rise in real wages that increased the opportunity cost of having children; 2) The baby boom is explained by an atypical burst of technological progress in the household sector that occurred in the middle of the last century. This lowered the cost of having children. A model is developed in an attempt to account, quantitatively, for both the baby boom and bust.

PD July 2002. **TI** Engines of Liberation. **AU** Greenwood, Jeremy; Seshadri, Ananth; Yorukoglu, Mehmet. **AA** Greenwood: University of Rochester. Seshadri: University of Wisconsin. Yorukoglu: University of Chicago. **SR** University of Rochester, Economie d'Avant Garde Research Report: 2; available only on website. Website: www.econ.rochester.edu/EAG/EAG.html. **PG** 42. **PR** no charge. **JE** E10, J20, J21, J23. **KW** The Second Industrial Revolution. Technology Adoption. Household Production Theory. Female Labor-Force Participation.
AB Electricity was born at the dawn of the last century. Households were inundated with a flood of new consumer durable goods. What was the impact of this consumer durable goods revolution? It is argued here that the consumer goods revolution liberated women from the home. To analyze this hypothesis, a Beckerian model of household production is developed. Households must decide whether to adopt the new technologies or not, and whether married woman should work. Can such a model explain the rise in married female labor-force participation that occurred in the last century? Yes.

PD October 2002. **TI** Technological Progress and Economic Transformation. **AU** Greenwood, Jeremy; Seshadri, Ananth. **AA** Greenwood: University of Rochester. Seshadri: University of Wisconsin. **SR** University of Rochester, Economie d'Avant Garde Research Report: 3; available only on website. Website: www.econ.rochester.edu/EAG/EAG.html. **PG** 44. **PR** no charge. **JE** D10, E10, J11, J13, O33. **KW** Child Labor. Economic Growth. Female Labor-Force Participation. Fertility. Technological Progress.
AB Growth theory goes a long way toward explaining phenomena in labor economics linked with U.S. economic

development. Some examples are: (a) the secular decline in fertility between 1800 and 1980, (b) the decline in agricultural employment and the rise in skill since 1800, (c) the demise of child labor starting around 1900, (d) the increase in female labor-force participation from 1900 to 1980. Growth theory models are presented to address all of these facts, plus the temporary rise in fertility that occurred during the baby boom. The analysis emphasizes the role of technological progress as a catalyst for economic transformation.

Griffith, Garry R.
PD October 2002. **TI** The Incidence of Gains and Taxes Associated with R&D and Promotion in the Australian Beef Industry. **AU** Griffith, Garry R.; Griffiths, William E.; Mullen, John D.; Piggott, Roley R.; Zhao, Xueyan. **AA** Griffith and Piggott: University of New England. Griffiths: University of Melbourne. Mullen: New South Wales Department of Agriculture, Orange. Zhao: Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 16/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. **PG** 34. **PR** no charge. **JE** C69, D61, M31, Q13, Q16, Q18. **KW** R&D Promotion. Beef Industry. Equilibrium Displacement.
AB The issue of the relative returns to farmers from R&D and promotion is examined using a multi-sectoral equilibrium displacement model of the Australian beef industry. Total economic surplus changes and their distributions among various industry groups resulting from 1% cost reductions in various farm and off-farm sectors, and from 1% price premiums from domestic and export market promotion, are estimated. The results are consistent with previous studies in showing that in general, the share of total benefits to farmers is larger from on-farm research than from most off-farm research, and is larger from most types of research than from domestic promotion. The share of total benefits to farmers is larger from export promotion than from off-farm research, and from domestic promotion. The net returns from the different cost-reduction or demand-enhancing scenarios depend on the costs of achieving them.

Griffiths, William E.
TI The Incidence of Gains and Taxes Associated with R&D and Promotion in the Australian Beef Industry. **AU** Griffith, Garry R.; Griffiths, William E.; Mullen, John D.; Piggott, Roley R.; Zhao, Xueyan.

Groen, Jeffrey
TI Trade in University Training: Cross-State Variation in the Production and Use of College-Educated Labor. **AU** Bound, John; Groen, Jeffrey; Kezdi, Gabor; Turner, Sarah.

Gronau, Reuben
PD October 2001. **TI** The Demand for Variety: A Household Production Perspective. **AU** Gronau, Reuben; Hamermesh, Daniel S. **AA** Gronau: Hebrew University and NBER. Hamermesh: University of Texas and NBER. **SR** National Bureau of Economic Research Working Paper: 8509; National Bureau of Economic Research, 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 the U.S.). **JE** D12, J22.

KW Demand for Variety. Home-Production Model. Human Capital. Education.
AB Product diversity pervades every modern marketplace, and economists have devoted substantial attention to firms' decisions about the supply of variety. This study looks at the consumer's side by discussing the demand for variety. Using the framework of the home-production model, we trace differences in demand to differences in the opportunity costs of various activities. The cost differences are associated with investments in human capital; and the resulting differences in schooling attainment produce differences in time costs that in turn alter the kinds and variety of activities in which household members engage. Using time-budget surveys from Australia, Israel, the Netherlands, Sweden, the United States and West Germany from between 1985 and 1994, we find substantial differences among households in the extent of variety in the nonwork activities that they produce. More educated individuals generate more variety, engaging in both additional activities and the same ones as the less educated, with most of the effect of education on the variety of nonroutine activities. There is more variety on weekends; women engage in more different activities than men; young children add to variety in household consumption/production, especially among women; and income effects are clearly positive.

Gross, David B.

AB We utilize a unique new data set of credit card accounts to analyze how people respond to changes in credit supply. We estimate both marginal propensities to consume (MPCs) out of liquidity and interest- rate elasticities. We also evaluate the ability of different models of consumption to rationalize our results, distinguishing the Permanent- Income Hypothesis (PIH), liquidity constraints, precautionary saving, and behavioral models. We find that increases in credit limits generate an immediate and significant rise in debt, counter to the PIH. The average "MPC out of liquidity" ranges between 10% to 14%. The MPC is much larger for people starting near their limits, consistent with binding liquidity constraints. However, it is significant even for people starting well below their limit. We show this response is consistent with buffer-stock models of precautionary saving. We also find strong effects from changes in account-specific interest rates. The long-run elasticity of debt to the interest rate is approximately -1.3. Less than half of this elasticity represents balance-shifting across cards. The elasticity is larger for decreases in interest rates than for increases, and is smaller for people starting near their credit limits.

AB This paper uses a new panel data set of credit card accounts to analyze credit card delinquency, personal bankruptcy, and the stability of credit risk models. We estimate duration models for default and assess the relative importance of different variables in predicting default. We investigate how the propensity to default has changed over time, disentangling the two leading explanations for the recent increase in default rates -- a deterioration in the risk -- composition of borrowers versus an increase in borrowers' willingness to default due to declines in default costs, including social, information, and legal Costs. Even after controlling for risk-composition and other economic fundamentals, the propensity to default significantly increased between 1995 and 1997. By contrast, increases in credit limits and other changes in risk-composition explain only a small part of the change in default rates. Standard default models appear to have missed an important time-varying default factor, consistent with a decline in default costs.

Grossman, Gene M.

AB We develop an equilibrium model of industrial structure in which the organization of firms is endogenous. Differentiated consumer products can be produced either by vertically integrated firms or by pairs of specialized companies. Production of each variety of consumer good requires a unique, specialized component. Vertically integrated firms can manufacture the components they need in the quantity and type that maximizes profits, but they face a relatively high cost due to diseconomies of scope. Specialized firms can produce at lower cost, but outsourcing imposes costs due to search frictions and imperfect contracting. We study the equilibrium mode of organization when inputs are fully or partially specialized. We consider how the degree of competition in the industry, the nature of the search technology, the division of bargaining strength between intermediate and final producers, and the sensitivity of manufacturing costs to input characteristics affect the equilibrium organizational form.

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 aska: 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.

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.

Gruener, Hans Peter

AB Many collective decision problems have the common feature that individuals' desired outcomes are correlated but not identical. This paper studies collective decisions with private information about these desired policies. Each agent holds private information that mainly concerns their own bliss point, but this private information also affects all other agents' bliss points. We concentrate on two specific mechanisms, the mean and the median mechanism. We establish existence of two symmetric Bayesian Nash equilibria of the corresponding game and compare the performance of the mechanisms for different degrees of interdependencies. Applications of our framework include the assignment of voting rights in the council of the European Central Bank, the design of decision processes in teams, firms and international organizations.

Guelfi, Anita

TI Rational Responses to Poorly Designed Policies: The Case of Subsidies to Open-End Contracts in Italy. **AU** Cipollone, Piero; Guelfi, Anita.

Guerrieri, Luca

AB Gali and Gertler (1999) are the first to find that the baseline sticky price model fits the U.S. data well. This paper examines the robustness of their estimates along two dimensions. First, it is shown that their IV estimates are not robust to an alternative normalization of the moment condition being estimated. However, when using a Monte-Carlo study to investigate small-sample properties, it is found that the normalization chosen by Gali and Gertler (1999) yields a superior estimator. Second, the paper checks whether or not the proportion of backward looking firms augmenting the baseline model to fit the data is dependent on the type of contracting assumed. It is found that using Taylor-style contracts, rather than Calvo-style contracts, this proportion jumps to 50 percent.

Guest, Paul

TI Long-Run Share Performance of UK Firms Engaging in Cross-Border Acquisitions. **AU** Conn, Charlie; Cosh, Andy; Guest, Paul; Hughes, Alan.

TI The Long-Run Performance of Hostile Takeovers: UK Evidence. **AU** Cosh, Andy; Guest, Paul.

TI Managerial Discretion and Takeover Performance. **AU** Cosh, Andy; Guest, Paul; Hughes, Alan.

Gugler, Klaus Peter

TI Corporate Growth Convergence in Europe. **AU** Geroski, Paul A.; Gugler, Klaus Peter.

Guidolin, Massimo

AB This paper shows that many of the empirical biases of the Black and Scholes option pricing model can be explained by Bayesian learning effects. In the context of an equilibrium model where dividend news evolves on a binomial lattice with unknown but recursively updated probabilities, we derive closed-form pricing formulas for European options. Learning is found to generate asymmetric skews in the implied volatility surface and systematic patterns in the term structure of option prices. Data on S&P 500 index option prices is used to back out the parameters of the underlying learning process and to predict the evolution in the cross-section of option prices. The

proposed model leads to lower out-of-sample forecast errors and smaller hedging errors than a variety of alternative option pricing models, including Black- Scholes and a GARCH model.

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

Guo, Hui
PD   January 2002. TI   Understanding the Risk-Return Tradeoff in the Stock Market. AA   Federal Reserve Bank of St. Louis. SR   Federal Reserve Bank of St. Louis Working Paper: 2002/001A; Research Department, Federal Reserve Bank of St. Louis. P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. PG 31. PR no charge. JE G11, G12. KW Risk-Return Tradeoff. Hedge. Excess Returns.
AB   We find that past stock market variance forecasts excess stock market returns and that its predictive ability is greatly enhanced if the consumption-wealth ratio is also included in the forecasting equation. While the risk-return tradeoff is found negative if we use the latter as the instrumental variable for the conditional moments, the former suggests positive one. We argue that the consumption-wealth ratio is closely related to the hedge component of excess returns as in Merton's (1973) intertemporal capital asset pricing model: market risk is indeed positively priced if we control for the hedge component.

PD   February 2002. TI   Stock Prices, Firm Size, and Changes in the Federal Funds Rate Target. AA   Federal Reserve Bank of St. Louis. SR   Federal Reserve Bank of St. Louis Working Paper: 2002/004A; Research Department, Federal Reserve Bank of St. Louis. P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. PG 17. PR no charge. JE E44, E58, G12. KW Monetary Transmission. Credit Market Imperfection. Federal Funds Rate Target.
AB   The Fed targeted the federal funds rate during the period 1974-79; they returned to that procedure in the late 1980s and have maintained it since then. For both periods, we find that stock prices reacted significantly to unanticipated changes in the federal funds rate target, but not to anticipated ones. Consistent with the prediction of imperfect capital market theories, the estimated impact of monetary shocks decreased with firm size in the late 1970s, when business conditions were typically bad; however, we do not observe such a "size effect" in the 1990s, when business conditions were typically good. Our results thus provide additional support to recent rationales for abnormal returns on value stocks: small stocks on average earn higher risk-adjusted returns than large stocks do because small firms are more vulnerable to liquidity constraints and thus perform worse during economic downturns, but not during expansions.

PD   June 2002. TI   On the Out-of-Sample Predictability of Stock Market Returns. AA   Federal Reserve Bank of St. Louis. SR   Federal Reserve Bank of St. Louis Working Paper: 2002/008A; Research Department, Federal Reserve Bank of St. Louis. P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. PG 25. PR no charge. JE G12, G14. KW Stock Return Predictability. Portfolio Choice.
AB   Some recent research shows that macro variables, despite their enormous in-sample predictive ability, do not forecast stock returns out of sample. Specifically, Brennan and Xia (2002) cast doubt on the forecasting power of the consumption-wealth ratio because it is negligible in out-of-sample tests. In this paper, we argue that Brennan and Xia's results reflect an unstable relation between consumption-wealth ratio and stock returns. After we add lagged stock market variance, which follows from a limited stock market participation model by Guo (2000), and the stochastically detrended risk-free rate to the forecasting equation to partially control for the aforementioned unstable relation, the predictive power of consumption-wealth ratio improves dramatically. Also, simple trading strategies based on documented predictability tend to generate higher mean returns with lower volatility than the buy-and-hold strategy, and this difference appears to be economically important.

PD   July 2002. TI   Time-Varying Risk Premia and the Cross Section of Stock Returns. AA   Federal Reserve Bank of St. Louis. SR   Federal Reserve Bank of St. Louis Working Paper: 2002/013A; Research Department, Federal Reserve Bank of St. Louis. P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. PG 38. PR no charge. JE G11, G12. KW Asset Predictability. Time-Varying Opportunities. Asset Pricing. Stock Returns.
AB   This paper shows that the consumption-wealth ratio, realized stock market variance, and the stochastically detrended risk-free rate are strong predictors of stock market returns as well as returns on portfolios formed according to various sorting criteria. The Capital Asset Pricing Model (CAPM) and the Fama and French (1993) three-factor model fail to explain the dynamic pattern of stock portfolio returns tracked by the lagged forecasting variables. However, we cannot reject Campbell's (1993) Intertemporal CAPM, in which risk factors include a stock market return and variables forecasting stock market returns. We find that (1) the relative risk aversion coefficient is positive and statistically significant; (2) all the risk factors are significantly priced; (3) heteroskedasticity in stock returns has significant effects on asset prices. Also, shareholders tend to be more risk-averse towards value stocks than growth or glamour stocks. Therefore, in addition to stock market risk, a hedge for time-varying investment opportunities and possibly different risk attitudes are important to explain the cross section of stock returns.

Gust, Christopher
PD   May 2002. TI   International Comparisons of Productivity Growth: The Role of Information Technology and Regulatory Practices. AU   Gust, Christopher; Marquez, Jaime. AA   Federal Reserve Board. SR   Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 727; 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 C12, C33, D24, L50, O47. KW International Panel Data. Employment Protection Legislation. Productivity Growth. IT. Regulation.
AB   While information technologies (IT) are credited with recent productivity growth in US, many other industrial countries have not experienced a pickup in productivity growth. To explain this productivity divergence, we use panel data and find that it is driven in part by differences in both the production and adoption of ITs. We investigate what factors

might play a role in explaining differences in IT adoption. Our results support the view that burdensome regulatory environments and in particular regulations affecting labor market practices have impeded the adoption of ITs and slowed productivity growth in a number of industrial countries. We then develop a theoretical model with vintage capital and labor to evaluate the effect of more stringent labor market regulations on a firm's decision to adopt new technologies. We establish conditions under which a tax on firing workers delays the adoption of IT. These conditions occur when technological change is skill-biased and a firm must upgrade the quality of its workforce through labor turnover. The resulting delay in adopting IT then has negative implications for economy-wide productivity and is largely consistent with our empirical results.

Gustman, Alan L.

PD August 2001. TI Imperfect Knowledge, Retirement and Saving. AU Gustman, Alan L.; Steinmeier, Thomas L. AA Gustman: Dartmouth College and NBER. Steinmeier: Texas Tech University. SR National Bureau of Economic Research Working Paper: 8406; 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 D31, D91, E21, H55, J14, J16, J26, J32. KW Retirement Benefits. Misinformation. Information Production. Social Security.

AB This paper documents the extent of misinformation about retirement benefits sing data from the Health and Retirement Study. We find that those who are most dependent on social security are the least well informed about their social security benefits, while those who are most dependent on pensions are best informed abut their pension benefits. Women and minorities are less well informed about both types of retirement benefits. We then turn to questions about the production of information, and the consequences of misinformation for real outcomes. Relating measures of information to planning activities, we find that those who plan are somewhat better informed than those who do not, but with the exception of having requested a social security earnings record, the effects of planning activities on knowledge are modest. In descriptive and reduced form equations for planned and actual retirement and saving, there is at best a modest relation of knowledge measures to planned and actual retirement and to non-pension, non- social-security wealth as a share of lifetime earnings. Individuals who overestimate their benefits are likely to retire sooner than they planned, but the measured effects are relatively modest.

Guvenen, M. Fatih

PD May 2002. TI Does Stockholding Provide Perfect Risk Sharing? AA University of Rochester. SR Rochester Center for Economic Research Working Paper: 490; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: rcer.econ.rochester.edu. PG 40. PR $5.00 (3 first papers free of charge). JE C14, C33, D12, D52, G11. KW Perfect Risk-Sharing. Incomplete Markets. Semiparametric Estimation. Generalized Method of Moments. Limited Participation.

AB This paper analyzes the extent of risk-sharing among stockholders. To provide a benchmark, we ask if stockholders are sharing risk more effectively than non-stockholders. We study a dynamic model with endogenous limited participation in the stock market. Due to the endogenous entry decision, the testable implications of perfect risk- sharing (PRS) take the form of a sample selection model. To eliminate the selection bias, we implement a semiparametric estimator proposed by Kyriazidou (2001). Using PSID data we find a surprising result: we strongly reject PRS for stockholders, but find no evidence against it among non-stockholders. We offer two explanations: 1) If financial markets are incomplete, holding stocks may expose owners to extra risks more than it insures existing risks; 2) Stockholders also own most of the entrepreneurial wealth which is largely uninsurable due to asymmetric information. We conclude that the distinction between stockholders and non-stockholders is crucial for many questions in macroeconomics.

PD May 2002. TI Reconciling Conflicting Evidence on the Elasticity of Intertemporal Substitution: A Macroeconomic Perspective. AA University of Rochester. SR Rochester Center for Economic Research Working Paper: 491; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: rcer.econ.rochester.edu. PG 33. PR $5.00 (3 first papers free of charge). JE D31, D52, E32, E44. KW Elasticity of Intertemporal Substitution. Limited Participation. Incomplete Markets. Wealth Inequality. Capital Income Taxation.

AB This paper attempts to reconcile two opposing views about the elasticity of intertemporal substitution in consumption (EIS). Empirical studies using aggregate consumption data find that the EIS is almost zero (Hall, 1988). However, calibrated macroeconomic models typically require that the EIS be close to one (Weil, 1989, Lucas, 1990). We show that this contradiction arises from ignoring two kinds of heterogeneity. First, a large fraction of households do not participate in stock markets. Second, a variety of microeconomic studies conclude that an individual's EIS increases with his wealth. We study a dynamic macroeconomic model featuring these sources of heterogeneity. We find that limited participation creates substantial wealth inequality matching that in U.S. data. Consequently, aggregates directly linked to wealth (investment and output) are almost entirely determined by the (high-elasticity) stockholders. Since consumption is much more evenly distributed than is wealth, estimation using aggregate consumption uncovers the low EIS of the majority of households (i.e., the poor).

Haefke, Christian

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

Hall, Bronwyn H.

PD October 2001. TI The NBER Patent Citation Data File: Lessons, Insights and Methodological Tools. AU Hall, Bronwyn H.; Trajtenberg, Manuel; Jaffe, Adam B. AA Hall: UC Berkeley and NBER. Trajtenberg: Tel-Aviv University and NBER. Jaffe: Brandeis University and NBER. SR National Bureau of Economic Research Working Paper: 8498; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 38. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE O31, O34. KW Patents. Citation Lags. Originality. Generality.

AB This paper describes the database on U.S. patents that we have developed over the past decade, with the goal of making it

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

Hall, Peter G.

PD September 2002. TI An Improved Method for Bandwidth Selection when Estimating ROC Curves. AU Hall, Peter G.; Hyndman, Rob J. AA Hall: Australian National University. Hyndman: Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 11/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG 5. PR no charge. JE C12, C13, C14. KW Bandwidth Selection. Binary Classification. Kernel Estimator. ROC Curve.

AB The receiver operating characteristic (ROC) curve is used to describe the performance of a diagnostic test which classifies observations into two groups. We introduce a new method for selecting bandwidths when computing kernel estimates of ROC curves. Our technique allows for interaction between the distributions of each group of observations and gives substantial improvement in MISE over other proposed methods, especially when the two distributions are very different.

Hamermesh, Daniel S.

TI The Demand for Variety: A Household Production Perspective. AU Gronau, Reuben; Hamermesh, Daniel S.

Hanlon, Brian

TI Model Selection Criteria for Segmented Time Series from a Bayesian Approach to Information Compression. AU Forbes, Catherine S.; Hanlon, Brian.

Hansen, Jorgen

PD October 2001. TI The Dynamics of Immigrant Welfare and Labor Market Behavior. AU Hansen, Jorgen; Lofstrom, Magnus. AA Hansen: Concordia University, IZA, and CEPR. Lofstrom: University of Texas at Dallas and IZA. SR CEPR Discussion Paper: 3028; 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 I38, J15, J18, J61. KW Immigration. Labor Market. State Dependence. Transition. Welfare. Sweden. Refugee.

AB This paper analyses transitions into and out of three different labor market states: social assistance, unemployment and employment. We estimate a dynamic multinomial logit model, controlling for endogenous initial conditions and unobserved heterogeneity, using a large representative Swedish panel data set, LINDA (Longitudinal Individual Data), for the years 1990-6. The unadjusted data indicates that immigrants are more likely to receive both social assistance and unemployment compensation than natives are. Immigrants are less likely to remain employed in consecutive years than natives are and are more likely to stay on welfare and to receive unemployment insurance in any year, given participation in the previous year. The empirical results suggest that refugee immigrants display a greater degree of "structural" state dependence than natives. Further, immigrants from non-refugee countries display a similar degree of "structural" state dependence as natives. The high welfare participation rates among refugee immigrants seem to be due to the existence of a "welfare trap," while participation among natives and non-refugee immigrants is largely due to permanent unobserved characteristics. These results suggest that welfare reforms will have differential effects on refugee immigrants and natives.

Hanushek, Eric A.

PD September 2001. TI Disruption versus Tiebout Improvement: The Costs and Benefits of Switching Schools. 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: 8479; National Bureau of Economic Research, 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 the U.S.). JE H4, I2. KW Texas Schools Project. Switching Schools. Tiebout Improvement.

AB This paper develops a general theoretical model that identifies school quality changes resulting from moving. The empirical analysis, which exploits the rich longitudinal data of the UTD Texas Schools Project, disentangles the disruption effects associated with moves from changes in school quality. The results suggest that there is a small average increase in school quality for district switchers, while there is no evidence that those switching schools within districts obtain higher school quality on average. Perhaps most important for policy, the results also show a significant externality from moves; students in schools with high turnover suffer a disadvantage, and the cost is largest for lower income and minority students who typically attend much higher turnover schools.

PD October 2001. TI Does Peer Ability Affect Student Achievement? AU Hanushek, Eric A.; Markman, Jacob M.; Kain, John F.; Rivkin, Steven G. AA Hanushek: Stanford University and NBER. Markman and Rivkin: Amherst College. Kain: University of Texas at Dallas. SR National Bureau of Economic Research Working Paper: 8502; National Bureau of Economic Research, 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 the U.S.). JE I21, J13. KW Peer Effects. Omitted Variables. Mismeasurement. Student Achievement.

AB Empirical analysis of peer effects on student achievement has been open to question because of the difficulties of separating peer effects from other confounding influences. While most econometric attention has been directed as issues of

simultaneous determination of peer interactions, we argue that issues of omitted and mismeasured variables are likely to be more important. We control for the most important determinants of achievement that will confound peer estimates by removing student and school-by-grade fixed effects in addition to observable family and school characteristics. The analysis also addresses the reciprocal nature of peer interactions and the interpretation of estimates based upon models using past achievement as the measure of peer group quality. The results indicate that peer achievement has a positive effect on achievement growth. Moreover, students throughout the school test score distribution appear to benefit from higher achieving schoolmates. On the other hand, the variance in achievement appears to have no systematic effect.

Harmon, Colm

PD November 2001. **TI** Dispersion in the Economic Return to Schooling. **AU** Harmon, Colm; Hogan, Vincent; Walker, Ian. **AA** Harmon: University College Dublin, CEPR, IZA, and University College London. Hogan: University College Dublin and University of Warwick. Walker: University of Warwick, IFS, IZA, and Keele University. **SR** CEPR Discussion Paper: 3037; 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** C31, J24, J31. **KW** Random Coefficients. Return to Schooling. Human Capital. United Kingdom.
AB In this paper we extend the standard human capital earnings function to include dispersion in the rate of return to schooling by treating the return as a random coefficient. One motivation is that if dipping further into the ability distribution has brought about the increase in supply of skilled workers. Alternatively if the expansion in post- compulsory education comes about through relaxed credit constraints then we might expect this to increase average ability in the pool of educated workers. Either event might lead to a rise in the variance in returns. Based on a sample of data from the United Kingdom our estimates suggest that neither the mean nor the dispersion in returns to schooling has altered significantly over time. This is consistent with educational expansion not leading to a disproportionate inflow of low ability individuals into the system.

Harris, Mark N.

TI The DOGEV Model. **AU** Fry, Tim R. L.; Harris, Mark N.

Hartmann, Philipp

TI Asset Market Linkages in Crisis Periods. **AU** de Vries, Casper G.; Hartmann, Philipp.

Harvey, Andrew C.

PD May 2002. **TI** Models for Converging Economies. **AU** Harvey, Andrew C.; Carvalho, Vasco M. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0216; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 33. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** C32, O41. **KW** Cycles. Balanced Growth. Error Correction Mechanism. Stochastic Trend. Unobserved Components.
AB The aim of this article is the development of models for converging economies. After discussing models of balanced growth, univariate models of the gap between per capital income in two economies are examined. The preferred models combine unobserved components with an error correction mechanism and allow a decomposition into trend, cycle and convergence components. A new type of second-order error correction mechanism is shown to be particularly useful in this respect. The levels of per capita income in two economies may be modeled jointly by bivariate convergence models. These models generalize balanced growth models and can be based on autoregressive or unobserved components formulations. Both approaches provide coherent forecasts but the unobserved components models also yield a description of trends, cycles and convergence components. The methods are applied to data on the US and Japan. The generalization to multivariate series is then set out.

TI Growth, Cycles and Convergence in US Regional Time Series. **AU** Carvalho, Vasco M.; Harvey, Andrew C.

Hassler, John

PD August 2001. **TI** The Survival of the Welfare State. **AU** Hassler, John; Rodriguez Mora, Jose V.; Storesletten, Kjetil; Zilibotti, Fabrizio. **AA** Hassler and Storesletten: Stockholm University and CEPR. Rodriguez Mora: Universitat Pompeu Fabra and CEPR. Zilibotti: University College London. **SR** CEPR Discussion Paper: 2905; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D72, E62, H11, H31, P16. **KW** Education. Markov Equilibrium. Multiple Equilibria. Policy-Complementarities. Redistribution.
AB This paper provides an analytical characterization of Markov perfect equilibria in a model with repeated majority voting, where agents vote over income redistribution. The key feature of the theory is that the future constituency of redistributive policies depends positively on the current level of redistribution, since this affects both private investments and the future distribution of voters. Agents vote rationally, and fully anticipate the effects of their political choice on both private incentives and future voting outcomes. The equilibrium features multiple steady-states, one with and one without a welfare state. The theory can explain why welfare state institutions, originally introduced in response to specific shocks (e.g., the Great Depression), have been so persistent.

PD September 2001. **TI** A Positive Theory of Geographic Mobility and Social Insurance. **AU** Hassler, John; Mora, Jose V. Rodriguez; Storesletten, Kjetil; Zilibotti, Fabrizio. **AA** Hassler and Storesletten: Stockholm University and CEPR. Zilibotti: University College London. Mora: Universitat Pompeu Fabra, CEPR, and CESifo. **SR** CEPR Discussion Paper: 2964; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D72, E24, J24, J64, J65. **KW** Employment. Geographical Mobility. Migration. Political Equilibrium. Unemployment Insurance.
AB This paper presents a tractable dynamic general equilibrium model that can explain cross-country empirical regularities in geographical mobility, unemployment and labor

market institutions. Rational agents vote over unemployment insurance (UI), taking the dynamic distortionary effects of insurance on the performance of the labor market into consideration. Agents with higher cost of moving, i.e. more attached to their current location, prefer more generous UI. The key assumption is that an agent's attachment to a location increases the longer they have resided there. UI reduces the incentive for labor mobility and increases, therefore, the fraction of attached agents and the political support for UI. The main result is that this self-reinforcing mechanism can give rise to multiple steady-states one "European" steady-state featuring high unemployment, low geographical mobility and high unemployment insurance, and one "American" steady-state featuring low unemployment, high mobility and low unemployment insurance.

Hattori, Toru
PD May 2002. TI Relative Performance of UK and Japanese Electricity Distribution Systems 1985-1998: Lessons for Incentive Regulation. AU Hattori, Toru; Jamasb, Tooraj; Pollitt, Michael G. AA Hattori: Central Research Institute of Electric Power Industry (CRIEPI). Tooraj and Pollitt: University of Cambridge. SR University of Cambridge, DAE Working Paper: 0212(CMI03); Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 32. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE L51, L94. KW Technical Efficiency. Efficiency Analysis. Electricity. Distribution Systems. Incentive Regulation. Japan. United Kingdom.
AB In this paper we present an analysis of the development and relative performance of electricity distribution utilities in the United Kingdom (UK) and Japan between 1985 and 1998. The results allow the examination of the impact of privatization and regulation on the UK firms and their scope for further efficiency gains. The paper presents the findings from applying input distance functions with data envelopment analysis (DEA), stochastic frontier analysis (SFA), and corrected ordinary least square (COLS) techniques using cost based model specifications in a dynamic setting.

Heifetz, Aviad
PD October 2000. TI On the Evolutionary Emergence of Optimism. AU Heifetz, Aviad; Spiegel, Yossi. AA Heifetz: Caltech and Tel Aviv University. Spiegel: Northwestern University and Tel Aviv University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1304; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 19. 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 Optimism. Preference Evolution. Belief Perseverance. Confirmation Bias. Dominance Solvability. Selection Dynamics.
AB Successful individuals were frequently found to be overly optimistic. These findings are puzzling, as one could expect that realists would perform best in the long run. We show, however, that in a large class of strategic interactions either cooperation or competition, the equilibrium payoffs of optimists may be higher than those of realists. This is because

the very fact of being optimistic changes the game, and drives the adversary to change their equilibrium behavior, possibly to the benefit of the optimist. Suppose, then, that a population consists initially of individuals with various perceptional tendencies -- pessimists and optimists to various extents, as well as of realists. Individuals meet in pairs to interact, and more successful tendencies proliferate faster. We show that as time goes by, some moderate degree of optimism will take over, and outnumber all other tendencies.

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

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

Henderson, Dale W.
TI Inflation Targeting and Nominal Income Growth Targeting: When and Why Are They Suboptimal? AU Kim, Jinill; Henderson, Dale W.

TI International Coordination of Macroeconomic Policies: Still Alive in the New Millennium? AU Meyer, Laurence H.; Doyle, Brian M.; Gagnon, Joseph E.; Henderson, Dale W.

Hercowitz, Zvi
PD September 2001. TI A Macroeconomic Experiment in Mass Immigration. AU Hercowitz, Zvi; Yashiv, Eran. AA Hercowitz: University of Michigan, Tel Aviv University, and NBER. Yashiv: Tel Aviv University, CEPR, University of Haifa, and IZA. SR CEPR Discussion Paper: 2983; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE E24, J61. KW Employment. Immigration. Open-Economy Macro. USSR. Israel.
AB This paper studies the effects of mass immigration from the former USSR to Israel in the 1990s on the employment of the native-born. The exogeneity and the size of this inflow make it a "natural experiment" of macroeconomic proportions. An open-economy macroeconomic model is used to analyze this experience, focusing on the differential entry of immigrants into the labor and goods markets and the ensuing dynamic implications for labor demand. The reduced form of the model -- consisting of two equations for native employment and the relative price of domestic goods -- is estimated, finding negative effects of immigration on native employment a year after arrival. The delay in the effect is attributed to a positive impact of immigration on the excess demand for goods and, thus, on the demand for labor earlier on.

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

Higson, Chris
TI Macro Economic Instability and Business Exit: Determinants of Failures and Acquisitions of Large UK Firms. AU Bhattacharjee, Arnab; Higson, Chris; Holly, Sean; Kattuman Paul.

Hilber, Christian A. L.

AB While residents receive similar benefits from many local public expenditures, only about one-third of all households have children in the public schools. This paper argues that capitalization of school spending into house prices can encourage residents to support spending on schools, even if the residents themselves will never have children in the schools.

Hildreth, Andrew K. G.

Hines, James R., Jr.

AB Periods of rapid U.S. economic growth during the 1960s and 1970s coincided with improved living standards for many segments of the population, including the disadvantaged as well as the affluent, 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 countercyclically. 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.

Hobbs, Richard

Hoekman, Bernard

AB Actual and potential competition is a powerful source of discipline on the pricing behavior of firms with market power. A simple model is developed here that shows that the effects of import competition and domestic entry regulation on industry price-cost markups depend on country size. Barriers to domestic entry are predicted to have stronger anti-competitive effects in large countries, whereas the impact of barriers to foreign entry (i.e., imports) should be stronger in small countries. Following estimation of markups for manufacturing sectors in 41 developed and developing countries, these hypotheses are tested and cannot be rejected by the data. For example, although Italy and Indonesia impose the same number of regulations on entry of new firms, their impact on manufacturing markups is 20 percent higher in Italy due to its larger size. Similarly, Chile and Zimbabwe have the same import penetration ratio, but the market discipline effect of imports on markups is 13 percent higher in Zimbabwe due to its smaller size.

Hogan, Vincent

Hollifield, Burton

AB We analyze order placement strategies in a limit order market. Traders submitting market or limit orders trade off the order price against both the execution probability and the winner's curse risk. The optimal order strategy is characterized by a monotone function, which maps the liquidity demand of the investors into their order choice. We develop a semiparametric test of this monotonicity property, and find no evidence against it for buy or sell orders. We find evidence against the hypothesis that the trader's decision to be a buyer or a seller depends only on the trading profits available in the limit order book. Although the distribution of liquidity demand does not depend on conditioning information, conditioning

information helps us to predict the composition of the order flow in our data. Our findings imply that variation in the composition of the order flow can be explained by empirical variation in the relative profitability of alternative order choices and movements in the common value of the asset.

Holly, Sean
TI Macro Economic Instability and Business Exit: Determinants of Failures and Acquisitions of Large UK Firms. AU Bhattacharjee. Arnab; Higson, Chris; Holly, Sean; Kattuman Paul.

Holmes, Thomas J.
PD January 2002. TI The Role of Cities: Evidence From the Placement of Sales Offices. AA University of Minnesota and Federal Reserve Bank of Minneapolis. SR Federal Reserve Bank of Minneapolis Staff Report: 298; Research Department. Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue. P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. PG 34. PR no charge. JE R12. R32. KW Cities. Scale Economies. Knowledge Spillover. Concentrated Market.
AB What is the force of attraction of cities? Leading explanations include the advantages of a concentrated market and knowledge spillovers. This paper develops a model of firm location decisions in which it is possible to distinguish the importance of the concentrated- market motive from other motives, including knowledge spillovers. A key aspect of the model is that it allows for the firm to choose multiple locations. The theory is applied to study the placement of manufacturing sales offices. The implications of the concentrated- market motive are found to be a salient feature of the U.S. Census micro data. The structural parameters of the model are estimated. The concentrated-market motive is found to account for approximately half of the concentration of sales offices in large cities.

PD April 2002. TI The Home Market and the Pattern of Trade: Round Three. AU Holmes, Thomas J.; Stevens, John J. AA Holmes: University of Minnesota and Federal Reserve Bank of Minneapolis. Stevens: Board of Governors of the Federal Reserve System. SR Federal Reserve Bank of Minneapolis Staff Report: 304; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. PG 17. PR no charge. JE F12. O19. R11. KW Home Market Effect. Scale Economies. Market Size.
AB Does national market size matter for industrial structure? Round One (Krugman) answered in the affirmative: Home market effects matter. Round Two (Davis) refuted this, arguing that an assumption of convenience -- transport costs only for the differentiated goods -- conveniently obtained the result. In Round Three we relax another persistent assumption of convenience -- two industry types differentiated only by the degree of scale economies -- and find that market size reemerges as a relevant force in determining industrial structure.

Honkapohja, Seppo
PD June 2001. TI Are Non-Fundamental Equilibria Learnable in Models of Monetary Policy? AU Honkapohja, Seppo: Mitra. Kaushik. AA Honkapohja: University of Helsinki and CEPR. Mitra: University of London and University of York. SR CEPR Discussion Paper: 2846; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds. $8 or 8 euros. JE D84, E31, E52. KW Adaptive Learning. Monetary Policy. Stability. Sunspots.
AB Recent models of monetary policy can have indeterminacy of equilibria. The indeterminacy property is often viewed as a difficulty of these models. We consider its significance using the learning approach to expectations formation by employing expectational stability as a robustness criterion for different equilibria. We derive the expectational stability and instability conditions for forward-looking multivariate models, both with and without lags that cover a wide range of monetary policies proposed in the literature.

Hopenhayn, Hugo A.
TI Optimal Lending Contracts and Firm Dynamics. AU Albuquerque. Rui; Hopenhayn, Hugo A.

TI A Theory of Financing Constraints and Firm Dynamics. AU Clementi. Gian Luca; Hopenhayn, Hugo A.

Horn, Henrik
PD June 2001. TI Economic and Legal Aspects of the Most Favored Nation Clause. AU Horn, Henrik; Mavroidis, Petros. AA Horn: Stockholm University and CEPR. Mavroidis: Universite de Neuchatel. SR CEPR Discussion Paper: 2859; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE F10. F13. KW Most-Favored-Nation Clause. Non-Discrimination in Trade.
AB The Most-Favored Nation clause (MFN) forbids members of a trade agreement to discriminate between trading partners. It is typically seen as one of the main features of the multilateral trading system, and appears in several of the agreements in the World Trade Organization. There seems to be a rather widespread belief among policy makers that there are strong economic rationales for the MFN provision. The purpose of the paper is to survey economic theory that may shed light on whether this view is well founded or not, and to summarize salient features of the case law as it concerns MFN.

Hoynes, Hilary W.
TI Another Look at Whether a Rising Tide Lifts All Boats. AU Hines, James R., Jr..; Hoynes, Hilary W.; Krueger, Alan B.

TI Has "In-Work" Benefit Reform Helped the Labour Market? AU Blundell, Richard; Hoynes, Hilary W.

Hu, Albert G. Z.
PD October 2001. TI Patent Citations and International Knowledge Flow: The Cases of Korea and Taiwan. AU Hu, Albert G. Z.; Jaffe, Adam B. AA Hu: National University of Singapore. Jaffe: Brandeis University and NBER. SR National Bureau of Economic Research Working Paper: 8528; 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 O30, O31, O33, O34. KW Patent Citations. Knowledge Diffusion. Knowledge Decay. Technology Proximity.

AB This paper examines patterns of knowledge diffusion from US and Japan to Korea and Taiwan using patent citations as an indicator of knowledge flow. We estimate a knowledge diffusion model using a data set of all patents granted in the US to inventors residing in these four countries. Explicitly modeling the roles of technology proximity and knowledge decay and knowledge diffusion over time, we have found that knowledge diffusion from US and Japan to Korea and Taiwan exhibits quite different patterns. It is much more likely for Korean patents to cite Japanese patents than US patents, whereas Taiwanese inventors tend to learn evenly from both US and Japanese inventors. The frequency of a Korean patent citing a Japanese patent is almost twice that of the frequency of a Taiwanese patent citing a Japanese patent.

Hubbard, Thomas N.

PD October 2001. TI Information, Decisions, and Productivity: On-Board Computers and Capacity Utilization in Trucking. AA University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 8525; National Bureau of Economic Research, 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 the U.S.). JE D24, E23, L92, O33. KW Productivity. Capacity Utilization. Information. Resource Allocation. Trucks.

AB Productivity reflects not only how efficiently inputs are transformed into outputs, but also how well information is brought to bear on resource allocation decisions. This paper examines this empirically by looking at how on-board computer (OBC) adoption has affected capacity utilization in the trucking industry. Estimates using 1997 data indicate that capacity utilization has increased by an average of 13% among trucks for which advanced OBCs have been adopted. The average benefits to adopters are higher in 1997 than 1992, suggesting lags to the returns to adoption, and are highly skewed across hauls. The 1997 estimates imply that OBC-enabled improvements in communications and resource allocation decisions have led to a 3% increase in the capacity utilization in the industry, which translates to billions of dollars of annual benefits. The commercialization of other wireless networking applications has the potential to generate analogous benefits in other contexts.

Hudson, Maria

TI The Limits of Statutory Trade Union Recognition. AU Brown, William; Deakin, Simon; Hudson, Maria; Pratten, Cliff.

Hughes Hallett, Andrew

PD September 2001. TI Labour Market Reform and Monetary Policy in EMU: Do Asymmetries Matter? AU Hughes Hallett, Andrew; Viegi, Nicola. AA Hughes Hallett: Vanderbilt University, University of Strathclyde, and CEPR. Viegi: University of Strathclyde. SR CEPR Discussion Paper: 2979; 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 E58, E61, F33, J51. KW Asymmetries. Labor Market Institutions. Monetary Union.

AB This paper analyses the interaction between a common monetary policy and differentiated labor market institutions. We develop a model of a two country monetary union. In each country, labor market institutions are distinguished by the degree of centralization in wage bargaining. In each country the government can also use an instrument (general taxation or payroll taxes) to influence their overall labor costs. Finally a common monetary policy is followed in a "conservative" manner, as defined by Rogoff (1985). The results show that structural and preference asymmetries matter, both in the determination of economic policy and in performance. In particular centralized labor market institutions confer a certain comparative advantage in policy making which provides a natural incentive for the less flexible (or less reformed) to want to join a currency union; and for the more flexible to stay outside. This lowers the incentives for reform inside the union, as Calmfors and others have conjectured.

Hughes, Alan

TI Mutuality and Corporate Governance: The Evolution of UK Building Societies Following Deregulation. AU Cook, J.; Deakin, Simon; Hughes, Alan.

TI Long-Run Share Performance of UK Firms Engaging in Cross-Border Acquisitions. AU Conn, Charlie; Cosh, Andy; Guest, Paul; Hughes, Alan.

TI Managerial Discretion and Takeover Performance. AU Cosh, Andy; Guest, Paul; Hughes, Alan.

Hughes, Joseph P.

PD February 2002. TI Do Bankers Sacrifice Value to Build Empires? Managerial Incentives, Industry Consolidation, and Financial Performance. AU Hughes, Joseph P.; Lang, William L.; Mester, Loretta J.; Moon, Choon-Geol; Pagano, Michael S. AA Hughes: Rutgers University. Lang: Office of the Comptroller of the Currency. Mester: Federal Reserve Bank of Philadelphia and University of Pennsylvania. Moon: Hanyang University. Pagano: Villanova University. SR Federal Reserve Bank of Philadelphia Research Working Paper: 02/02; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. PG 30. PR no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE D24, G21, G32, G34. KW Consolidation. Acquisitions. Managerial Incentives. Efficiency. Agency Problems. Stochastic Frontier.

AB Bank consolidation is a global phenomenon that may enhance stakeholders' value if managers do not sacrifice value to build empires. We find strong evidence of managerial entrenchment at U.S. bank holding companies that have higher levels of managerial ownership, better growth opportunities, poorer financial performance, and smaller asset size. At banks without entrenched management, both asset acquisitions and sales are associated with improved performance. At banks with entrenched management, sales are related to smaller improvements while acquisitions are associated with worse performance. Consistent with scale economies, an increase in assets by internal growth is associated with better performance at most banks.

Hunt, Robert M.

TI Knowledge Spillovers and the New Economy of Cities. AU Carlino, Gerald A.; Chatterjee, Satyajit; Hunt, Robert M.

PD November 2002. **TI** The Development and Regulation of Consumer Credit Reporting in America. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 02/21; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. **PG** 19. **PR** no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** D18, E51, G28. **KW** Consumer Credit. Regulation. Lending Markets.

AB This paper describes how the consumer credit reporting industry evolved from a few joint ventures of local retailers around 1900 to a high technology industry that plays a supporting role in America's trillion dollar consumer credit market. In many ways the development of the industry reflects the intuition developed in the theoretical literature on information-sharing arrangements. But the story is richer than the models. Credit bureaus have changed as retail and lending markets changed, and the impressive gains in productivity at credit bureaus are the result of their substantial investments in technology. Credit bureaus obviously benefit when their data are more reliable, but should we expect them to attain the socially efficient degree of accuracy? There are plausible reasons to think not, and this is the principal economic rationale for regulating the industry. An examination of the requirements of the Fair Credit Reporting Act reveals an attempt to attain an appropriate economic balancing of the benefits of a voluntary information sharing arrangement against the cost of any resulting mistakes.

Hunter, John

PD September 2001. **TI** On the Determinants of Industrial Firm Failure in the UK and Russia in the 1990's. **AU** Hunter, John; Isachenkova, Natalia. **AA** Hunter: Brunel University. Isachenkova: University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP208; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 12. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** G33. **KW** Company Failure Risk. Russian Transition. Logit. Bootstrap. Corporate Insolvency.

AB It has been common approach to apply empirical predictors for the UK and USA to Russian data on corporate insolvency, which would appear poor practice in the context of an economy in transition. The model for Russia indicates that profitability is the dominant predictor as compared with gearing and liquidity for the UK. In the context of softer budget constraints and the common use of barter in Russian payments, the results suggest that policy makers and practitioners should pay specific attention to the profit position of companies.

Hyndman, Rob J.

TI Unmasking the Theta Method. **AU** Billah, Baki; Hyndman, Rob J.

TI Statistical Methodological Issues in Studies of Air Pollution and Respiratory Disease. **AU** Erbas, Bircan; Hyndman, Rob J.

TI Using R to Teach Econometrics. **AU** Racine, Jeff; Hyndman, Rob J.

PD November 2001. **TI** Prediction Intervals for Exponential Smoothing State Space Models. **AU** Hyndman, Rob J.; Koehler, Anne B.; Ord, J. Keith; Snyder, Ralph D. **AA** Hyndman and Snyder: Monash University. Koehler: Miami University. Ord: Georgetown University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 11/2001; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. **PG** 13. **PR** no charge. **JE** C22, C53. **KW** Forecast Distribution. Forecast Interval. Forecast Variance. Holt-Winters Method. Structural Models.

AB The main objective of this paper is to provide analytical expressions for forecast variances that can be used in prediction intervals for the exponential smoothing methods. These expressions are based on state space models with a single source of error that underlie the exponential smoothing methods. Three general classes of the state space models are presented. The first class is the standard linear state space model with homoscedastic errors, the second retains the linear structure but incorporates a dynamic form of heteroscedasticity, and the third allows for non-linear structure in the observations equation as well as heteroscedasticity. Exact matrix formulas for the forecast variances are found for each of these three classes of models. These formulas are specialized to non-matrix formulas for fifteen state space models that underlie nine exponential smoothing methods, including all the widely used methods. In cases where an ARIMA model also underlies an exponential smoothing method, there is an equivalent state space model with the same variance expression. We also discuss relationships between these new ideas and previous suggestions for finding forecast variances and prediction intervals for the exponential smoothing methods.

PD January 2002. **TI** Exponential Smoothing for Inventory Control: Means and Variances of Lead-Time Demand. **AU** Hyndman, Rob J.; Koehler, Anne B.; Ord, J. Keith; Snyder, Ralph D. **AA** Hyndman and Snyder: Monash University. Koehler: Miami University. Ord: Georgetown University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 03/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. **PG** 10. **PR** no charge. **JE** C22, C49, E22. **KW** Forecasting. Inventory Control. Lead-Time Demand. Exponential Smoothing. Forecast Variance.

AB Exponential smoothing is often used to forecast lead-time demand for inventory control. In this paper, formulae are provided for calculating means and variances of lead-time demand for a wide variety of exponential smoothing methods. A feature of many of the formulae is that variances, as well as the means, depend on trends and seasonal effects. Thus, these formulae provide the opportunity to implement methods that ensure that safety stocks adjust to changes in trend or changes in season.

TI Local Linear Forecasts using Cubic Smoothing Splines. **AU** Billah, Baki; Hyndman, Rob J.; King, Maxwell L.; Pitrun, Ivet.

TI An Improved Method for Bandwidth Selection when Estimating ROC Curves. **AU** Hall, Peter G.; Hyndman, Rob J.

Hyson, Rosemary

AB There is a broad range of work which looks at the transmission of various outcomes -- earnings, education, and poverty -- between parents and children. The degree to which outcomes are transmitted, however, is likely to be related to socioeconomic circumstances and may result in different degrees of intergenerational mobility across groups. In this paper, I examine whether or not the transmission of earnings from parents to children differs across the distribution of parent earnings using semi-parametric estimates of the relationship between father and children's earnings. When I allow for a flexible, non-linear relationship between father's and children's earnings, it appears that parental earnings have the greatest effect in the middle of the distribution. Hypothesis tests indicate that the effect of father's earnings is significantly greater for daughters and sons in the middle and upper portions of the distribution than for those at the bottom.

Ihrig, Jane

AB This paper examines exchange-rate exposure of multinationals (MNEs) in light of detailed exchange rate data. Specifically, using MNE- specific exchange rates and accounting for the possibility that exchange-rate crises may impact a firm differently than periods of normal fluctuations, estimates suggest 1/4 of all MNEs had significant exchange rate exposure between 1995 and 1999. On average, significant exposure is estimated to be 0.68, indicating that a firm's monthly return falls, on average, by 0.68 percentage points when the dollar appreciates one percent. This encompasses periods where there are normal fluctuations in the exchange rate and the average exposure is estimated to be 0.55, as well as crisis periods where the average exposure is estimated to be 2.8. Finally, results illustrate that MNEs operating in more than 20 countries (having more than 30 subsidiaries) have twice the exposure of MNEs operating in one country (having one subsidiary).

Inderst, Roman

AB This paper provides a conceptual framework of multilateral bargaining in a bilaterally oligopolistic industry to analyze the motivations for horizontal mergers, technology choice, and their welfare implications. We first analyze the implication of market structure for the distribution of industry profits. We find that retailer mergers are more likely (less likely) if suppliers have increasing (decreasing) unit costs, while supplier mergers are more likely (less likely) if goods are substitutes (complements). In a second step we explore how market structure affects suppliers' technology choice, which reflects a trade-off between infra-marginal and marginal production costs. We find that suppliers focus more on marginal cost reduction if (i) retailers are integrated and (ii) suppliers are non-integrated. In a final step we consider the whole picture where both market structure and (subsequent) technology choice are endogenous. Analyzing the equilibrium market structure, we find cases where retailers become integrated to induce suppliers to choose a more efficient technology, even though integration weakens their bargaining position. In this case the merger benefits all parties, i.e., suppliers, retailers, and even consumers. We also show that the equilibrium market structure does often not maximize welfare.

AB This paper develops an argument explaining why retail prices may rise in response to the deregulation of opening hours. We make this point in a model of imperfect duopolistic competition. In a deregulated market retailers view the choice of opening hours as a means to increase the degree of perceived product differentiation thus relaxing price competition. If the opportunity costs of the time spent on shopping are sufficiently high, the equilibrium configuration has asymmetric shopping hours where one retailer stays open for longer than the other does. Both retailers charge higher prices than under regulation, and both are strictly better off.

Irmen, Andreas

Endogenous Technical Change. Factor Shares. Overlapping Generations. Trade Union.

AB ·A trade union whose purpose is to raise wages above the competitive level may foster economic growth if it succeeds in shifting income away from the owners of capital to the workers and if the workers' marginal propensity to save exceeds that of capitalists. We make this point in an overlapping generations framework with unionized labor. Considering a monopoly union that cares for wages and employment, we determine a range of trade union objectives and characterize the aggregate technology so that the union's policy spurs per capita income growth and increases the welfare of all generations that adhere to the union.

Isachenkova, Natalia
TI On the Determinants of Industrial Firm Failure in the UK and Russia in the 1990's. **AU** Hunter, John; Isachenkova, Natalia.

Issler, Joao Victor
PD March 2001. **TI** The Missing Link: Using the NBER Recession Indicator to Construct Coincident and Leading Indices of Economic Activity. **AU** Issler, Joao Victor; Vahid, Farshid. **AA** Issler: Getulio Vargas Foundation. Vahid: Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 09/2001; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. **PG** 17. **PR** no charge. **JE** C32, E32. **KW** Coincident Indicators. Leading Indicators. Business Cycle. Canonical Correlation. IV Probit. Encompassing.
AB We use the information content in the decision of the NBER Business Cycle Dating Committee to construct coincident and leading indices of economic activity for the United States. Although several authors have devised sophisticated coincident indices with the ultimate goal of matching NBER recession, no one has used past information on NBER recessions to construct a coincident index. A second ingredient of our method is that we only use the cyclical part of the coincident series to explain the NBER recession indicator. Specifically, we use canonical correlation analysis to filter out the noisy information contained in the coincident series. Finally, to construct our preferred coincident index of the U.S. business cycle, we take account of measurement error in the commonly used coincident series by using instrumental-variable methods. The resulting index is a simple linear combination of four coincident series that encompassed currently popular coincident indices.

Jabbar, M. A.
PD December 2001. **TI** Does Breed Matter to Cattle Farmers and Buyers? Evidence from West Africa. **AU** Jabbar, M. A.; Diedhiou, M. L. **AA** International Livestock Research Institute (ILRI), Ethiopia. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2001/110; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it. **PG** 24. **PR** no charge; available only on website. **JE** Q12, Q16, Q18. **KW** Cattle Breeds. Market Prices. Farmer Preferences. Genetic Resources. Conservation.
AB World agriculture is based on a small number of animal species and a decreasing number of breeds within each species.

Several breeds of West African shorthorn cattle (Bos taurus brachyceros) are now at high risk of extinction due to interbreeding. An analysis of farmers' breeding practices and breed preferences in a sample area in southwest Nigeria confirmed a strong trend away from trypanotolerant breeds, especially Muturu, and identified the traits farmers find least desirable in these breeds relative to zebu (Bos indicus) breeds. An ·analysis of cattle market prices found that buyers have preferences for specific breeds for specific purposes and that though in general price differences due to breed are small, in some cases buyers pay significantly different prices for certain breeds consistent with their preferences. The best hopes for increased utilization of breeds at risk such as Muturu is likely in other areas of West Africa, for example in southeast Nigeria, where the Muturu is better suited to the farming systems and there is a large market to provide incentives for this breed.

Jackson, Brian
TI Science and Technology Collaboration: Building Capacity in Developing Countries? **AU** Wagner, Caroline S.; Brahmakulam, Irene; Jackson, Brian; Wong, Anny; Yoda, Tatsuro.

Jaditz, Ted
TI An Examination of the Difference Between the CPI and the PCE Deflator. **AU** Fixler, Dennis; Jaditz, Ted.

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

TI ·Patent Citations and International Knowledge Flow: The Cases of Korea and Taiwan. **AU** Hu, Albert G. Z.; Jaffe, Adam B.

Jamasb, Tooraj
TI Relative Performance of UK and Japanese Electricity Distribution Systems 1985-1998: Lessons for Incentive Regulation. **AU** Hattori, Toru; Jamasb, Tooraj; Pollitt, Michael G.

PD November 2002. **TI** Reform and Regulation of the Electricity Sectors in Developing Countries. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0226(CMI08); Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 64. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** L52, L94, Q48. **KW** Electricity. Reform. Regulation. Competition.
AB The 1990s witnessed a worldwide trend toward electricity sector reforms in developed and developing economies. These reforms have generally been based on private participation, regulatory reform, and competition in the sector. This paper reviews and draws lessons from the reform experience in developing countries. Developing countries have had to reform technically and financially less efficient electricity systems with less developed private sectors, weak economic and political institutions, shortage of skilled human resources, and lack of regulatory experience. The paper argues that competition and regulatory reform are equally important to the success of reforms. Also, the sector's systemic characteristics and the country's institutional endowment

should weight equally in the design of reforms. Furthermore, distributional and service aspects of reforms call for a redefined state involvement rather than a complete withdrawal from the sector.

James, Harold
TI The Adam Klug Memorial Lecture: Haberler versus Nurkse: The Case for Floating Exchange Rates as an Alternative to Bretton Woods? **AU** Bordo, Michael D.; James, Harold.

Janeba, Eckhard
PD July 2001. **TI** Attracting FDI in a Politically Risky World. **AA** University of Colorado and NBER. **SR** National Bureau of Economic Research Working Paper: 8400; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F21, F23, H24, L16. **KW** Political Risk. Foreign Direct Investment. Multinationals. **AB** Conventional wisdom holds that lack of government commitment deters foreign investment in developing countries. Yet this explanation is not convincing because some econometric studies have found little support for the role of political risk and host governments can offer upfront subsidies that compensate foreign investors for their sunk cost. This paper shows that a second commitment problem upsets the argument. A multinational firm cannot credibly commit to invest in only one country. Since countries differ in production costs and government credibility, this paper explains the pattern of investment in a politically risky world.

Jayanthi, Shekhar
PD September 2001. **TI** Understanding the Relationship Between Manufacturing Strategy and Competitiveness: Towards a Dynamic Approach. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP209; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 30. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** L60, O31, O33. **KW** Manufacturing Strategy. Competitiveness. Manufacturing Practices. Competitive Capabilities.
AB Manufacturing firms are facing a "competitive gridlock" despite implementing strategic organizational and technological changes. Building on the product-process matrix and developments in organizational learning, we develop a two-level model that focuses on balancing the decisions related to the short-term and long-term organizational activities at both the firm and manufacturing levels dynamically. The model indicates that the system behavior is likely to be dynamically robust as environmental uncertainty increases, suggesting that the set of drivers (practices and capabilities) of competitiveness tends to be bounded; the elements of this set are likely to be closely integrated across the two levels.

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: Graduate Institute of International Studies, Geneva.

SR CEPR Discussion Paper: 2842; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F32, F33, G21. **KW** Asian Crisis. Bank Runs. Credit Crunch. Deposit Insurance. Dollarization.
AB This paper considers how an international lender of last resort can prevent self-fulfilling banking and currency crises in emerging economies. We compare two different arrangements: one in which the international lender of last resort injects international liquidity into financial markets, and one in which its resources are used to back domestic banking safety nets. We argue that these arrangements have very different institutional implications: the first one implies an international lender of last resort with unlimited resources (a global central bank), while the second one could be operated by a limited "international banking fund". This fund, however, would have to be closely involved in the supervision of domestic banking systems. Both arrangements would require important changes in the global financial architecture.

Jehiel, Philippe
TI Dynamic Processes of Social and Economic Interactions: On the Persistence of Inefficiencies. **AU** Gomes, Armando R.; Jehiel, Philippe.

Jensen, J. Bradford
TI Who Dies? International Trade, Market Structure, and Industrial Restructuring. **AU** Bernard, Andrew B.; Jensen, J. Bradford.

Johnson, Simon
PD October 2001. **TI** Cronyism and Capital Controls: Evidence from Malaysia. **AU** Johnson, Simon; Mitton, Todd. **AA** Johnson: MIT and NBER. Mitton: Brigham Young University. **SR** National Bureau of Economic Research Working Paper: 8521; National Bureau of Economic Research, 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 the U.S.). **JE** G00, G18, G38. **KW** Cronyism. Malaysia. Capital Controls. Financial Crisis.
AB The initial impact of the Asian financial crisis in Malaysia reduced the expected value of government subsidies to politically favored firms. Of the estimated $60 billion loss in market value for politically connected firms from July 1997 to August 1998, roughly 9% can be attributed to the fall in value of their connections. Firing the Deputy Prime Minister and imposing capital controls in September 1998 primarily benefited firms with strong ties to Prime Minister Mahathir. Of the estimated $5 billion gain in market value for Mahathir-connected firms during September 1998, approximately 32% was due to the increase in the value of their connections. The evidence suggests Malaysian capital controls provided a screen behind which favored firms could be supported.

Johnston, Lloyd D.
TI Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis. **AU** Tauras, John A.; Johnston, Lloyd D.; O'Malley, Patrick M.

Jones, Charles M.
PD October 2001. **TI** Short Sale Constraints and Stock

Returns. AU Jones, Charles M.; Lamont, Owen A. AA Jones: Columbia University. Lamont: University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 8494; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 34. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE G14, N22. KW Short Sale Constraints. Borrowing Market. Equities.

AB Stocks can be overpriced when short sale constraints bind. We study the costs of short selling equities 1926-1933, using the publicly observable market for borrowing stock. Some stocks are sometimes expensive to short, and it appears that stocks enter the borrowing market when shorting demand is high. We find that stocks that are expensive to short or which enter the borrowing market have high valuations and low subsequent returns, consistent with the overpricing hypothesis. Size-adjusted returns are one to two percent lower per month for new entrants, and despite high costs it is profitable to short them.

Jones, Ian

PD December 2001. TI How Do Multinationals Build Social Capital? AU Jones, Ian; Nyland, Chris; Pollitt, Michael G. AA Jones: University of Oxford. Nyland and Pollitt: University of Cambridge. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP220; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. PG 43. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE M14, Z13. KW Social Capital. Corporate Social Responsibility. Business Ethics. South Africa. Multinational Companies.

AB This paper looks at the self-reporting of social engagement by multinational firms in South Africa, developing previous measures of social capital to fit the unique context of the multinational firm, in particular mapping the configurations of declared engagement and the firms' provision. It finds large intersectoral variation that cannot be predicted by one factor alone and sometimes wide intrasectoral variation. In particular (and for different reasons) "extractive" and "industrial" sector firms traditionally criticized for their impact on communities -- and "medical" sector firms are engaged in practices conducive to the generation of social capital.

PD December 2001. TI Who Influences Debates in Business Ethics? An Investigation Into the Development of Corporate Governance in the UK Since 1990. AU Jones, Ian; Pollitt, Michael G. AA Jones: University of Oxford. Pollitt: University of Cambridge. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP221; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. PG 45. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE M14. KW Corporate Governance. Business Ethics. Influences. Cadbury Report. Company Law Review.

AB We investigate the influences behind five major investigations into corporate governance in the UK since 1990: the Cadbury, Greenbury, Hampel and Turnbull Committees, and the Company Law Review. In each case, we examine the roles of business, the authorities, public opinion and events in shaping the course of the investigation, its conclusions and its impact. We do this on the basis of interviews with members of the committees and analysis of newspaper coverage of the debates. The picture that emerges is one where the process of forming the investigating committee, its membership and its mode of operation strongly influence its recommendations and effectiveness. We draw conclusions that contrast the strong influence of the accountancy and legal professions in shaping the debate and the varied influence of the authorities, the media and events.

Joskow, Paul

PD May 2002. TI A Quantitative Analysis of Pricing Behavior in California's Wholesale Electricity Market During Summer 2000: The Final Word. AU Joskow, Paul; Kahn, Edward. AA Joskow: MIT. Kahn: Analysis Group/Economics. SR University of Cambridge, DAE Working Paper: 0211(CMI02); Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 42. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE L13, L43, L94. KW Electricity. Market Power. Deregulation. California. Wholesale Prices.

AB During the summer of 2000, wholesale electricity prices in California were nearly 500% higher than they were during the same months in 1998 or 1999. The purpose of this paper is to examine the factors that explain this increase in wholesale electricity prices. We simulate competitive benchmark prices for summer of 2000 taking account of all relevant supply and demand factors -- gas prices, demand, imports from other states, and emission permit prices. We then compare the simulated competitive benchmark prices with the actual prices observed. We find that there is a large gap between our benchmark competitive prices and observed prices, suggesting that the prices observed during summer 2000 reflect, in part, the exercise of market power by suppliers. We then proceed to examine supplier behavior during high-price hours. We find evidence that suppliers withheld supply from the market that would have been profitable for price-taking firms to sell at the market price.

Joyce, Ted

PD June 2001. TI Did Legalized Abortion Lower Crime? AA NBER and Baruch College. SR National Bureau of Economic Research Working Paper: 8319; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 38. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE J13, K40. KW Abortion. Crime. Legalization. Family Planning.

AB This paper examines the relationship between the legalization of abortion and subsequent decreases in crime. In a current study, researchers estimate that the legalization of abortion explains over half of the recent decline in national crime rates. The association is identified by correlating changes in crime with changes in the abortion ratio weighted by the proportion of the criminal population exposed to legalized abortion. This paper uses an alternative identification strategy. It analyzes changes in homicide and arrest rates among teens and young adults born before and after 1970 in states that legalized abortion prior to Roe v. Wade. The paper compares these changes with variation in homicide and arrest rates

among cohorts from the same period but who were unexposed to legalized abortion. It finds little evidence to support the claim that legalized abortion caused the reduction in crime. It is concluded that the association between abortion and crime is not causal, but most likely the result of confounding from unmeasured period effects such as changes in crack cocaine use and its spillover effects.

Jurajda, Stepan

PD September 2001. **TI** Gender Wage Gap and Segregation in Late Transition. **AA** CERGE-EI and CEPR. **SR** CEPR Discussion Paper: 2952; 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** J16, J21, J71. **KW** Employment Segregation. Gender Wage Gap.
AB Transition countries hoping to join the European Union are in the process of introducing western-type anti-discrimination policies aimed at reducing the gender wage gap. The efficacy of these policies depends on the relative size of those elements of the gap they target; therefore, it is important to quantify these parts. In this paper, large matched employer-employee data sets from the Czech Republic and Slovakia are used to provide such detailed gender wage gap decomposition. The results, based on 1998 data, suggest that various forms of employment segregation are related to over one third of the overall pay difference between genders in both countries. In the non-public sector, however, almost two thirds of the total gap remains attributable to the individual's sex, suggesting much of the gap is due to violations of the equal pay policy.

Kaestner, Robert

PD October 2001. **TI** Immigrant and Native Responses to Welfare Reform. **AU** Kaestner, Robert; Kaushal, Neeraj. **AA** Kaestner: University of Illinois at Chicago and NBER. Kaushal: Graduate Center/CUNY. **SR** National Bureau of Economic Research Working Paper: 8541; 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** I38, J12, J22. **KW** Welfare Reform. Employment. Marriage Rates. Low-Educated Women. Immigrants. Chilling.
AB In this paper, we investigate the effect of federal welfare reform on the employment, hours of work and marriage rates of three groups of low-educated women: foreign-born citizens, foreign-born non-citizens and native-born citizens. Among non-citizens, we investigate whether the behavioral response to welfare reform differed by recency of immigration. Finally, because some states created programs to insure that all legal immigrants remained eligible for benefits under the Temporary Assistance to Needy Families (TANF) program and others did not, we compare the response of foreign-born non-citizens between these states to investigate whether the immigrant provisions of federal welfare reform legislation had a "chilling" effect. The results suggest that welfare reform induced native-born citizens and foreign-born non-citizens to increase their employment and attachment to the labor market. TANF appears to have had a larger effect on the least educated native-born women and among foreign-born non-citizens, a larger effect on more recent arrivals. The "chilling" hypothesis that has received so much attention in the popular press is not supported by our results. Finally, our estimates indicate that TANF had no effect

on native- and foreign-born citizens' marriage decisions. TANF was associated with a decrease in the marriage rates of foreign-born non-citizens.

PD October 2001. **TI** Migration Consequences of Welfare Reform. **AU** Kaestner, Robert; Kaushal, Neeraj; van Ryzin, Gregg. **AA** Kaestner: University of Illinois at Chicago and NBER. Kaushal: City University of New York. Ryzin: Baruch College/CUNY. **SR** National Bureau of Economic Research Working Paper: 8560; 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** I38, J61. **KW** Migration. Low-Educated Women. Welfare Reform. Employment.
AB In this paper, we investigate whether or not recent state and federal changes in welfare policy -- the imposition of time-limited benefits, the use of financial sanctions for non-compliance, and the setting of strict work eligibility rules -- affect the migration of low-educated unmarried women. Estimates of welfare's effect on migration reveal that welfare policy does indeed affect migration. Recent changes in policy that have made public assistance a less attractive alternative are associated with greater migration among low-educated unmarried women. Welfare reform has motivated low-educated women to move greater distances more frequently, and to combine such moves with employment. Estimates also indicate that welfare reform is associated with more local (i.e., within county) changes in residential location that are associated with employment, although estimates of this effect were not robust to estimation method. The close link between residential moves and employment in the post-reform period is consistent with the idea that welfare reform has motivated people to move for economic reasons such as better employment opportunities. This evidence suggests that the traditional way of thinking about the effect of welfare on migration -- as a strategic move to obtain higher benefits -- is inadequate.

TI Alcohol Taxes and Labor Market Outcomes. **AU** Dave, Dhaval; Kaestner, Robert.

Kahn, Edward
TI A Quantitative Analysis of Pricing Behavior in California's Wholesale Electricity Market During Summer 2000: The Final Word. **AU** Joskow, Paul; Kahn, Edward.

Kahn, Lawrence M.
TI Comparative Analysis of Labor Market Outcomes: Lessons for the US from International Long-Run Evidence. **AU** Bertola, Giuseppe; Kahn, Lawrence M.; Blau, Francine D.

TI Comparative Analysis of Labor Market Outcomes: Lessons for the US from International Long-Run Evidence. **AU** Bertola, Giuseppe; Blau, Francine D.; Kahn, Lawrence M.

Kain, John F.
TI Disruption versus Tiebout Improvement: The Costs and Benefits of Switching Schools. **AU** Hanushek, Eric A.; Kain, John F.; Rivkin, Steven G.

TI Does Peer Ability Affect Student Achievement? **AU** Hanushek, Eric A.; Markman, Jacob M.; Kain, John F.; Rivkin, Steven G.

Kaitho, Robert

TI Economic Analysis of Crossbreeding Programmes in Sub-Saharan Africa: A Conceptual Framework and Kenyan Case Study. **AU** Karugia, Joseph T.; Mwai, Okeyo A.; Kaitho, Robert; Drucker, Adam G.; Wollny, Clemens B. A.; Rege, J. Edward.

Kamin, Steven B.

PD September 2001. **TI** The Contribution of Domestic and External Factors to Emerging Market Devaluation Crises: An Early Warning Systems Approach. **AU** Kamin, Steven B.; Schindler, John W.; Samuel, Shawna L. **AA** Kamin and Schindler: Federal Reserve Board. Samuel: Princeton University. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 711; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 54. **PR** no charge. **JE** F31, F32, F33. **KW** Currency Crises. Financial Crises. Devaluations. Probit Models. Emerging Markets.
AB In this paper, a modified "early warning system" (EWS) approach is developed to identify the roles of domestic and external factors in emerging market crises. Several probit models of financial crises were estimated for 26 emerging market countries. These models were used to identify the separate contributions to the probabilities of crisis of domestic and external variables. We found that, relative to domestic factors, adverse external shocks and large external imbalances contributed little to the average estimated probability of crisis in emerging market countries, but accounted for much more of the spikes in the probability of crisis estimated to occur during actual crisis years. We interpret these results to suggest that while, on average over time, domestic factors have tended to contribute to much of the underlying vulnerability of emerging market countries, adverse swings in external factors may have been important in pushing economies "over the edge" and into financial crisis. In consequence, the costs of giving up exchange rate flexibility through adoption of strongly fixed exchange rate regimes -- e.g., currency boards or dollarization -- may be quite high for some countries.

Kanbur, Ravi

TI The Adoption of Labor Standards Conventions: Who, When and Why? **AU** Chau, Nancy H.; Kanbur, Ravi.

Kane, Edward J.

PD July 2001. **TI** Using Deferred Compensation to Strengthen the Ethics of Financial Regulation. **AA** Boston College and NBER. **SR** National Bureau of Economic Research Working Paper: 8399; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 24. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G23, G34, K22. **KW** Corporate Governance.
AB Defects in the corporate governance of government-owned enterprises tempt opportunistic officials to breach duties of public stewardship. Corporate-governance theory suggests that incentive-based deferred compensation could intensify the force that common-law duties actually exert on regulatory managers. In principle, a forfeitable fund of deferred compensation could be combined with provisions for measuring, verifying, and rewarding multiperiod performance to make top regulators accountable for maximizing the long-

run net social benefits their enterprise produces. Because government deposit-insurance enterprises are purveyors of credit enhancement for which private substitute and reinsurance markets exist, their performance could be measured accurately enough to make employment contracts for deposit-insurance CEOs a promising place to experiment with this kind of accountability reform.

PD September 2001. **TI** Deposit Insurance Around the Globe: Where Does it Work? **AU** Kane, Edward J.; Demirguc-Kunt, Asli. **AA** Kane: Boston College and NBER. Demirguc-Kunt: World Bank. **SR** National Bureau of Economic Research Working Paper: 8493; National Bureau of Economic Research, 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 the U.S.). **JE** F33, G21, G22. **KW** Deposit Insurance. Banking Stability. Financial Development.
AB Explicit deposit insurance has been spreading rapidly in recent years, even to countries with low levels of financial and institutional development. Economic theory indicates that deposit-insurance design features interact -- for good or ill -- with country-specific elements of the financial and governmental contracting environment. This paper documents the extent of cross-country differences in deposit-insurance design and reviews empirical evidence on how particular design features affect private market discipline, banking stability, financial development, and the effectiveness of crisis resolution. This evidence challenges the wisdom of encouraging countries to adopt explicit deposit insurance without first stopping to assess and remedy weaknesses in their informational and supervisory environments.

Karolyi, G. Andrew

TI Why are Foreign Firms Listed in the U.S. Worth More? **AU** Doidge, Craig; Karolyi, G. Andrew; Stulz, Rene M.

Karugia, Joseph T.

PD December 2001. **TI** Economic Analysis of Crossbreeding Programmes in Sub-Saharan Africa: A Conceptual Framework and Kenyan Case Study. **AU** Karugia, Joseph T.; Mwai, Okeyo A.; Kaitho, Robert; Drucker, Adam G.; Wollny, Clemens B. A.; Rege, J. Edward. **AA** Karugia and Mwai: University of Nairobi. Kaitho: Kenya Agricultural Research Institute (KARI) and International Livestock Research Institute (ILRI), Nairobi. Drucker and Rege: International Livestock Research Institute (ILRI), Ethiopia. Wollny: Southern Africa Centre for Agricultural Research and Training Gaborone, Botswana. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2001/106; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it. **PG** 24. **PR** no charge; available only on website. **JE** Q12, Q16, Q18. **KW** Crossbreeding.
AB Conventional economic evaluations of crossbreeding programs have overestimated their benefits by ignoring subsidies, the increased costs of management such as veterinary support services, and the higher levels of risk and socio-environmental costs associated with the loss of the indigenous genotypes. A conceptual evaluation framework is developed and applied to Kenyan dairy farmers. Results suggest that at the national level crossbreeding has had a positive impact on Kenyan society's welfare, although taking into account important social cost components substantially lowers the net benefits. Farm-level performance is, however, little improved

under certain production systems by replacing the indigenous zebu with exotic breeds.

Kattuman Paul
TI Macro Economic Instability and Business Exit: *Determinants of Failures and Acquisitions of Large UK Firms.* **AU** Bhattacharjee, Arnab; Higson, Chris; Holly, Sean; Kattuman Paul.

Kaushal, Neeraj
TI Immigrant and Native Responses to Welfare Reform. **AU** Kaestner, Robert; Kaushal, Neeraj.

TI Migration Consequences of Welfare Reform. **AU** Kaestner, Robert; Kaushal, Neeraj; van Ryzin, Gregg.

Kee, Hiau Looi
TI Mark-Ups, Entry Regulation and Trade: Does Country Size Matter? **AU** Hoekman, Bernard; Kee, Hiau Looi; Olarreaga, Marcelo.

Keeble, David
PD September 2001. **TI** University and Technology: Science and Technology Parks in the Cambridge Region. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP218; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 15. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** L23, L52, M13, O30. **KW** High-Technology Firms. Business Clusters. Cambridge University. Science Parks. Innovation.
AB This paper reviews the recent development and growth of small and medium-sized high-technology firms in the Cambridge region of the UK, as an example of an innovative and R&D-focused business cluster associated with a major international university and successful local science and technology parks. It discusses the concept of a local innovation system and the role of the UK's national innovation system, before attempting to assess the strengths and weaknesses of the Cambridge model of technology transfer and innovation as a possible paradigm of linkages between university research and local high- technology SME's.

Kehoe, Patrick J.
TI A Decade Lost and Found: Mexico and Chile in the 1980s. **AU** Bergoeing, Raphael; Kehoe, Patrick J.; Kehoe, Timothy J.; Soto, Raimundo.

TI 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 The Time Consistency of Monetary and Fiscal Policies. **AU** Alvarez, Fernando; Kehoe, Patrick J.; Neumeyer, Pablo.

TI Time Inconsistency and Free-Riding in a Monetary Union. **AU** Chari, V. V.; Kehoe, Patrick J.

PD October 2002. **TI** Competitive Equilibria With Limited Enforcement. **AU** Kehoe, Patrick J.; Perri, Fabrizio. **AA** Kehoe: Federal Reserve Bank of Minneapolis, University of Minnesota, and NBER. Perri: New York University, NBER, and CEPR. **SR** Federal Reserve Bank of Minneapolis Staff Report: 307; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 27. **PR** no charge. **JE** D52, E21, E32, E44, F34. **KW** Incomplete Markets. Risk-Sharing. Enforcement Constraints. Sovereign Debt. Decentralization. Sustainable Equilibrium.
AB We show how to decentralize constrained efficient allocations that arise from enforcement constraints between sovereign nations. In a pure exchange economy these allocations can be decentralized with private agents acting competitively and taking as given government default decisions on foreign debt. In an economy with capital these allocations can be decentralized if the government can tax capital income as well as default on foreign debt. The tax on capital income is needed to make private agents internalize a subtle externality. The decisions of the government can arise as an equilibrium of a dynamic game between governments.

Kehoe, Timothy J.
TI A Decade Lost and Found: Mexico and Chile in the 1980s. **AU** Bergoeing, Raphael; Kehoe, Patrick J.; Kehoe, Timothy J.; Soto, Raimundo.

Kempf, Hubert
TI Overturning Mundell: Fiscal Policy in a Monetary Union. **AU** Cooper, Russell W.; Kempf, Hubert.

Kemsley, Deen
TI Dividend Taxes and Share Prices: Evidence from Real Estate Investment Trusts. **AU** Gentry, William M.; Kemsley, Deen; Mayer, Christopher J.

Kern, Alexander
PD December 2001. **TI** Insider Dealing and Market Abuse: The Financial Services and Markets Act 2000. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP222; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 40. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** G15, G19, G20, K22, K33. **KW** Corporation and Securities Law. Financial Markets. Insider Dealing. Legal Risk. Securities Trading.
AB The Financial Services and Markets Act 2000 (FSMA) provides the statutory framework for the new UK market abuse regime. The FSMA provides new powers to the Financial Services Authority (FSA) to sanction anyone who engages in "market abuse", that is, misuse of information, misleading practices, and market manipulation relating to investments traded on prescribed UK markets. It also applies to those who require or encourage others to engage in conduct that would amount to market abuse. FSMA's stated objective is to fill the "regulatory gap" by giving the FSA substantial powers to punish unregulated market participants whose market conduct falls below acceptable standards, but does not rise to the level of a criminal offence. This paper analyses the major features of both the UK insider dealing legislation; the FSMA; and the proposed EU Directive on Market Abuse that represents a significant level of convergence in European securities

regulation. The paper argues that an efficient price discovery process for securities markets can be facilitated only by a comprehensive regulatory regime that provides substantive standards and rules that ensure high standards of transparency and disclosure through effective enforcement.

Kerschbamer, Rudolf
TI On Doctors, Mechanics and Computer Specialists or Where are the Problems with Credence Goods? AU Dulleck, Uwe; Kerschbamer, Rudolf.

Kessler, Daniel
PD October 2001. TI The Effects of Hospital Ownership on Medical Productivity. AU Kessler, Daniel; McClellan, Mark. AA Kessler: Stanford University and NBER. McClellan: Council of Economic Advisors and NBER. SR National Bureau of Economic Research Working Paper: 8537; 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 110, 111, L30. KW Hospital Ownership. Medical Productivity. Hospital Market. Medical Expenditures.
AB To develop new evidence on the effects of hospital ownership and other aspects of hospital market composition on health care productivity, we analyze longitudinal data on the medical expenditures and health outcomes of the vast majority of non-rural elderly Medicare beneficiaries hospitalized for new heart attacks over the 1985-1996 period. We find that the effects of ownership status are quantitatively important. Areas with a presence of for-profit hospitals have approximately 2.4 percent lower levels of hospital expenditures, but virtually the same patient health outcomes. We conclude that for-profit hospitals have important spillover benefits for medical productivity.

Kezdi, Gabor
TI Trade in University Training: Cross-State Variation in the Production and Use of College-Educated Labor. AU Bound, John; Groen, Jeffrey; Kezdi, Gabor; Turner, Sarah.

Khan, Aubhik
PD October 2001. TI The Pitfalls of Discretionary Monetary Policy. AU Khan, Aubhik; King, Robert G.; Wolman, Alexander L. AA Khan: Federal Reserve Bank of Philadelphia. King: Boston University and Federal Reserve Bank of Richmond. Wolman: Federal Reserve Bank of Richmond. SR Federal Reserve Bank of Philadelphia Research Working Paper: 01/16; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. PG 24. PR no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE E31, E42, E51, E52, E58. KW Discretion. Time-Consistency Problem. Optimal Monetary Policy. Sticky Prices. Multiple Equilibria.
AB In a canonical staggered pricing model, monetary discretion leads to multiple private sector equilibria. The basis for multiplicity is a form of policy complementarity. Specifically, prices set in the current period embed expectations about future policy, and actual future policy responds to these same prices. For a range of values of the fundamental state

variable -- a ratio of predetermined prices -- there is complementarity between actual and expected policy, and multiple equilibria occur. Moreover, this multiplicity is not associated with reputational considerations: it occurs in a two-period model.

PD May 2002. TI Nonconvex Factor Adjustments in Equilibrium Business Cycle Models: Do Nonlinearities Matter? AU Khan, Aubhik; Thomas, Julia K. AA Khan: Federal Reserve Bank of Philadelphia. Thomas: University of Minnesota and Federal Reserve Bank of Minneapolis. SR Federal Reserve Bank of Minneapolis Staff Report: 306: Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. PG 25. PR no charge. JE E22, E32. KW Lumpy Investment. Adjustment Costs. Business Cycles. Nonlinearities.
AB Recent empirical analysis has found nonlinearities to be important in understanding aggregated investment. Using an equilibrium business cycle model, we search for aggregate nonlinearities arising from the introduction of nonconvex capital adjustment costs. We find that, while such costs lead to nontrivial nonlinearities in aggregate investment demand, equilibrium investment is effectively unchanged. Our finding, based on a model in which aggregate fluctuation arise through exogenous changes in total factor productivity, is robust to the introduction of shocks to the relative price of investment goods.

PD May 2002. TI Enduring Relationships in an Economy with Capital. AU Khan, Aubhik; Ravikumar, B. AA Khan: Federal Reserve Bank of Philadelphia. Ravikumar: University of Iowa. SR Federal Reserve Bank of Philadelphia Research Working Paper: 02/05; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. PG 19. PR no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE D82, D91, E22, O16. KW Growth. Contracts. Risk-Sharing. Private Information. Productivity Shocks.
AB We introduce capital accumulation into an economy where individuals have private information with respect to productivity shocks and risk- sharing is implemented through incentive-compatible long-term contracts. Assuming constant relative risk aversion, we find that, as in autarchy and full insurance, expected lifetime utility in the incentive-compatible contract is homothetic in capital. In contrast to the unobservable endowment model, individual's welfare under the contract always exceeds the value of autarchy. Furthermore, the contract exhibits two-sided voluntary long-term participation: neither the agent nor the firm providing insurance has an incentive to terminate the contract at the onset of any period. Finally, risk- sharing does not require net transfers across different wealth groups.

PD June 2002. TI Optimal Monetary Policy. AU Khan, Aubhik; King, Robert G.; Wolman, Alexander L. AA Khan: Federal Reserve Bank of Philadelphia. King: Boston University, Federal Reserve Bank of Richmond, and NBER. Wolman: Federal Reserve Bank of Richmond. SR Federal Reserve Bank of Philadelphia Research Working Paper: 02/19; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. PG 34. PR no charge except overseas airmail, $3.00;

checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** D43, E31, E52. **KW** Monetary Policy. Imperfect Competition. Costly Price Adjustment. Deflation. Interest Rates.

AB Optimal monetary policy maximizes the welfare of a representative agent, given frictions in the economic environment. Constructing a model with two broad sets of frictions -- costly price adjustment by imperfectly competitive firms and costly exchange of wealth for goods - - we find optimal monetary policy is governed by two familiar principles. First, the average level of the nominal interest rate should be sufficiently low, as suggested by Milton Friedman, that there should be deflation on average. Yet, the Keynesian frictions imply that the optimal nominal interest rate is positive. Second, as various shocks occur to the real and monetary sectors, the price level should be largely stabilized albeit around a deflationary trend path. Since expected inflation is roughly constant through time, the nominal interest rate must therefore vary with the Fisherian determinants of the real interest rate, i.e., with expected growth or contraction of real economic activity. Although the monetary authority has substantial leverage over real activity in our model economy, it chooses real allocations that closely resemble those that would occur if prices were flexible. In our benchmark model, we also find some tendency for the monetary authority to smooth nominal and real interest rates.

AB We develop an equilibrium business cycle model in which final goods producers pursue generalized (S,s) inventory policies with respect to intermediate goods, a consequence of nonconvex factor adjustment costs. Calibrating our model to reproduce the average inventory-to-sales ratio in postwar U.S. data, we find that it explains half of the cyclical variability of inventory investment. Moreover, inventory accumulation is strongly procyclical, and production is more volatile than sales, as in the data. The comovement between inventory investment and final sales is often interpreted as evidence that inventories amplify aggregate fluctuations. However, our model economy exhibits a business cycle similar to that of a comparable benchmark without inventories. We observe somewhat higher variability in employment, and lower variability in consumption and investment. Thus, equilibrium analysis, which necessarily endogenizes final sales, alters our understanding of the role of inventory accumulation for cyclical movements in GDP. The presence of intermediate goods inventories does not substantially raise the variability of production, because it dampens movements in final sales.

Khan, Sarosh R.
TI Aviation Security and Terrorism: A Review of the

Economic Issues. **AU** Coughlin, Cletus C.; Cohen, Jeffrey P.; Khan, Sarosh R.

Khan, Shakeeb
TI Nonparametric Identification and Estimation of a Censored Regression Model with an Application to Unemployment Insurance Receipt. **AU** Chen, Songnian; Dahl, Gordon B.; Khan, Shakeeb.

Kiel, Alexandra
TI Collective Decisions with Interdependent Valuations. **AU** Gruener, Hans Peter; Kiel, Alexandra.

Kilian, Lutz

AB We propose an exchange rate model that can explain both the observed volatility and the persistence of real and nominal exchange rate movements and thus in some measure resolves Rogoff's (1996) purchasing power parity puzzle. Our analysis reconciles the well-known difficulties in beating the random walk forecast model with the statistical evidence of nonlinear mean reversion in deviations from fundamentals. Our analysis also provides a compelling rationale for the long-horizon predictability of exchange rates. We find strong empirical support for long-horizon predictability, and we explain why it is difficult to exploit this predictability in real-time forecasts. Our results not only lend support to economists' beliefs that the exchange rate is inherently predictable, but they also help us to understand the reluctance of applied forecasters to abandon chartist methods in favor of models based on economic fundamentals.

Killeen, William P.

AB This paper addresses the puzzle of regime-dependent volatility in foreign exchange. We extend the literature in two ways. First, our microstructural model provides a qualitatively new explanation for the puzzle. Second, we test implications of our model using Europe's recent shift to rigidly fixed rates (European Monetary System to European Monetary Union (EMU)). In the model, shocks to order flow induce volatility under flexible rates because they have portfolio-balance effects on price, whereas under fixed rates the same shocks do not have

portfolio-balance effects. These effects arise in one regime and no the other because he elasticity of speculative demand for foreign exchange is (endogenously) regime-dependent: low elasticity under flexible rates magnifies portfolio-balance effects; under credibly fixed rates, elasticity of speculative demand is infinite, eliminating portfolio- balance effects. New data on French Franc/Deutsche Mark (FF/DM) transactions show that order flow had persistent effects on the exchange rate before EMU parities were announced. After announcement, determination of the FF/DM rate was decoupled from order flow, as predicted by the model.

Kim, Chang-Jin

PD August 2001. **TI** The Less Volatile U.S. Economy: A Bayesian Investigation of Timing, Breadth and Potential Explanations. **AU** Kim, Chang-Jin; Nelson, Charles; Piger, Jeremy. **AA** Kim: Korea University. Nelson: University of Washington. Piger: Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 707; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 46. **PR** no charge. **JE** C11, C22, E32. **KW** Volatility Reduction. Stabilization. Structural Break. Bayesian Tests. GDP.
AB Using Bayesian tests for a structural break at an unknown break date, we search for a volatility reduction within the post-war sample for the growth rates of U.S. aggregate and disaggregate real GDP. We find that the growth rate of aggregate real GDP has been less volatile since the early 1980's, and that this volatility reduction is concentrated in the cyclical component of real GDP. The growth rates of many of the broad production sectors of real GDP display similar reductions in volatility, suggesting the aggregate volatility reduction does not have a narrow source. We also find a large volatility reduction in aggregate final sales mirroring that in aggregate real GDP. We contrast this evidence to an existing literature documenting an aggregate volatility reduction that is shared by only one narrow sub- component, the production of durable goods, and is not present in final sales. In addition to the volatility reduction in real GDP, we document structural breaks in the volatility and persistence of inflation and interest rates occurring over a similar time frame as the volatility reduction in real GDP.

PD July 2002. **TI** A Markov-Switching Model of Business Cycle Dynamics with a Post- Recession "Bounce-Back" Effect. **AU** Kim, Chang-Jin; Morley, James C.; Piger, Jeremy. **AA** Kim: Korea University. Morley: Washington University. Piger: Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/014A; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. **PG** 9. **PR** no charge. **JE** C22, E32. **KW** Asymmetry. Business Cycle. Economic Fluctuations. Markov-Switching. Persistence.
AB This paper presents a nonlinear model of U.S. GDP growth dynamics that allows for a post-recession "bounce-back" in the level of GDP. While a number of studies have attempted to capture such an effect using ad hoc recession-based dummy variable methods, we endogenously estimate this business cycle asymmetry using an extended version of Hamilton's (1989) Markov-switching model. Like Hamilton, we find model regimes that correspond closely to NBER-dated

recession and expansions. We also find a large "bounce-back" effect that, according to our Monte Carlo analysis, is statistically significant and implies a small permanent effect of recessions.

Kim, Jinill

PD February 2002. **TI** Inflation Targeting and Nominal Income Growth Targeting: When and Why Are They Suboptimal? **AU** Kim, Jinill; Henderson, Dale W. **AA** Kim: University of Virginia. Henderson: Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 719; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 39. **PR** no charge. **JE** E31, E32, E52. **KW** Monetary Rules. Wage Contracts. Price Contracts. Full Information. Partial Information.
AB We derive optimal monetary stabilization rules and compare them to simple rules under both full and partial information. The nominal interest rate is the instrument of monetary policy. Special attention is devoted to inflation and nominal-income-growth targeting. We use an optimizing-agent model of a closed economy which features monopolistic competition in both product and labor markets. A stabilization problem exists because there are one-period nominal contracts, and three shocks that are unknown when contracts are signed. To highlight basic theoretical results, we keep our model simple enough that we can obtain exact solutions. Optimal rules maximize the expected utility of the representative agent subject to the information set of the policymaker. A key result is that even with monopolistic competition, the optimal full information policy makes the economy mimic the hypothetical equilibrium with flexible prices and wages We explain why strict versions of inflation targeting, nominal-income-growth targeting, and other such simple rules are suboptimal under both full and partial information and derive flexible versions that are optimal under certain partial information assumptions. Nominal-income-growth targeting dominates inflation targeting for plausible parameter values.

Kimball, Miles S.

TI Liquidity Constraints and Precautionary Saving. **AU** Carroll, Christopher D.; Kimball, Miles S.

King, J. M.

TI Economic Evaluation of Smallholder Subsistence Livestock Production: Lessons from an Ethiopian Goat Development Program. **AU** Ayalew, Workneh ; King, J. M.; Burns, E.; Rischkowsky, Barbara.

King, Maxwell L.

TI Local Linear Forecasts using Cubic Smoothing Splines. **AU** Billah, Baki; Hyndman, Rob J.; King, Maxwell L.; Pitrun, Ivet.

PD December 2002. **TI** Influence Diagnostics in GARCH Processes. **AU** King, Maxwell L.; Zhang, Xibin. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 19/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. **PG** 21. **PR** no charge. **JE** C32, C52. **KW** Normal Curvature. Modified

Likelihood. GARCH Models.

AB Influence diagnostics have become an important tool for statistical analysis since the seminal work by Cook (1986). In this paper we present a curvature-based diagnostic to access local influence of minor perturbations on the modified likelihood displacement in a regression model. Using the proposed diagnostic, we study the local influence in the GARCH model under two perturbation schemes which involve, respectively, model perturbation and data perturbation. We find that the curvature-based diagnostic often provides more information on the local influence being examined than the slope-based diagnostic, especially when the GARCH model is under investigation. An empirical study involving GARCH modeling of the percentage daily returns of the NYSE composite index illustrates the effectiveness of the proposed diagnostic and shows that the curvature-based diagnostic may provide information that cannot be uncovered by the slope-based diagnostic. We find that the effect or influence of each observation is not invariant across different perturbation schemes, thus it is advisable to study the local influence under different perturbation schemes through curvature-based diagnostics.

King, Robert G.

TI Pricing, Production and Persistence. **AU** Dotsey, Michael; King, Robert G.

TI The Pitfalls of Discretionary Monetary Policy. **AU** Khan, Aubhik; King, Robert G.; Wolman, Alexander L.

TI Optimal Monetary Policy. **AU** Khan, Aubhik; King, Robert G.; Wolman, Alexander L.

Kitson, Mike

PD September 2001. **TI** Markets, Competition, Cooperation and Innovation. **AU** Kitson, Mike; Michie, Jonathan; Quinn, Maura. **AA** Kitson: University of Cambridge. Michie: Birkbeck College. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP212; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 17. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** L14, L15, L23, O10, O32. **KW** Innovation. Corporate Performance. Competitive Environment. Cooperation.

AB The paper analyses the relationship between, on the one hand, markets, competition and cooperation, and on the other hand, firms' innovative behavior, drawing on ESRC CBR survey results. A high level of domestic competition is positively correlated with firms' probability of innovating. In addition, inter-firm cooperation is found to be positively correlated with firms' probability of innovating. These results suggest that it is not just the degree of competition that is important but also the nature of the competitive process. Aspects of financial market pressure, such as a take-over bid, are found to be negatively correlated with the probability of innovating, especially in relation to product innovation.

Klaassen, Franc

TI Is Fiscal Policy Coordination in EMU Desirable? **AU** Beetsma, Roel; Debrun, Xavier; Klaassen, Franc.

Klette, Tor Jakob

PD February 2002. **TI** Innovating Firms and Aggregate Innovation. **AU** Klette, Tor Jakob; Kortum, Samuel. **AA** Klette: University of Oslo and CEPR. Kortum: Federal Reserve Bank of Minneapolis, University of Minnesota, and NBER. **SR** Federal Reserve Bank of Minneapolis Staff Report: 300; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 39. **PR** no charge. **JE** L11, O31. **KW** Firm Growth. Productivity. Market Structure. Endogenous Growth. Innovative Firms.

AB We develop a parsimonious model of innovating firms rich enough to confront firm-level evidence. It captures the dynamic behavior of individual heterogeneous firms, describes the evolution of an industry with simultaneous entry and exit, and delivers a general equilibrium model of technological change. While unifying the theoretical analysis of firms, industries, and the aggregate economy, the model yields insights into empirical work on innovating firms. It accounts for the persistence over time of firms' R&D investment, the concentration of R&D among incumbent firms, and the link between R&D and patenting. Furthermore, it explains why R&D as a fraction of revenues is strongly related to firm productivity yet largely unrelated to firm size or growth.

Kletzer, Kenneth M.

TI Domestic Bank Regulation and Financial Crises: Theory and Empirical Evidence from East Asia. **AU** Dekle, Robert; Kletzer, Kenneth M.

Kluve, Jochen

PD September 2002. **TI** Assessing Counterfactuals When Treatment is Multivalued. **AA** UC Berkeley, AWI Heidelberg, and IZA Bonn. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 55; The Center for Labor Economics, University of California, Berkeley, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: elsa.berkeley.edu/users/cle/wpapers.html. **PG** 26. **PR** free copies available electronically through website. **JE** C12, C49. **KW** Matching Estimators. Propensity Score. Causal Inference. Counterfactuals. Possible Worlds.

AB Matching estimators have received substantial attention in the recent literature on causal inference in observational studies. While casual inference has traditionally focused on the case of binary treatment, recent results regarding the generalized propensity score have made possible explicit extensions to cases where treatment is multivalued. This paper goes back to the foundations of the causal model that underlies this approach, and gives a characterization of the causally meaningful counterfactuals that can be assessed in the multivalued framework. The theoretical analysis shows that specification of the no-treatment state plays a particularly important role, and that treatment-worlds are not necessarily equidistant, as the model assumes. An application from program evaluation using propensity score matching illustrates these points.

Knowles, John A.

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

Koehler, Anne B.

TI Prediction Intervals for Exponential Smoothing State Space Models. **AU** Hyndman, Rob J.; Koehler, Anne B.; Ord, J. Keith; Snyder, Ralph D.

TI Exponential Smoothing for Inventory Control: Means and Variances of Lead-Time Demand. **AU** Hyndman, Rob J.; Koehler, Anne B.; Ord, J. Keith; Snyder, Ralph D.

Kollintzas, Tryphon

TI Economic Growth in Greece: Past Performance and Future Prospects. **AU** Bosworth, Barry; Kollintzas, Tryphon.

Konings, Jozef

PD September 2001. **TI** Do Multinational Enterprises Substitute Parent Jobs for Foreign Ones? Evidence from European Firm Level Panel Data. **AU** Konings, Jozef; Murphy, Alan. **AA** Konings: Katholieke Universiteit Leuven and CEPR. Murphy: Trinity College, Dublin. **SR** CEPR Discussion Paper: 2972; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F23, J23. **KW** Labor Demand. Multinational Enterprises. Relocation. Subsidiaries.
AB This paper analyses the demand for labor by home multinational enterprises (MNEs) in Europe. To this end we use a unique firm level panel data set of more than 1,200 European MNEs and their subsidiaries that are located in the European Union or Central and Eastern Europe. We investigate whether employment in the MNEs' subsidiaries is substitute for home employment. Our main findings can be summarized as follows: (i) we find evidence for substitution effects between parent and foreign employment. A decline of 10 percent in MNE affiliate's wage costs is associated with a decline in parent employment of between 1.5 percent and 2 percent on average. (ii) This effect is driven mainly by firms that operate in the manufacturing sector. (iii) We also report results for the non-manufacturing firms, where we find no substitution effects between parents and subsidiaries in the service sectors, while we do find positive substitution effects between parents and their affiliates in Central and Eastern Europe for the firms operating in the wholesale trade and construction sectors. Our results suggest that on average the competition from low wage countries in Central and Eastern Europe does not contribute to a relocation of domestic jobs to Central and Eastern Europe.

TI The Effect of Ownership and Competitive Pressure on Firm Performance in Transition Countries, Micro Evidence from Bulgaria, Romania and Poland. **AU** Angelucci, Manuella; Estrin. Saul; Konings, Jozef; Zolkiewski, Zbigniew.

Konzelmann, Sue

TI Partnership, Ownership and Control: The Impact of Corporate Governance on Employment Relations. **AU** Deakin, Simon; Hobbs, Richard; Konzelmann, Sue; Wilkinson, Frank.

Kortum, Samuel

TI Innovating Firms and Aggregate Innovation. **AU** Klette. Tor Jakob; Kortum, Samuel.

Kraay, Aart

PD October 2001. **TI** Country Portfolios. **AU** Kraay, Aart; Loayza, Norman; Serven, Luis; Ventura, Jaume. **AA** Kraay, Loayza, and Serven: World Bank. Ventura: MIT, CEPR, NBER, and Universitat Pompeu Fabra. **SR** CEPR Discussion Paper: 2974; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F32, F34. **KW** Country Portfolios. International Capital Flows. Sovereigned Risk.
AB How do countries hold their financial wealth? We construct a new database of countries' claims on capital located at home and abroad, and international borrowing and lending, covering 68 countries from 1966-97. We find that a small amount of capital flows from rich countries to poor countries. Countries' foreign asset positions are remarkably persistent, and mostly take the form of foreign loans rather than foreign equity. To interpret these facts, we build a simple model of international capital flows that highlights the interplay between diminishing returns, production risk and sovereign risk. We show that in the presence of reasonable diminishing returns and production risk, the probability that international crises occur twice a century is enough to generate a set of country portfolios that are roughly consistent with the data.

PD October 2001. **TI** Comparative Advantage and the Cross-Section of Business Cycles. **AU** Kraay, Aart; Ventura, Jaume. **AA** Kraay: World Bank. Ventura: MIT and Universitat Pompeu Fabra. **SR** CEPR Discussion Paper: 3000; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E32, J24, O33. **KW** Asymmetries. Comparative Advantage. Labor Skills. Technology. Business Cycles.
AB Business cycles are both less volatile and more synchronized with the world cycle in rich countries than in poor ones. We develop two alternative explanations based on the idea that comparative advantage causes rich countries to specialize in industries that use new technologies operated by skilled workers, while poor countries specialize in industries that use traditional technologies operated by unskilled workers. Since new technologies are difficult to imitate, the industries of rich countries enjoy more market power and face more inelastic product demands than those of poor countries. Since skilled workers are less likely to exit employment as a result of changes in economic conditions, industries in rich countries face more inelastic labor supplies than those of poor countries. We show that each of these asymmetries in industry characteristics can generate cross-country differences in business cycles that resemble those we observe in the data.

PD October 2001. **TI** Product Prices and the OECD Cycle. **AU** Kraay, Aart; Ventura, Jaume. **AA** Kraay: World Bank. Ventura: MIT and Universitat Pompeu Fabra. **SR** CEPR Discussion Paper: 3019; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E32, F16, F41. **KW** Commodity Trade. Transmission of Shocks. Business Cycle. Synchronization of Cycles.
AB It is well known that business cycles in Organization for Economic Co-operation and Development (OECD) countries exhibit a remarkable degree of synchronization. Much less known is that the peak of the OECD cycle is associated with

high prices of labor-intensive products and low prices of capital-intensive ones. We document this cyclical behavior of product prices and argue that it offers an important clue as to why business cycles are so synchronized. Positive shocks in one or more countries raise the prices of labor-intensive products and, as a result, the demand for labor throughout the industrialized world. This generates increases in wages, employment and output in all industrial countries. Through this channel, shocks are positively transmitted across countries, creating a force towards the synchronization of business cycles.

Krahnen, Jan Pieter
TI   Corporate Debt Restructuring: Evidence on Lending Coordination in Financial Distress. AU   Brunner, Antje; Krahnen, Jan Pieter.

Kremer, Michael
TI   Worms: Education and Health Externalities in Kenya. AU   Miguel, Edward; Kremer, Michael.

Kristjanson, P.
TI   Valuing Indigenous Cattle Breeds in Kenya: An Empirical Comparison of Stated and Revealed Preference Value Estimates. AU   Scarpa, Riccardo; Kristjanson, P.; Drucker, Adam; Radeny, Maren; Ruto, Eric; Rege, J. Edward.

Krueger, Alan B.
TI   Another Look at Whether a Rising Tide Lifts All Boats. AU   Hines, James R., Jr.; Hoynes, Hilary W.; Krueger, Alan B.

Kuziemko, Ilyana
PD   September 2001. TI   An Empirical Analysis of Imprisoning Drug Offenders. AU   Kuziemko, Ilyana; Levitt, Steven D. AA   Kuziemko: Queen's College, Oxford. Levitt: University of Chicago and NBER. SR   National Bureau of Economic Research Working Paper: 8489; 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   K42, K49. KW   Drug Offenders. Prisons. Cocaine Prices.
AB   The number of prisoners incarcerated on drug-related offenses rose fifteen-fold between 1980 and 2000. This paper provides the first systematic empirical analysis of the implications of that dramatic shift in public policy. We show that the increase in drug prisoners led to reductions in expected time served for other crimes, especially for less serious offenses. Reductions in time served, however, increased other crimes by no more than a few percent. Moreover, incarcerating drug offenders is found to be almost as effective in reducing violent and property crime as locking up other types of offenders. We estimate that cocaine prices are 10-15 percent higher today as a consequence of increase in drug punishment since 1985. Based on previous estimates of the price elasticity of demand for cocaine, this implies a reduction in cocaine consumed of as much as 20 percent.

Kwan, Simon H.
PD   January 2002. TI   Operating Performance of Banks Among Asian Economies: An International and Time Series Comparison. AA   Federal Reserve Bank of San Francisco. SR   Federal Reserve Bank of San Francisco Economic Research Department Working Paper: 2002/01; Working Papers Coordinator, Mail Stop 1130, Economic Research Department, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA 94120. Website: www.frbsf.org/publications/economics/papers/index.html. PG   32. PR   no charge. JE   D24, G21. KW   Asian Banking. Bank Production. Bank Efficiency. Operating Performance. Asian Financial Crisis.
AB   Per unit bank operating costs are found to vary significantly across Asian countries and over time. The strong correlation between per unit labor cost and physical capital cost suggests that there exist systematic differences in bank operating efficiency across countries. The declining operating costs between 1992 and 1997 is consistent with improving operating performance. Since 1997, the run-up in operating costs coincided with the Asian financial crisis, suggesting that banks incurred additional costs to deal with problem loans while outputs declined simultaneously. Labor cost share is also found to decline significantly between 1997 and 1999, perhaps because banks were able to cut labor force faster than physical capital. Significant differences in labor cost share across countries suggest cross-country differences in bank production functions. The positive relation between labor cost share and wage rate indicates that banks using more labor due to labor force productivity, rather than labor being cheap.

La Porta, Rafael
TI   The Regulation of Entry. AU   Djankov, Simeon; La Porta, Rafael; Lopez de Silanes, Florencio; Schleifer, Andrei.

Laeven, Luc
TI   Confidence Building in Emerging Stock Markets. AU   Perotti, Enrico C.; Laeven, Luc.

Lahiri, Amartya
PD   July 2001. TI   Living with the Fear of Floating: An Optimal Policy Perspective. AU   Lahiri, Amartya; Vegh, Carlos A. AA   Lahiri: UCLA. Vegh: UCLA and NBER. SR   National Bureau of Economic Research Working Paper: 8391; Working Papers, NBER, 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 U.S.). JE   E52, F41. KW   Fear of Floating. Developing Countries. Exchange Rate Regiimes.
AB   As documented in recent studies, developing countries (classified by the IMF as floaters or managed floaters) are extremely reluctant to allow for large nominal exchange rate fluctuations. This "fear of floating" is reflected in the fact that, in spite of being subject to larger shocks, developing countries exhibit lower exchange rate and reserve variability than developed countries. Moreover, there is positive correlation between changes in the exchange rate and interest rates and a negative correlation between both changes in reserves and the exchange rate and changes in interest rates and reserves. We build a simple model that rationalizes these key features as the outcome of an optimal policy response to monetary shocks. The model incorporates three key frictions: an output cost of nominal exchange rate fluctuations, an output cost of higher interest rates to defend the currency, and a fixed cost of intervention.

Lai, Edwin
TI   International Protection of Intellectual Property.

AU Grossman, Gene M.; Lai, Edwin.

Lakdawalla, Darius

TI Understanding Health Disparities Across Education Groups. AU Goldman, Dana; Lakdawalla, Darius.

Lamont, Owen A.

TI Short Sale Constraints and Stock Returns. AU Jones, Charles M.; Lamont, Owen A.

Lane, Christel

PD September 2001. TI How Banks Construct and Manage Risk: A Sociological Study of Small Firms Lending in Britain and Germany. AU Lane, Christel; Quack, Sigrid. AA Lane: University of Cambridge. Quack: Wissenschaftszentrum Berlin fur Sozialforschung. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP217; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. PG 36. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE D81, G21. KW Bank Lending. SMEs. Britain. Germany. Risk.
AB This paper analyses the role of banks in financing SMEs in Britain and Germany. It applies a sociological institutionalist approach to understand how banks construct and manage risk, relating to SME business. The empirical analysis is based on the results of a comparative survey of a sample of British and German banks and also refers to statistical material produced by the banks themselves. The paper concludes that, even though bank-firm relations are still deeply embedded in national institutional frameworks, some tendencies toward convergence can also be observed, particularly among commercial banks from the two countries. These flow from both internationalization and from the political influence of the EU.

Lang, William L.

TI Do Bankers Sacrifice Value to Build Empires? Managerial Incentives, Industry Consolidation, and Financial Performance. AU Hughes, Joseph P.; Lang, William L.; Mester, Loretta J.; Moon, Choon-Geol; Pagano, Michael S.

Lapham, Beverly

TI Real Exchange Rate Fluctuations and the Dynamics of Retail Trade Industries on the U.S.-Canada Border. AU Campbell, Jeffrey R.; Lapham, Beverly.

Lechner, Michael

TI A Microeconometric Evaluation of Active Labor Market Policy in Switzerland. AU Gerfin, Michael; Lechner, Michael.

Leduc, Sylvain

TI Why are Business Cycles Alike Across Exchange-Rate Regimes? AU Dedola, Luca; Leduc, Sylvain.

PD September 2002. TI Self-Fulfilling Expectations and the Inflation of the 1970s: Evidence from the Livingston Survey. AU Leduc, Sylvain; Sill, Keith; Stark, Tom. AA Federal Reserve Bank of Philadelphia. SR Federal Reserve Bank of Philadelphia Research Working Paper: 02/13; Working Papers, Department of Research, Federal Reserve

Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. PG 21. PR no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE D84, E31, E52, E62. KW Inflation. Oil Shocks. Fiscal Shocks. Monetary Policy. Expectations.
AB Using survey data on expectations, we examine whether the post-war data are consistent with theories of a self-fulfilling inflation episode during the 1970s. Among commonly cited factors, oil and fiscal shocks do not appear to have triggered an increase in expected inflation that was subsequently validated by monetary policy. However, the evidence suggests that, prior to 1979, the Federal Reserve accommodated temporary shocks to expected inflation, which then led to permanent increases in actual inflation. We do not find this behavior in the post-1979 data.

Lee, David S.

TI Does Low Birth Weight Matter? Evidence From the U.S. Population of Twin Births. AU Almond, Douglas; Chay, Kenneth Y.; Lee, David S.

Legros, Patrick

TI Moral Hazard and Capital Structure Dynamics. AU Dewatripont, Mathias; Legros, Patrick; Matthews, Steven A.

Leitner, Yaron

PD June 2002. TI Fragile Financial Networks -- A Preliminary Analysis. AA Federal Reserve Bank of Philadelphia. SR Federal Reserve Bank of Philadelphia Research Working Paper: 02/09; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. PG 32. PR no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE G21, O14. KW Contagion. Commitment. Networks. Financial Markets. Market Fragility.
AB This paper shows that linkages among agents in financial markets may be optimal because of and despite the potential for contagion. This is because the threat of contagion enhances commitment. Fragility, however, has a cost. When the aggregate endowment is not high enough or when it is concentrated among a small group of agents, the whole network may collapse. This paper characterizes optimal networks and shows that in some cases these may be "semi-fragile" (groups of agents such that agents within a group are linked). This holds even in large economies with independently and identically distributed endowments.

Lemieux, Thomas

TI Labour Market Reforms and Changes in Wage Inequality in the United Kingdom and the United States. AU Gosling, Amanda; Lemieux, Thomas.

Lemke, Robert J.

TI Do Estate and Gift Taxes Affect the Timing of Private Transfers? AU Bernheim, B. Douglas; Scholz, John Karl; Lemke, Robert J.

Lerner, Josh
TI The Really Long-Run Performance of Initial Public Offerings: The Pre-NASDAQ Evidence. AU Gompers, Paul A.; Lerner, Josh.

Levaux, Hugh P.
PD 2000. TI Commercial Power Centers in Indonesia: A New Paradigm to Analyze the Role of Business Groups in Policy Making. AA RAND Corporation. SR RAND Corporation Report: RGSD/144; Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. PG 219. PR no charge. JE E60, O10, O53, P10. KW Capitalism. Economic Development. Indonesia. Policymaking. CPCs.
AB This study presents an analytical framework to view, and a methodology to assess policymaking in emerging market economies. This view and assessment are clearer by using a new lens: the analysis of the political activities of so-called commercial power centers (CPCs)--i.e., their role and influence on economic policy. To illustrate the methodology, the framework is applied to Indonesia. The analytical approach is multi-disciplinary and uses economic, historical, and case study analysis to derive key findings. The study should be of interest to decision makers and analysts in government and the private sector, as well as to scholars concerned with the dynamics of change and development in Indonesia and, more broadly, in emerging market economies.

Levine, David K.
TI Factor Saving Innovation. AU Boldrin, Michele; Levine, David K.

TI Perfectly Competitive Innovation. AU Boldrin, Michele; Levine, David K.

Levinsohn, James
TI The Distributional Impacts of Indonesia's Financial Crisis on Household Welfare: A "Rapid Response" Methodology. AU Friedman, Jed; Levinsohn, James.

Levitt, Steven D.
TI An Empirical Analysis of Imprisoning Drug Offenders. AU Kuziemko, Ilyana; Levitt, Steven D.

Liebman, Jeffrey B.
TI Fiscal Policy and Social Security Policy During the 1990s. AU Elmendorf, Douglas W.; Liebman, Jeffrey B.; Wilcox, David W.

Lim, Guay C.
PD February 2002. TI Parametric Pricing of Higher Order Moments in S&P500 Options. AU Lim, Guay C.; Martin, Gael M.; Martin, Vance L. AA Lim and Martin: University of Melbourne. Martin: Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 01/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG 42. PR no charge. JE C13, G13. KW Option Pricing. Volatility Smiles. Volatility Skews. Generalized t. Skewness. Kurtosis. Time-Varying Volatility.
AB A general parametric framework is developed for pricing S&P500 options. Skewness and leptokurtosis in stock returns as well as time-varying volatility are priced. The parametric pricing model nests the Black-Scholes model and can explain volatility smiles and skews in stock options. The data consist of S&P500 options traded on select days in April, 1995, a total sample of over 500,000 observations. A number of performance criteria are used to evaluate the alternative models. The empirical results show that pricing higher order moments yield improvements in the pricing of options over the Black-Scholes model as well as other models.

PD May 2002. TI Pricing Currency Options in Tranquil Markets: Modelling Volatility Frowns. AU Lim, Guay C.; Martin, Gael M.; Martin, Vance L. AA Lim and G. Martin: University of Melbourne. V. Martin: Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 04/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG 18. PR no charge. JE C13, G13. KW Option Pricing. Volatility Frowns. Thin-Tails. Generalized Student t.
AB Volatility smiles arise in currency option markets when empirical exchange rate return distributions exhibit leptokurtosis. This feature of empirical distributions is symptomatic of turbulent periods when exchange rate movements are in excess of movements based on the assumption of normality. In contrast, during periods of tranquility, movements in exchange rates are relatively small, resulting in unconditional empirical returns distributions with thinner tails than the normal distribution. Pricing currency options during tranquil periods on the assumption of normal returns yields implied volatility frowns, with over-pricing at both deep-in and deep-out-of-the-money contracts and under-pricing for at-the-money contracts. This paper shows how a parametric class of thin-tailed distributions based on the generalized Student t family of distributions can price currency options during periods of tranquility.

Littlechild, Stephen C.
PD November 2002. TI Competition in Retail Electricity Supply. AA University of Birmingham Business School, JIMS, University of Cambridge, and George Mason University. SR University of Cambridge, DAE Working Paper: 0227(CMI09); Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 20. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE B53, L51, L94. KW Competition. Electricity. Regulation. Austrian Economics.
AB This paper presents an analysis and defense of competition in retail electricity supply. It includes some account of its development in the UK over the last dozen years, to the point where all retail price controls have now been removed. The development of this competition illustrates a number of the themes in Israel Kirzner's writing -- for example, the nature of competition as a process over time, the entrepreneurial and learning nature of this process, the role of marketing in alerting customers, the role of competition in establishing price and in discovering the services and suppliers that customers prefer, and the advantages of competition over regulation.

Lizzeri, Alessandro
PD August 2002. **TI** The Incentive Effects of Interim Performance Evaluations. **AU** Lizzeri, Alessandro; Meyer, Margaret A.; Persico, Nicola. **AA** Lizzeri: New York University. Meyer: Nuffield College. Persico: University of Pennsylvania. **SR** University of Pennsylvania, CARESS Working Paper: 02/09; CARESS, University of Pennsylvania, 3718 Locust Walk, Philadelphia, PA 19104- 6297. Website: www.econ.upenn.edu/Centers/CARESS/. **PG** 25. **PR** $3.00 for U.S. and Canada; $5.00 for Foreign; make checks payable to Trustees of the University of Pennsylvania. **JE** D82. **KW** Dynamic Principal-Agent. Performance Evaluations. Information Revelation. Incentives.
AB We study a dynamic moral hazard model where the agent does not fully observe his performance. We consider the incentive effects of providing feedback to the agent: revealing to the agent how well he is doing. We show that, if the incentive scheme is exogenously given, there is a wide range of cases where the agent works harder if feedback is provided. However, the agent earns more money in this scenario. We then characterize the optimal incentive schemes in the two scenarios and we show that the principal is better off if feedback is not provided; the expected cost of inducing any given level of expected effort is lower in the non-revelation scenario.

Ljungqvist, Alexander P.
PD July 2001. **TI** IPO Allocations: Discriminatory or Discretionary? **AU** Ljungqvist, Alexander P.; Wilhelm, William J., Jr.. **AA** Ljungqvist: New York University and CEPR. Wilhelm: University of Oxford. **SR** CEPR Discussion Paper: 2855; 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. **KW** Bookbuilding. Initial Public Offerings. Intermediation. Underpricing.
AB We estimate the structural links between IPO allocations, pre-market information production, and initial underpricing returns, within the context of theories of bookbuilding. Using a sample of both US and international IPOs, we find evidence of the following: 1) IPO allocation policies favor institutional investors, both in the US and worldwide; 2) Increasing institutional allocations results in offer prices that deviate more from the indicative price range established prior to bankers' efforts to gauge demand among institutional investors; 3) Constraints on the discretion bankers exercise in the allocation of IPO shares reduce institutional allocations; 4) Constraints on allocation discretion result in smaller price revisions. We interpret this as indicative of diminished information production; 5) Initial returns, which reflect a significant indirect cost of going public, are directly related to our measure of information production and inversely related to the fraction of shares allocated to institutional investors. Our results indicate that discretionary allocations promote price discovery in the IPO market and reduce issuance costs for firms attempting to go public.

TI Evidence of Information Spillovers in the Production of Investment Banking Services. **AU** Benveniste, Lawrence M.; Ljungqvist, Alexander P.; Wilhelm, William J., Jr..; Yu, Xiaoyun.

Lleras-Muney, Adriana
PD October 2001. **TI** Were Compulsory Attendance and Child Labor Laws Effective? **AA** Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 8563; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 21. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** I21, N32, N42. **KW** Secondary School. Education. Compulsory Attendance. Child Labor Laws.
AB Secondary schooling experienced incredible growth in the first 40 years of the 20th Century. Was legislation on compulsory attendance and child labor responsible for this growth? Using individual data from the 1960 census, this paper estimates the effect of several laws on educational attainment for individuals who were 14 years old between 1915 and 1939. The results show that legally requiring a child to attend school for one more year, either by increasing the age required to obtain a work permit or by lowering the entrance age, increased educational attainment by about 5%. The effect was similar for white males and females, but there was no effect for blacks. Continuation school laws, which required working children to attend school on a part time basis, were effective for white males only. These laws increased the education only of those in the lower percentiles of the distribution of education. States with more wealth and a higher percentage of immigrants were more likely to pass more stringent laws, and states with higher percentage of blacks were less likely to do so. Importantly, the results suggest that the laws were not endogenous during this period.

Llorente, Guillermo
PD May 2001. **TI** Dynamic Volume-Return Relation of Individual Stocks. **AU** Llorente, Guillermo; Michaely, Roni; Saar, Gideon; Wang, Jiang. **AA** Llorente: Universidad Autonoma de Madrid. Saar: New York University. Michaely: Cornell University. Wang: MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8312; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 34. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** G12, G14. **KW** Stock Returns. Risk. Private Information. Speculative Trades.
AB We examine the dynamic relation between return and volume of individual stocks. Using a simple model in which investors trade to share risk or speculate on private information, we show that returns generated by risk-sharing trades tend to reverse themselves while returns generated by speculative trades tend to continue themselves. We test this theoretical prediction by analyzing the relation between daily volume and first-order return autocorrelation for individual stocks listed on the NYSE and AMEX. We find that the cross-sectional variation in the relation between volume and return autocorrelation is related to the extent of informed trading in a manner consistent with the theoretical prediction.

Lo, Andrew W.
PD May 2001. **TI** Asset Prices and Trading Volume Under Fixed Transactions Costs. **AU** Lo, Andrew W.; Mamaysky, Harry; Wang, Jiang. **AA** Lo and Wang: MIT and NBER. Mamaysky: Yale School of Management. **SR** National Bureau of Economic Research Working Paper: 8311; National Bureau of Economic Research, 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 the U.S.). **JE** G12. **KW** Trading Volume. Asset Prices. Transaction Costs. Heterogeneity.

AB We propose a dynamic equilibrium model of asset prices and trading volume with heterogeneous agents facing fixed transactions costs. We show that even small fixed costs can give rise to large "no-trade" regions for each agent's optimal trading policy and a significant illiquidity discount in asset prices. We perform a calibration exercise to illustrate the empirical relevance of our model for aggregate data. Our model also has implications for the dynamics of order flow, bid/ask spreads, market depth, the allocation of trading costs between buyers and sellers, and other aspects of market microstructure, including a square-root power law between trading volume and fixed costs which we confirm using historical US stock market data from 1993 to 1997.

PD October 2001. **TI** The Psychophysiology of Real-Time Financial Risk Processing. **AU** Lo, Andrew W.; Repin, Dmitry V. **AA** Lo: MIT and NBER. Repin: Boston University. **SR** National Bureau of Economic Research Working Paper: 8508; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 18. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** C91, C93, G14. **KW** Rational Forces. Emotional Responses. Decisionmaking Processes. Physiological Characteristics.

AB A longstanding controversy in economics and finance is whether financial markets are governed by rational forces or by emotional responses. We study the importance of emotion in the decisionmaking process of professional securities traders by measuring their physiological characteristics, e.g., skin conductance, blood volume pulse, etc., during live trading sessions while simultaneously capturing real-time prices from which market events can be defined. In a sample of 10 traders, we find significant correlation between electrodermal responses and transient market events, and between changes in cardiovascular variables and market volatility. We also observe differences in these correlations among the 10 traders which may be systematically related to the traders' levels of experience.

PD October 2001. **TI** Trading Volume: Implications of An Intertemporal Capital Asset Pricing Model. **AU** Lo, Andrew W.; Wang, Jiang. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8565; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G11, G12, G14. **KW** Asset Pricing. Heterogeneous Investors. Dynamic Risk.

AB We derive an intertemporal capital asset pricing model with multiple assets and heterogeneous investors, and explore its implications for the behavior of trading volume and asset returns. Assets contain two types of risks: market risk and the risk of changing market conditions. We show that investors trade only in two portfolios: the market portfolio, and a hedging portfolio, which allows them to hedge the dynamic risk. This implies that trading volume of individual assets exhibit a two-factor structure, and their factor loadings depend on their weights in the hedging portfolio. This allows us to empirically identify the hedging portfolio using volume data. We then test the two properties of the hedging portfolio: its return provides the best predictor of future market returns and its return together with the return of the market portfolio are the two risk factors determining the cross-section of asset returns.

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

Loewenstein, Mark A.
TI Estimating Linear Regressions with Mismeasured, Possibly Endogenous, Binary Explanatory Variables. **AU** Frazis, Harley; Loewenstein, Mark A.

Lofstrom, Magnus
TI The Dynamics of Immigrant Welfare and Labor Market Behavior. **AU** Hansen, Jorgen; Lofstrom, Magnus.

Lommerud, Kjell Erik
PD October 2001. **TI** Unionized Oligopoly, Trade Liberalization and Location Choice. **AU** Lommerud, Kjell Erik; Meland, Frode; Sorgard, Lars. **AA** Lommerud: University of Bergen, CESifo and CEPR. Meland: University of Bergen. Sorgard: Norwegian School of Economics and Business Admin. **SR** CEPR Discussion Paper: 2990; 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** F15, F16, F21, J51, L13. **KW** Foreign Direct Investments. Trade Liberalization. Unionized Oligopoly.

AB In a two-country reciprocal-dumping model, with one country unionized, we analyze how wage setting and firm location are influenced by trade liberalization. We show that trade liberalization can induce a unionized firm to move all production abroad. This cannot prevail in a corresponding, non-unionized model. Trade liberalization has a non-monotonic effect on wages. For a given location choice, trade liberalization increases national welfare in the unionized country. When a shift of some or all production to the foreign country occurs, national welfare can be reduced.

Lopez de Silanes, Florencio
TI The Regulation of Entry. **AU** Djankov, Simeon; La Porta, Rafael; Lopez de Silanes, Florencio; Schleifer, Andrei.

TI The Regulation of Entry. **AU** Djankov, Simeon; La Porta, Rafael; Lopez de Silanes, Florencio; Schleifer, Andrei.

Lopez, Jose A.
PD June 2002. **TI** The Empirical Relationship Between Average Asset Correlation, Firm Probability of Default and Asset Size. **AA** Federal Reserve Bank of San Francisco. **SR** Federal Reserve Bank of San Francisco Economic Research Department Working Paper: 2002/05; Working Papers Coordinator, Mail Stop 1130, Economic Research Department, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA 94120. Website: www.frbsf.org/publications/economics/papers/index.html. **PG** 65. **PR** no charge. **JE** F34, G12, G28, H63. **KW** Default Probability. Credit Risk. Asset Size. Basel Accord.

AB The asymptotic single risk factor (ASRF) approach is a framework for determining regulatory capital charges for credit risk and is an integral part of the second Basel Accord. Within this approach, a key parameter is the average asset correlation. We examine the empirical relationship between the average asset correlation, firm default probability and asset size by

imposing the ASRF approach within the KMV methodology for determining credit risk capital requirements. The empirical results suggest that average asset correlation is a decreasing in default probability and increasing in asset size. When compared with the Basel Committee's November 2001 proposal, the empirical average asset correlations further suggest that accounting for firm asset size.

Ludwig, Alexander
TI Aging and International Capital Flows. **AU** Boersch-Supan, Axel H.; Ludwig, Alexander; Winter, Joachim K.

Lund, Jesper
TI An Empirical Investigation of Continuous-Time Equity Return Models. **AU** Andersen, Torben G.; Benzoni, Luca; Lund, Jesper.

Lupton, Joseph
TI Accounting for the Black-White Wealth Gap: A Nonparametric Approach. **AU** Barsky, Robert; Charles, Kerwin; Bound, John; Lupton, Joseph.

Lyons, Richard K.
TI Fixed versus Flexible: Lessons from EMS Order Flow. **AU** Killeen, William P.; Lyons, Richard K.; Moore, Michael J.

MacCrisken, Jack
TI Economic Perspectives on Software Design: PC Operating Systems and Platforms. **AU** Davis, Steven J.; MacCrisken, Jack; Murphy, Kevin M.

Mamaysky, Harry
TI Asset Prices and Trading Volume Under Fixed Transactions Costs. **AU** Lo, Andrew W.; Mamaysky, Harry; Wang, Jiang.

Mankiw, N. Gregory
PD September 2001. **TI** U.S. Monetary Policy During the 1990s. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8471; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 53. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** E44, E52, E58. **KW** Monetary Policy. Good Luck. Inflation Targeting.
AB This paper discusses the conduct and performance of U.S. monetary policy during the 1990s, comparing it to policy during the previous several decades. It reaches four broad conclusions. First, the macroeconomic performance of the 1990s was exceptional, especially if judge by the volatility of growth, unemployment, and inflation. Second, much of the good performance was due to good luck arising from the supply-side of the economy: Food and energy prices were well behaved, and productivity growth experienced an unexpected acceleration. Third, monetary policymakers deserve some of the credit by making interest rates more responsive to inflation than was the case in previous periods. Fourth, although the 1990s can be viewed as an example of successful discretionary policy, Fed policymakers may have been engaged in "covert inflation targeting" at a rate of about 3 percent. The avoidance of an explicit policy rule, however, means that future policy

makers inherit only a limited legacy.

Marcet, Albert
PD October 2001. **TI** Debt and Deficit Fluctuations and the Structure of Bond Markets. **AU** Marcet, Albert; Scott, Andrew. **AA** Marcet: Universitat Pompeu Fabra and CEPR. Scott: London Business School. **SR** CEPR Discussion Paper: 3029; 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** E62, H63. **KW** Bond Markets. Debt. Deficits. Fiscal Policy. Optimal Taxation.
AB The aim of this paper is to test for the extent of incompleteness in the market for US Government debt. We show that when a government pursues an optimal tax policy and issues a full set of contingent claims, the value of debt has the same or less persistence than other variables in the economy and declines in response to higher government expenditure shocks. Examining US data, however, reveals that debt is substantially more persistent than other variables and increases in response to adverse expenditure shocks. We show that this behavior is best accounted for by a model of incomplete markets, where governments only issue one-period risk-free bonds. We discuss the implications of this for the optimality of debt limits, debt management and assessing the sustainability of fiscal policy.

Marginson, Paul
TI The Management of Pay as the Influence of Collective Bargaining Diminishes. **AU** Brown, William; Marginson, Paul; Welsh, Janet.

Marin Uribe, Pedro L.
TI Capacity Choices in Liberalized Electricity Markets. **AU** Castro-Rodriguez, Fidel; Marin Uribe, Pedro L.

Marino, Davide
TI Valuing Farm Animal Genetic Resources by Means of Contingent Valuation and a Bio-Economic Model: The Case of the Pentro Horse. **AU** D'Ercole, Elisabetta; Cicia, Gianni; Marino, Davide.

Markman, Jacob M.
TI Does Peer Ability Affect Student Achievement? **AU** Hanushek, Eric A.; Markman, Jacob M.; Kain, John F.; Rivkin, Steven G.

Markowitz, Sara
TI Toward a Framework for Improving Health Care Financing for an Aging Population: The Case of Israel. **AU** Chernichovsky, Dov; Markowitz, Sara.

Marquez, Jaime
TI International Comparisons of Productivity Growth: The Role of Information Technology and Regulatory Practices. **AU** Gust, Christopher; Marquez, Jaime.

Martin, Gael M.
TI Parametric Pricing of Higher Order Moments in S&P500 Options. **AU** Lim, Guay C.; Martin, Gael M.; Martin, Vance L.

TI Bayesian Estimation of a Stochastic Volatility Model

Using Option and Spot Prices. **AU** Forbes, Catherine S.; Martin, Gael M.; Wright, Jill.

TI Pricing Currency Options in Tranquil Markets: Modelling Volatility Frowns. **AU** Lim, Guay C.; Martin, Gael M.; Martin, Vance L.

Martin, Philippe
PD September 2001. **TI** Financial Super-Markets: Size Matters for Asset Trade. **AU** Martin, Philippe; Rey, Helene. **AA** Martin: Federal Reserve Bank of New York and CEPR. Rey: Princeton University, CEPR, and NBER. **SR** National Bureau of Economic Research Working Paper: 8476; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 34. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** F12, F41, G12. **KW** Imperfect Competition. Imperfect Financial Markets. International Trade. International Finance.
AB We introduce a new theoretical framework to analyze imperfectly competitive financial markets and trade in assets in an international context. We present a two-country macroeconomic model in which agents are risk averse, assets are imperfect substitutes, the number of financial assets is endogenous, and cross-border asset trade entails transaction costs. We show that demand effects have important implications for the link between market size, asset prices and financial market development. These effects are consistent with existing empirical evidence. Due to co-ordination failures, the extent of financial market incompleteness is inefficiently high. We also analyze the impact of domestic transaction costs and issuing costs on financial markets and returns.

Martin, Rod
PD June 2001. **TI** Taking Risks in Regions: The Geographical Anatomy of Europe's Emerging Venture Capital Market. **AU** Martin, Rod; Sunley, Peter; Turner, Dave. **AA** Martin and Turner: University of Cambridge. Sunley: University of Edinburgh. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP202; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 31. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** G24, O52, R12, R58. **KW** Venture Capital. Europe. Regional Development. Clusters. Policy.
AB Over the past twenty-five years, the USA has pioneered a new technological revolution, based on large numbers of new small enterprises, financed by a dynamic venture (risk) capital market. The EU, meanwhile, has lagged behind in this sector of economic activity. The EU considers the development of a substantial risk capital market to be a key condition for closing the "enterprise gap" with the US. But whereas the commission argues that venture capital activity needs to be much more regionally clustered if it is to emulate the US experience, some member states, together with the OECD, have argued for a more even regional distribution. The aim of the paper is to chart the growth and geographical anatomy of the emerging European venture capital market and to examine its spatial development and its regional implications in the context of these somewhat opposing views.

Martin, Vance L.
TI Parametric Pricing of Higher Order Moments in S&P500

Options. **AU** Lim, Guay C.; Martin, Gael M.; Martin, Vance L.

TI Pricing Currency Options in Tranquil Markets: Modelling Volatility Frowns. **AU** Lim, Guay C.; Martin, Gael M.; Martin, Vance L.

Marx, Leslie M.
PD May 2002. **TI** Individual Accountability in Teams. **AU** Marx, Leslie M.; Squintani, Francesco. **AA** University of Rochester. **SR** Rochester Center for Economic Research Working Paper: 494; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: rcer.econ.rochester.edu. **PG** 17. **PR** $5.00 (3 first papers free of charge). **JE** C72, K40. **KW** Individual Liability. Moral Hazard in Teams.
AB We consider a team production problem in which the principal observes only the group output and not individual effort and in which the principal can only penalize an agent for poor performance if she has verifiable evidence that the agent in question did not fulfill his job assignment. In this environment, agents have an incentive to shirk. However, we show that by including monitoring in the agents' job assignments, the principal induces the agents to exert effort and achieves the first-best. In particular, even though equilibrium job assignments include monitoring, this serves only to provide incentives for effort, and agents do not engage in wasteful monitoring in equilibrium.

Mason, Robin
PD October 2001. **TI** Irreversible Investment with Strategic Interactions. **AU** Mason, Robin; Weeds, Helen. **AA** Mason: Southampton University and CEPR. Weeds: Lexecon Ltd., University of Cambridge, and University of Warwick. **SR** CEPR Discussion Paper: 3013; 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, D81, L13, O31. **KW** Network Effects. Pre-Emption. Real Options. Irreversible Investment.
AB This paper examines irreversible investment in a project with uncertain returns, when there is an advantage to being the first to invest, and externalities to investing when others also do so. Pre-emption decreases and may even eliminate the option values created by irreversibility and uncertainty. Externalities introduce inefficiencies in investment decisions. Pre-emption and externalities combined can actually hasten, rather than delay, investment, contrary to the usual outcome. These facts demonstrate the importance of extending "real options" analysis to include strategic interactions.

Matsuyama, Kiminori
PD April 2001. **TI** Financial Market Globalization and Endogenous Inequality of Nations. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1334; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 43. **PR** $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** E44, F43, O11. **KW** Imperfect Credit Markets. Borrowing-Constraint.

Convergence. International Finance. Polarization. Symmetry-Breaking. Poverty Traps.

AB This paper analyzes the effects of financial market globalization on the cross-country pattern of development in the world economy. To this end, it develops a dynamic macroeconomic model of imperfect credit markets, in which domestic investment becomes borrowing-constrained at the lower stage of development. In the absence of the international financial market, the world economy converges to the symmetric steady state, and the cross-country difference disappears in the long run. We show that, under some parameter values, financial market globalization causes the instability of the symmetric steady state and generates stable asymmetric steady states. in which the world economy is polarized into the rich and the poor. The model demonstrates the possibility that financial market globalization may cause, or at least magnify, inequality among nations, and that the international financial market is a mechanism through which some countries become rich at the expense of others. Furthermore, the poor countries cannot jointly escape from the poverty trap by merely cutting their links to the rich. Nor would foreign aids from the rich to the poor eliminate inequality; as in a game of musical chairs, some countries must be excluded form being rich.

PD September 2001. TI Good and Bad Investment: An Inquiry into the Causes of Credit Cycles. AA Northwestern University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1335; Northwestern University, CMS-EMS, 2001 Sheridan Road. 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 48. PR $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. JE E32, E44. KW Borrowing Constraints. Imperfect Credit Market. Credit Reversals. Credit Multiplier. Business Investment. Endogenous Cycles. Nonlinear Dynamics. Chaos. Flip and Tangent Bifurcations. Intermittency. Asymmetry.

AB This paper presents dynamic general equilibrium models of imperfect credit markets, in which the economy fluctuates endogenously along its unique equilibrium path. During a recession, the net worth of the agents is too low and they cannot finance their trading activities. Much of the saving thus goes to business investment, which creates jobs, thereby making the next generation of the agents richer. As the economy booms and the net worth of the agents improves, they can eventually finance their trading activities, which do not create any job. As more credit is extended to trading at the expense of business investment, the economy plunges into a recession. The whole process repeats itself. Endogenous fluctuations occur because, as in ecological cycles driven by predator-prey interaction, good investment breeds bad investment, which destroys good investment.

PD January 2002. TI Explaining Diversity: Symmetry-Breaking in Complementarity Games. AA Northwestern University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1336; Northwestern University, CMS-EMS, 2001 Sheridan Road. 580 Leverone Hall, Evanston, IL 60208-2014. Website: 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 C72, C79. KW Diversity. Symmetry-Breaking. Coordination.

AB Strategic complementarity games found applications in many fields, including macro, development, and labor economics. They provide an useful framework within which to address questions like, "what generates the disparity across regions and countries?"; "why are there booms and recessions?"; and "what causes gender and race discrimination in the labor market?" In short, they help us think about the diversity and variations across space, time and groups. The literature on complementarity games emphasized coordination failures as the key notion to understand these questions. This paper argues that such emphasis is misplaced; the key to understand the diversity is symmetry- breaking. The notion of coordination failures is not only irrelevant but also misleading when thinking about the diversity.

Matthews, Steven A.
TI Moral Hazard and Capital Structure Dynamics. AU Dewatripont, Mathias; Legros, Patrick; Matthews, Steven A.

Mavroidis, Petros
TI Economic and Legal Aspects of the Most Favored Nation Clause. AU Horn, Henrik; Mavroidis, Petros.

Mayda, Anna Maria
PD September 2001. TI Why Are Some People (and Countries) More Protectionist than Others? AU Mayda, Anna Maria; Rodrik, Dani. AA Harvard University. SR CEPR Discussion Paper: 2960; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE F13, J24. KW Protectionism. Surveys. Trade Preferences.

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 J.
TI Dividend Taxes and Share Prices: Evidence from Real Estate Investment Trusts. AU Gentry, William M.; Kemsley, Deen; Mayer, Christopher J.

TI Why Do Households Without Children Support Local

Public Schools? Linking House Price Capitalization to School Spending. AU Hilber, Christian A. L.; Mayer, Christopher J.

Mayer, Colin
TI Who Disciplines Management in Poorly Performing Companies? AU Franks, Julian R.; Mayer, Colin: Renneboog, Luc.

McClellan, Mark
TI The Effects of Hospital Ownership on Medical Productivity. AU Kessler, Daniel; McClellan, Mark.

McDaniel, Tanga
PD May 2002. TI Use of Long-Term Auctions for Network Investment. AU McDaniel, Tanga; Neuhoff, Karsten. AA University of Cambridge. SR University of Cambridge, DAE Working Paper: 0213(CMI04); Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 23. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE D44, D92, L51, L95. KW Auctions. Gas. Investment. Networks. Regulation.
AB Short-term auctions for access to entry terminals of the British gas-network appear to successfully allocate scarce resources and capture scarcity rent. Now long-term auctions are being introduced to guide future capacity expansion decisions. In our model the fraction of rights issued in the long-term auction turns out to be a crucial design parameter. Even a 'hypothetically' optimal parameter choice can in general only satisfy one of three aims: Unbiased provision of capacity, full revelation of private information and minimization of distortions from network effects. The results suggest that long-term auctions for transmission capacity are not necessarily preferable to regulatory approved capacity expansion.

TI Auctions and Trading in Energy Markets -- An Economic Analysis. AU Newbery, David M.; McDaniel, Tanga.

PD November 2002. TI Auctions to Gas Transmission Access: The British Experience. AU McDaniel, Tanga; Neuhoff, Karsten. AA University of Cambridge. SR University of Cambridge, DAE Working Paper: 0234(CMI06); Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 27. PR $10.00/5 pounds/EUROS 8: checks payable to University of Cambridge. JE D44, D45, L51, L95. KW Gas. Network. Access. Auction. Regulation.
AB When access to monopoly owned networks is constrained auctioning access rights can increase the efficiency of allocations relative to negotiation and grandfathering when there is sufficient competition among network users. Historically, access rights to entry capacity on the British gas network were granted by the monopoly network owner via negotiation; rights were later based on regulated tariffs with an increasing reliance on market based constraint resolution by the system operator. In 1999 an auction mechanism for allocating rights was introduced. Comparing the different allocation methods we conclude that where there is competition at entry terminals auctions have been successful with respect to anticipating spot prices, capturing producer rents and reducing the costs of alleviating network constraints. Moreover, auctions are more transparent and better facilitate entry.

McGrattan, Ellen R.
PD August 2002. TI Taxes, Regulations, and the Value of U.S. Corporations: A General Equilibrium Analysis. AU McGrattan, Ellen R.; Prescott, Edward C. AA McGrattan: Federal Reserve Bank of Minneapolis and University of Minnesota. Prescott: University of Minnesota and Federal Reserve Bank of Minneapolis. SR Federal Reserve Bank of Minneapolis Staff Report: 309; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. PG 26. PR no charge. JE E44, E62, G18. KW Stockmarket Taxation. Productive Capital Stocks.
AB We derive the quantitative implication of growth theory for U.S. corporate equity valuations. We focus on secular movements in equity values in relation to GDP. We ask specifically whether the theory accounts for the dramatic secular changes observed in the U.S. corporate valuations during the period 1960-2001. We find that the theory accounts for the stock values falling in half relative to GDP in the 1970s and then tripling, with the key factor being changes in the tax and regulatory system.

McLaren, Keith R.
PD May 2002. TI Modelling Regular and Estimable Inverse Demand Systems: A Distance Function Approach. AU McLaren, Keith R.; Wong, Gary K. K. AA McLaren: Monash University. Wong: Deakin University. SR Monash Department of Econometrics and Business Statistics Working Paper: 06/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG 25. PR no charge. JE D11, D12. KW Inverse Demands. Distance Functions. Numerical Inversion. Separability.
AB To be useful for realistic policy simulation in an environment of rapid structural change, inverse demand systems must remain regular over substantial variations in quantities. The distance function is a convenient vehicle for generating such systems. While it directly yields Hicksian inverse demand functions, those functions will not usually have an explicit representation in terms of the observable variables. Note however that this problem need not hinder estimation and could be solved by using the numerical inversion estimation approach. This paper develops the formal theory for using distance functions in this context, and demonstrates the operational feasibility of the method.

PD September 2002. TI Cobb-Douglas Utility -- Eventually! AU McLaren, Keith R.; Pearson, Kenneth R.; Powell, Alan A.; Rimmer, Maureen T. AA Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 12/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG 11. PR no charge. JE C51, D11, D12, E21. KW Consumer Demand. General Equilibrium. Separability. Additive Preferences. Global Regularity. Cobb-Douglas. Calibration. AIDADS.
AB Consider the following two opinions, both of which can be found in the literature of consumer demand systems: (a) As the real income of a consumer becomes indefinitely large, remixing the consumption bundle becomes irrelevant. With very large and increasing per capita income, ultimately the utility

function becomes indistinguishable from Cobb-Douglas. (b) Consumer demand systems in which the income elasticities monotonically approach one are unsatisfactory both theoretically and empirically. The issue is important for CGE modelers because explicit direct additivity is often the modeler's default choice. Rimmer and Powell's AIDADS system belongs to the class in which it is possible to satisfy the motivations underlying both (a) and (b) This paper discusses the above in more detail, strengthening the case for implicit direct additivity. An experimental calibration of a database to the AIDADS system is illustrated with modifications made to the ORANI-G teaching model. A technical appendix establishes the effectively global regularity of AIDADS.

McLean, Ian W.

PD August 2001. TI Australian Growth: A Californian Perspective. AU McLean, Ian W.; Taylor, Alan M. AA McLean: University of Adelaide. Taylor: University of California, Davis and NBER. SR National Bureau of Economic Research Working Paper: 8408; 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 F43. N11, N12, N17, O11, O40, O51, O56. KW Australia. California. Growth Comparisons. Trade Policy. AB Examination of special cases assists understanding of the mechanics of long-run economic growth more generally. Australia and California are two economies having the rare distinction of achieving 150 years of sustained high and rising living standards for rapidly expanding populations. They are suitable comparators since in some respects they are quite similar, especially in their initial conditions in the mid-nineteenth century, their legal and cultural inheritances, and with respect to some long-term performance indicators. However, their growth trajectories have different markedly in some sub-periods, and over the longer term with respect to the growth in the size of their economies. Most important, the comparison of an economy that remained a region in a much larger national economy with one that evolved into an independent political unit helps identify the role of several key policies. California had no independent monetary policy, or exchange rate, or controls over immigration or capital movements, or trade policy. Australia did, and after 1900 pursued an increasingly interventionist and inward-oriented development strategy until the 1970s. What difference did this make to long-run growth? And what other factors, exogenous and endogenous, account for the differences that have emerged between two economies that shared such similar initial conditions?.

Meade, Ellen E.

PD February 2002. TI Regional Influences on U.S. Monetary Policy: Some Implications for Europe. AU Meade, Ellen E.; Sheets, D. Nathan. AA Meade: London School of Economics. Sheets: Federal Reserve Board. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 721; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board. Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 36. PR no charge. JE E58. F33. KW Central Banking. Federal Reserve. FOMC. European Central Bank. Monetary Policy. AB This paper looks at the monetary policy decisions of the

U.S. Federal Reserve and asks whether those decisions have been influenced solely by national concerns, or whether regional factors have played a role. All of the Federal Reserve's policymakers have some regional identity, i.e., either their positions explicitly carry some regional affiliation or their region of origin is a factor that must be considered in the selection process. This research is relevant for the Fed, and it may also be relevant for Europe's fledgling central bank in Frankfurt. Critics have asserted that ECB policymakers have an incentive to base policy on national developments and respond to national political pressures. We find that Fed policymakers take into account developments in regional unemployment when deciding monetary policy, and that these regional developments are more important for central bankers at the hub than in the spokes. These findings are robust to a variety of different specifications of the voting equation.

Meagher, Kieron

PD June 2001. TI Hierarchy Size and Environmental Uncertainty. AU Meagher, Kieron; Orbay, Hakan; Van Zandt, Timothy. AA Meagher: University of New South Wales. Van Zandt: INSEAD. Orbay: Sabanci University. SR CEPR Discussion Paper: 2839; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE D23, D83. KW Bounded Rationality. Decentralization. Hierarchies. Information Processing. AB We examine how a firm's changing environment and the information constraints of its managers interact as determinants of the size of the firm's administration. Following the recent decentralized information processing literature, we assume that it takes individual managers time to process information. A consequence is that it takes time for a firm to aggregate information, even when this task is shared. This delay increases with the amount of information that is aggregated, leading to the following trade-off: the more data the firm samples each period, the more precisely it can estimate the state that its environment was in when the sample was taken but the more the environment has changed by the time these data are used to estimate the current state. We explore this trade-off for two computation models and for both a benchmark case of costless managers and the case of costly managers. When managers are costless, the size of the administrative staff increases monotonically, as the environment becomes more stable. In contrast, when managers are costly, optimal managerial size first increases and then decreases as a function of environmental stability.

Meara, Ellen

TI Changes in the Age Distribution of Mortality Over the 20th Century. AU Cutler, David M.; Meara, Ellen.

Medoff, James L.

TI Firm Age and Wages. AU Brown, Charles; Medoff, James L.

Meland, Frode

TI Unionized Oligopoly, Trade Liberalization and Location Choice. AU Lommerud, Kjell Erik; Meland, Frode; Sorgard, Lars.

Melitz, Jacque

PD October 2001. **TI** Geography, Trade and Currency Union. **AA** Strathclyde University, CRES and CEPR. **SR** CEPR Discussion Paper: 2987; 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** F33, F36. **KW** Bilateral Trade. Free Trade Area. Geography. Gravity Model. Monetary Union.

AB This paper reports on four basic results of tests of the standard gravity equation. First, geography can serve to reflect comparative advantage as well as transportation costs. Second, the effect of distance on bilateral trade is mostly a substitution effect between closer and more distant trade partners rather than a scale effect on total foreign trade. Third, special political relationships, such as free trade agreements, former colonial attachments, and currency union, do not produce any trade diversion in the aggregate, but increase trade with outsiders as well as among the parties to the relationship. Fourth, Rose's surprisingly high estimate of the impact of currency union on trade stems partly from a selection bias, but even following a correction for this bias, the estimate remains high.

Mesnard, Alice

PD October 2001. **TI** Wealth Distribution and Self-Employment in a Developing Economy. **AU** Mesnard, Alice; Ravallion, Martin. **AA** Mesnard: Universite de Toulouse I and CEPR. Ravallion: World Bank. **SR** CEPR Discussion Paper: 3026; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D31, M13. **KW** Borrowing Constraints. Migration. Self-Employment. Wealth Inequality.

AB The extent of entrepreneurial activity in an economy with poorly developed capital markets depends on the distribution of wealth, though in potentially complex ways. A non-parametric model of the wealth effect on self-employment is estimated using micro data on the occupational choices of return migrants in Tunisia. Controls for heterogeneity are included, and tests are made for selection bias and separability between wealth and the controls. There is no sign of increasing returns at low wealth, suggesting generally low start-up costs in this setting. The aggregate self-employment rate is an increasing function of aggregate wealth, but a decreasing function of wealth inequality, though even substantial redistributions of wealth would have only a small impact.

Mester, Loretta J.

TI Do Bankers Sacrifice Value to Build Empires? Managerial Incentives, Industry Consolidation, and Financial Performance. **AU** Hughes, Joseph P.; Lang, William L.; Mester, Loretta J.; Moon, Choon-Geol; Pagano, Michael S.

Meyer, Laurence H.

PD April 2002. **TI** International Coordination of Macroeconomic Policies: Still Alive in the New Millennium? **AU** Meyer, Laurence H.; Doyle, Brian M.; Gagnon, Joseph E.; Henderson, Dale W. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 723; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 43. **PR** no charge. **JE** E50, E60, F42. **KW** International Policy Coordination. Information Exchange. Monetary Policy. Fiscal Policy. G-7.

AB We provide two building blocks for an analysis of international policy coordination: 1) a survey of models of policy coordination, and 2) an account of experience with policy coordination among the G-7 countries and within Europe since the breakdown of the Bretton Woods System. Using these building blocks, we investigate the correspondence between the models and experience and attempt to draw lessons. We find that the correspondence is close enough that the models help in analyzing several instances of actual policy coordination, but that the correspondence could be even closer. We suggest that modelers devote more attention to the analysis of information exchange, a key feature of practical policy coordination; to the coordination of different types of policies; to the ramifications of political divisions within countries; and to the implications of market irrationality and speculative bubbles. As for lessons for policy makers, we suggest that they give more consideration to the choice of their ultimate objectives, in particular to whether the current account should always be close to balance; to achieving better internal policies; and to the greater use of fiscal policy as a stabilization tool.

Meyer, Margaret A.

TI The Incentive Effects of Interim Performance Evaluations. **AU** Lizzeri, Alessandro; Meyer, Margaret A.; Persico, Nicola.

Michaely, Roni

TI Dynamic Volume-Return Relation of Individual Stocks. **AU** Llorente, Guillermo; Michaely, Roni; Saar, Gideon; Wang, Jiang.

Michie, Jonathan

TI Markets, Competition, Cooperation and Innovation. **AU** Kitson, Mike; Michie, Jonathan; Quinn, Maura.

Miguel, Edward

PD September 2001. **TI** Worms: Education and Health Externalities in Kenya. **AU** Miguel, Edward; Kremer, Michael. **AA** Miguel: UC Berkeley. Kremer: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8481; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 44. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** I12, I21, J24, O15. **KW** Worm Infestation. School Based Treatments.

AB Intestinal helminths -- including hookworm, roundworm, schistosomiasis, and whipworm -- infect more than one-quarter of the world's population. A randomized evaluation of a project in Kenya suggest that school-based mass treatment with deworming drugs reduced school absenteeism in treatment schools by one quarter; gains are especially large among the youngest children. Deworming is found to be cheaper than alternative ways of boosting school participation. By reducing disease transmission, deworming creates substantial externality health and school participation benefits among untreated children in the treatment schools and among children in neighboring schools. These externalities are large enough to justify fully subsidizing treatment. We do not find evidence that deworming improves academic test scores. Existing

experimental studies, in which treatment is randomized among individuals in the same school, find small and insignificant deworming treatment effects on education; however, these studies underestimate true treatment effects if deworming creates positive externalities for the control group and reduces treatment group attrition.

Miller, Marcus

TI Exchange Rate Monitoring Bands: Theory and Policy.
AU Corrado, Luisa; Miller, Marcus; Zhang, Lei.

Miller, Robert

TI Empirical Analysis of Limit Order Markets.
AU Hollifield, Burton; Miller, Robert; Sandas, Patrik.

Minford, Patrick

PD September 2001. **TI** The Observational Equivalence of Taylor Rule and Taylor-Type Rules. **AU** Minford, Patrick; Perugini, Francesco; Srinivasan, Naveen. **AA** Minford: Cardiff Business School and CEPR. Perugini and Srinivasan: Cardiff University. **SR** CEPR Discussion Paper: 2959; 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** E44, E52. **KW** Monetary Policy Rules. Observational Equivalence.
AB In the past few years the view has commonly been expressed that central banks follow "Taylor Rules" (as first promulgated by Henderson and McKibbin (1993)). We show that the appearance of such an interest rate rule -- a "pseudo-Taylor rule" -- can be created by a standard macro model in which actually a money supply rule is operating with no interest rate feedback -- i.e., where there is in fact no Taylor rule operating at all. Hence an interest equation does not identify a (structural) Taylor rule; a Taylor rule and a pseudo-rule, though corresponding to different structural models, are "observationally equivalent" to use the expression coined by Thomas Sargent (1976). It remains an open question whether Taylor rules or money supply rules are appropriate from a welfare viewpoint.

Mishkin, Frederic S.

PD July 2001. **TI** One Decade of Inflation Targeting in the World: What Do We Know and What Do We Need to Know? **AU** Mishkin, Frederic S.; Schmidt-Hebbel, Klaus. **AA** Mishkin: Columbia University and NBER. Schmidt-Hebbel: Central Bank of Chile. **SR** National Bureau of Economic Research Working Paper: 8397; 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** E31, E51, E52. **KW** Inflation Targeting. Monetary Policy.
AB One decade of inflation targeting in the world offers lessons on the design and implementation of inflation targeting, the conduct of monetary policy, and country performance under inflation targeting. This paper reviews briefly the main design features of 18 inflation targeting experiences, analyzes statistically if countries under inflation targeting are structurally different from non-inflation targeting industrial countries, and reviews existing evidence about the success of inflation targeting. The interaction of inflation targeting design features and the conduct of monetary policy during transition to

low inflation are tackled next. The paper ends by focusing on unresolved issues on design and implementation of inflation targeting and their relation to the conduct of monetary policy-open issues that have to be addressed in the next decade of inflation targeting.

Mitra, Kaushik

TI Are Non-Fundamental Equilibria Learnable in Models of Monetary Policy? **AU** Honkapohja, Seppo; Mitra, Kaushik.

Mitton, Todd

TI Cronyism and Capital Controls: Evidence from Malaysia.
AU Johnson, Simon; Mitton, Todd.

Moeller, Linda L.

PD June 2002. **TI** On the Estimation of Classical Human Capital Wage Equations with Two Independent Sources of Data on Actual Work Experience. **AA** U.S. Bureau of Labor Statistics. **SR** U.S. Bureau of Labor Statistics Economic Working Paper: 362; BLS Economic Working Paper Series, c/o Glenda Driggers, 4945 Postal Square Building, 2 Massachusetts Avenue NE, Washington, DC 20212. Website: www.bls.gov/ore/orecatlg.htm. **PG** 42. **PR** no charge. **JE** C24, C81, D12, J31, J24. **KW** Human Capital. Productivity. Wage Equation. SIPP. SSA.
AB The BLS multifactor productivity series includes a labor composition index designed to capture the contribution to productivity growth of shifts in the skill composition of the work force. Human capital wage equations that include an instrument for actual work experience are an intermediate product in the construction of this series. This paper reports on the estimation of experience equations with Social Security Administration (SSA) data on quarters of covered employment through 1984, and retrospective work history data from the 1984 Survey of Income and Program Participation. The two instruments result in comparable 1984 wage rate profiles. In contrast, experience equation coefficients previously estimated with SSA data linked to the March 1973 Current Population Survey result in 1984 wage profiles that are too high for younger and older workers. Discrepancies are attributed to structural changes in the labor market, including expanded SSA coverage and increased female labor force participation.

Montero, Juan-Pablo

TI The Temporal Efficiency of SO2 Emissions Trading.
AU Ellerman, A. Denny; Montero, Juan-Pablo.

Moon, Choon-Geol

TI Do Bankers Sacrifice Value to Build Empires? Managerial Incentives, Industry Consolidation, and Financial Performance. **AU** Hughes, Joseph P.; Lang, William L.; Mester, Loretta J.; Moon, Choon-Geol; Pagano, Michael S.

TI Do Bankers Sacrifice Value to Build Empires? Managerial Incentives, Industry Consolidation, and Financial Performance. **AU** Hughes, Joseph P.; Lang, William L.; Mester, Loretta J.; Moon, Choon-Geol; Pagano, Michael S.

Moore, Michael J.

TI Fixed versus Flexible: Lessons from EMS Order Flow.
AU Killeen, William P.; Lyons, Richard K.; Moore, Michael J.

Mora Sitja, Natalia

AB This paper examines labor's organization and labor's reward in Catalonia before the first Industrial Revolution. Using new quantitative evidence on urban wages, it first shows that agricultural and urban real wages did not decrease during the last five decades of the pre-industrial period, despite increasing commodity prices. Secondly, it performs an econometric test that shows that wage responses reflected a condition of labor market integration, with occupational and spatial mobility. New data on the characteristics of immigration in Barcelona have been assembled to reinforce previous findings, and to provide new information on the push factors that inclined laborers to migrate. The paper's aim is both to test issues long discussed in the literature on labor markets (taking Catalonia as the case study), and to provide new data that may help future research.

Mora, Jose V. Rodriguez

Morelli, Massimo

Morgan, John

AB Price comparison sites have become an increasingly popular way to shop online. Yet, even though consumers have complete access to the list of prices for identical products offered on these sites, persistent price dispersion has been widely observed. One important theoretical explanation for this phenomenon comes from clearinghouse models of price dispersion, such as Varian (1980). These models predict that price dispersion arises because of consumer heterogeneities-some consumers are "informed" and simply buy from the firm offering the lowest price while the remaining consumers are "captive" and shop based on considerations other than price. Using a simple clearinghouse model, we derive testable comparative static implications of changes in market structure on equilibrium pricing and then assess these implications in a laboratory experiment. As predicted, we find that an increase in the fraction of informed consumers leads to more competitive pricing for all consumers. In contrast, the theory predicts that an increase in the number of competing firms benefits informed consumers but hurts captive consumers. Surprisingly, we find that this counterintuitive comparative static prediction also holds in the data.

AB We study independent private value auctions where bidders have preferences over relative payoffs. We derive symmetric equilibria for four important auction forms: first-price, second-price, English, and Dutch. We find that equilibrium bidding is more aggressive than standard predictions. Indeed, in second-price auctions it is optimal to bid above one's valuation when bidders care about relative payoffs. Further, strategic equivalence between second-price and English auctions no longer holds; for all but the two highest-valued bidders, bidding is more aggressive in the second-price auction. Despite the fact that all the auctions we study are ex-post efficient, revenue equivalence also no longer holds -- English auctions always outperform second-price auctions. Finally, we find that bidding in first-price relative profit auctions is behaviorally equivalent to bidders having preferences exhibiting constant relative risk aversion.

Morley, James C.

Morris, Stephen

Mortensen, Dale T.

AB We explore the effects of taxes and subsidies on job creation, job destruction, employment and wages in the Mortensen-Pissarides version of the search and matching equilibrium framework. Results show that wage and employment subsidies increase employment and wages. A job creation or hiring subsidy reduces unemployment duration but increases incidence with an ambiguous effect on overall employment. A firing tax has the reverse effects but the same indeterminacy. In the special case of a competitive search equilibrium, in which search externalities are internalized, there is a first best configuration. The results are: no tax on the

wage, an employment subsidy that offsets the distortions on the job destruction margin induced by unemployment compensation and employment protection policy, as well as a hiring subsidy equal to the implicit tax on severance imposed by any form of employment protection. The costs of these and other policies are financed by a non-distortionary consumption tax. Computational experiments confirming this ideal also determine the direction in which marginal improvements can be made both in terms of efficiency and in terms of improving low skill worker employment and wage outcomes.

Motta, Massimo
TI Buyers' Coordination and Entry. AU Fumagalli, Chiara; Motta, Massimo.

Muellbauer, John
PD August 2001. TI Credit, the Stock Market and Oil: Forecasting US GDP. AU Muellbauer, John; Nunziata, Luca. AA Muellbauer: Nuffield College, University of Oxford and CEPR. Nunziata: Universita degli Studi di Milano and Nuffield College, University of Oxford. SR CEPR Discussion Paper: 2906; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE E32, E37, E63. KW Lucas Critique. Macroeconomic Forecasts. Policy Transmission. Oil Prices. Credit Channel.
AB We derive a comprehensive one-year ahead forecasting model of US per capita GDP for 1955-2000, collectively examining variables usually considered singly, e.g. interest rates, credit conditions, the stock market, oil prices and the yield gap, of which all, except the last, are found to matter. The credit conditions index is measured in the Federal Reserve's Survey of Senior Loan Officers and its importance is consistent with a "financial accelerator" view. The balance of payments, exchange rate and fiscal policy also play a role. We address the Lucas critique, investigating consequences of monetary policy regime shifts in 1980, and fiscal policy regime shifts at the end of the 1980's. The model forecasts in 2001 the most severe growth reversal since 1974.

Mullen, John D.
TI The Incidence of Gains and Taxes Associated with R&D and Promotion in the Australian Beef Industry. AU Griffith, Garry R.; Griffiths, William E.; Mullen, John D.; Piggott, Roley R.; Zhao, Xueyan.

TI The Incidence of Gains and Taxes Associated with R&D and Promotion in the Australian Beef Industry. AU Griffith, Garry R.; Griffiths, William E.; Mullen, John D.; Piggott, Roley R.; Zhao, Xueyan.

Murphy, Alan
TI Do Multinational Enterprises Substitute Parent Jobs for Foreign Ones? Evidence from European Firm Level Panel Data. AU Konings, Jozef; Murphy, Alan.

Murphy, Kevin M.
TI Economic Perspectives on Software Design: PC Operating Systems and Platforms. AU Davis, Steven J.; MacCrisken, Jack; Murphy, Kevin M.

TI Entry, Pricing and Product Design in an Initially Monopolized Market. AU Davis, Steven J.; Murphy, Kevin

M.; Topel, Robert H.

Mwai, Okeyo A.
TI Economic Analysis of Crossbreeding Programmes in Sub-Saharan Africa: A Conceptual Framework and Kenyan Case Study. AU Karugia, Joseph T.; Mwai, Okeyo A.; Kaitho, Robert; Drucker, Adam G.; Wollny, Clemens B. A.; Rege, J. Edward.

Nakajima, Makoto
TI A Quantitative Theory of Unsecured Consumer Credit with Risk of Default. AU Chatterjee, Satyajit; Corbae, Dean; Nakajima, Makoto; Rios-Rull, Jose-Victor.

Nakamura, Leonard I.
PD October 2001. TI What is the U.S. Gross Investment in Intangibles? (At Least) One Trillion Dollars a Year! AA Federal Reserve Bank of Philadelphia. SR Federal Reserve Bank of Philadelphia Research Working Paper: 01/15; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. PG 27. PR no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE E22, M31, M37. KW Intangible Investment. Electronics Revolution.
AB This paper argues that the rate of intangible investment -- investment in the development and marketing of new products -- accelerated in the wake of the electronics revolution in the 1970s. The paper presents preliminary direct and indirect empirical evidence that US private firms currently invest at least $1 trillion annually in intangibles. This rate of investment roughly equals US gross investment in nonresidential tangible assets. It also suggests that the capital stock of intangibles in the US has an equilibrium market value of at least $5 trillion.

Neal, Derek
PD October 2001. TI The Economics of Family Structure. AA University of Wisconsin and NBER. SR National Bureau of Economic Research Working Paper: 8519; National Bureau of Economic Research, 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 the U.S.). JE I38, J10, J11, J12. KW Family Structure. Marriage. Single Motherhood. Welfare.
AB Literature in demographic history documents clear relationships between the supply of men with stable earnings and marriage rates among women. Wilson (1987) reasons that because single motherhood is an alternative to traditional marriage, circumstances that impede marriage should also encourage single motherhood. However, few studies provide evidence that the supply of marriageable men affects single parenting rates among women in any significant way. To address this puzzle, this paper presents a model based on a specific version of Wilson's hypothesis. The model demonstrates how previous studies based on various regression methods may have misstated the actual relationship between declining marriage market prospects and the prevalence of never-married mothers. Much of the existing literature frames the expansion of welfare and decreasing supplies of marriageable men as two competing explanations for the rise in single motherhood, but the model developed here shows that

the interaction between these two factors may be crucial for understanding the demographic trends we observe.

Neely, Christopher J.
PD May 2002. **TI** How Well Do Monetary Fundamentals Forecast Exchange Rates? **AU** Neely, Christopher J.; Sarno, Lucio. **AA** Neely: Federal Reserve Bank of St. Louis. Sarno: University of Warwick and Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/007A; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. **PG** 37. **PR** no charge. **JE** C53. F31, F47. **KW** Exchange Rate. Forecast. Monetary Model. Out of Sample. Bootstrapping. Cointegration.
AB For many years after the seminal work of the Meese and Rogoff (1983a), conventional wisdom held that exchange rates could not be forecast from monetary fundamentals. Monetary models of exchange rate determination were generally unable to beat even a naive no-change model in out-of-sample forecasting. More recently, the use of sophisticated econometric techniques, panel data, and long spans of data has convinced some researchers (Mark and Sul, 2001) that monetary models can forecast a small, but statistically significant part of the variation in exchange rates. Others remain skeptical, however (Rapach and Wohar, 2001b; Faust, Rogers, and Wright, 2001). It remains a puzzle why even the most supportive studies find such a small predictable component to exchange rates. This article reviews the literature on forecasting exchange rates with monetary fundamentals and speculates as to why it remains so difficult.

Neiss, Katharine
PD June 2001. **TI** The Real Interest Rate Gap as an Inflation Indicator. **AU** Neiss, Katharine; Nelson, Edward. **AA** Bank of England. **SR** CEPR Discussion Paper: 2848; 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, E43, E52. **KW** Inflation. Monetary Policy. Natural Interest Rate. Real Interest Rate Gap.
AB A long-standing area of research and policy interest has been the construction of a measure of monetary policy stance. One measure that has been proposed -- as an alternative to indices that employ monetary aggregates or exchange rates -- is the spread between the actual real interest rate and its flexible-price, or natural-rate, counterpart. We examine the properties of the natural real interest rate and "real interest rate gap" using a dynamic stochastic general equilibrium model. Issues we investigate include: (1) the response of the gap and its components to fundamental economic shocks; and (2) the indicator and forecasting properties of the real interest rate gap for inflation, both in the model and in the data. Our results suggest that the real interest rate gap has value as an inflation indicator, supporting the "neo-Wicksellian framework" advocated by Woodford (2000).

Nelson, Charles
TI The Less Volatile U.S. Economy: A Bayesian Investigation of Timing, Breadth and Potential Explanations. **AU** Kim, Chang-Jin; Nelson, Charles; Piger, Jeremy.

Nelson, Edward
TI The Real Interest Rate Gap as an Inflation Indicator. **AU** Neiss, Katharine; Nelson, Edward.

PD October 2001. **TI** UK Inflation in the 1970s and 1980s: The Role of Output Gap Mismeasurement. **AU** Nelson, Edward; Nikolov, Kalen. **AA** Nelson: Bank of England and CEPR. Nikolov: Bank of England. **SR** CEPR Discussion Paper: 2999; 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, E58. **KW** Inflation Targeting. Output Gap. Potential Output.
AB Understanding the degree of measurement error in the estimates of the output gap available to policymakers in "real time" is important both for the formulation of monetary policy and for the study of inflation behavior. For the United Kingdom, no official output gap series was published for most of the period 1965-2000. An approximate series can, however, be deduced from analysis of statistical releases and policymakers' statements. On this basis, we construct a real-time UK output gap series for 1965-2000. We find that monetary policy errors due to output gap mismeasurement contributed approximately 3.0 to 7.1 percentage points to average UK inflation in the 1970s and 0.7 to 5.5 percentage points to inflation in the 1980s.

Neuhoff, Karsten
TI Use of Long-Term Auctions for Network Investment. **AU** McDaniel, Tanga; Neuhoff, Karsten.

PD May 2002. **TI** Optimal Congestion Treatment for Bilateral Electricity Trading. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0214(CMI05); Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 26. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D43, D61, L94. **KW** Electricity. Networks. Constraint Management. Market Design. Bilateral Trading.
AB How to treat transmission constraints in electricity markets that are not based on a pool but on bilateral trading? Three approaches are currently discussed: First, the system operator resolves constraints and socializes costs; second, physical transmission contracts; third, locational charging with the option of financial hedging. Socialization of costs for constraint resolution results in inefficient dispatch and incorrect incentives for investment in generation. Physical contracts and locational charging designs have identical properties in a very simplified model world, but differ if transaction costs, illiquid markets and uncertainty about demand are considered. Physical transmission contracts are best designed as zonal access rights, but have to be centrally administered to be efficient. Only locational charging can cope with uncertainty and volatility of electricity demand efficiently and non-discriminatory. Qualitative arguments allow ranking of designs involving physical contracts and locational charging. Comparison with a system operator socializing costs requires network specific analysis.

TI Allocating Transmission to Mitigate Market Power in Electricity Networks. **AU** Gilbert, Richard; Neuhoff, Karsten; Newbery, David M.

TI Auctions to Gas Transmission Access: The British Experience. **AU** McDaniel, Tanga; Neuhoff, Karsten.

Neuman, Shoshana

AB There is a considerable empirical literature which compares wage levels of workers who have studied at secondary vocational schools with wages of workers who took academic schooling. In general, vocational education does not lead to higher wages. In some countries where labor markets are characterized by employment growth, skill shortages and a good match between vocational skills and available jobs, the record of vocational schooling has been more positive. Israel constitutes a case in point. Little attention has been given to examining the success of vocational education in raising the wages of various sub-sections of the labor force, in particular of minorities and disadvantaged groups. In this paper, we examine the efficacy of vocational education in raising the wage levels of four such groups: recent immigrants, Jews of Eastern origin, Israeli Arabs and females. The results are mixed, differing from group to group, thus justifying our approach of examining the impact of vocational schooling on finer breakdowns of the population of secondary school completers.

Neumark, David

AB Living wage laws, which were introduced in the mid-1990s and have expanded rapidly since then, are typically touted as anti-poverty measures. Yet they frequently restrict coverage to employers with city contracts, and in such cases apply to a small fraction of workers. This paper considers the hypothesis that unions representing municipal employees work for the implementation of living wage laws to maintain or increase rents. The empirical analysis leads to evidence that the wages of unionized municipal workers are increased as a result of living wages. This evidence does not imply that living wages offer no assistance to low-wage workers or low-income families. However, it suggests that alternative policies intended to achieve the goal of reducing urban poverty may be more effective, as living wage laws may result more from considerations of self-interest of narrow but politically-powerful groups of workers than from consideration of the optimal way of achieving this goal.

Neumeyer, Pablo

TI The Time Consistency of Monetary and Fiscal Policies.

AU Alvarez, Fernando; Kehoe, Patrick J.; Neumeyer, Pablo.

Newbery, David M.

AB The electricity supply industry is highly capital-intensive, whose success depends critically upon the management of its investment. In most developing countries investment is poorly managed, poorly maintained, and often inadequate. Inadequate regulation or political control leads to low prices that undermine the finance of investment and give poor incentives for management and operation. The paper argues that regulation must be carefully designed to provide efficient incentives and adequate guarantees to sustain investment and operations and only then will privatization improve performance and benefit consumers. The paper discusses the evidence for these claims, the circumstances required for full unbundling and liberalization to be successful, and those where the Single Buyer Model or continued, ideally reformed, state ownership, may be preferable, at least until conditions improve.

TI Allocating Transmission to Mitigate Market Power in Electricity Networks. **AU** Gilbert, Richard; Neuhoff, Karsten; Newbery, David M.

AB The European Commission proposed to reform the Electricity and Gas Directives to improve access to transmission, increase cross-border capacity, and fully open the electricity and gas markets. Providing adequate reserve capacity is risky in a competitive wholesale electricity market without suitable contracts, and unattractive to oligopolists unless they face a credible entry threat from Independent Power Producers (IPPs). Ending the domestic franchise could remove the counterparty for the contracts required for adequate investment to sustain competitive pricing. Gas liberalization is key to making electricity markets contestable and reducing pressures on scarce electricity interconnection capacity. Environmental concerns increase uncertainty and further deter entry, while raising other policy issues that need to be addressed. Much of the European Union lacks the necessary legislative and regulatory power to mitigate generator market power. Unless markets are made more contestable, transmission capacity expanded and adequate generation capacity ensured, liberalization may lead to higher prices.

PD November 2002. **TI** Auctions and Trading in Energy Markets -- An Economic Analysis. **AU** Newbery, David M.;

McDaniel, Tanga. AA University of Cambridge. SR University of Cambridge, DAE Working Paper: 0233(CMI15); Department of Applied Economics, University of Cambridge. Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 24. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE D44, L51, L94, L95. KW Auctions. Electricity. Gas. Interconnectors. Networks. England. Wales.
AB Auctions are playing an increasingly prominent role in the planning and operation of energy markets. Comparing the New Electricity Trading Arrangements to the former electricity Pool in England and Wales requires some analysis of the relative merits of uniform versus discriminatory pricing rules, and use of the gas network in Britain and electricity interconnectors around Europe is allocated on the basis of auction results. In this paper we discuss the changes in the trading arrangements in the electricity industry in England and Wales as well as some of the results to date. We also look at the wider issue of using auctions to replace regulation by market solutions for managing the natural monopolies in energy markets.

Newhouse, Joseph P.
PD October 2001. TI Medicare Policy in the 1990s. AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 8531; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge. MA 02138-5398. Website: www.nber.org. PG 65. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE H51, I10, I11, I18. KW Medicare Policy. Price Systems. Medical Markets.
AB This paper describes several changes to Medicare in the 1990s, their rationale. and their likely effects. It focuses principally on issues in the administered price systems Medicare uses to pay medical providers, especially those used for post-acute care providers, Health Maintenance Organizations (HMOs), and physicians. The changes to these systems in the 1990s, although directed at important problems, have introduced new and serious problems of their own. For example, the post-acute care system now pays different amounts for the same service, depending on the site of care, and the HMO system is on a trajectory to pay substantially less than traditional Medicare in high rate areas and more in low rate areas, thereby unbalancing local medical markets. This paper considers future directions for the program, including its long-term financing and a prescription drug benefit.

Nicholson, Sean
PD October 2001. TI Physician Income Expectations and Specialty Choice. AU Nicholson, Sean; Souleles, Nicholas S. AA Nicholson: University of Pennsylvania. Souleles: University of Pennsylvania and NBER. SR National Bureau of Economic Research Working Paper: 8536; 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 D84, I11, J30, J44. KW Expectations. Income. Medical Students. Health Market.
AB In spite of the important role of income expectations in economics; economists know little about how people actually form these expectations. We use a unique data set that contains the explicit income expectations of medical students over a 25-year time period to examine how students form income expectations. We examine whether students condition their expectation on their own ability, contemporaneous physician income, and the ex-post income of physicians in their medical school cohort. We then test whether a model that uses the students' explicit income expectations to predict their specialty choices has a better fit than a model that assumes income expectations are formed statically, and a model that bases income expectations on ex-post income.

Nikolov, Kalen
TI UK Inflation in the 1970s and 1980s: The Role of Output Gap Mismeasurement. AU Nelson, Edward; Nikolov, Kalen.

Nolan, Charles
TI Inflation and Price Level Targeting in a New Keynesian Model. AU Chadha, Jagjit S.; Nolan, Charles.

TI Output, Inflation and the New Keynesian Phillips Curve. AU Chadha, Jagjit S.; Nolan, Charles.

TI Optimal Simple Rules for the Conduct of Monetary and Fiscal Policy. AU Chadha, Jagjit S.; Nolan, Charles.

Norman, Victor D.
PD October 2001. TI Industrial Clusters: Equilibrium, Welfare and Policy. AU Norman, Victor D.; Venables, Anthony J. AA Norman: Norwegian School of Economics and Business Administration. Venables: London School of Economics. SR CEPR Discussion Paper: 3004; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE F10, F12. KW Clusters. Increasing Returns. Industrial Policy. Trade. Welfare.
AB This paper studies the size and number of industrial clusters that will arise in a multi-country world in which one sector has a propensity to cluster because of increasing returns to scale. It compares the equilibrium with the world welfare maximum, showing that the equilibrium will generally have clusters that are too small, while there are possibly too many countries with a cluster. Allowing national governments to subsidize will move the equilibrium to the world welfare maximum, so there is no 'race to the bottom'. If subsidy rates were capped then there would be a proliferation of too many and too small clusters.

Nunziata, Luca
TI Credit, the Stock Market and Oil: Forecasting US GDP. AU Muellbauer, John; Nunziata, Luca.

Nyland, Chris
TI How Do Multinationals Build Social Capital? AU Jones, Ian; Nyland, Chris; Pollitt, Michael G.

O'Malley, Patrick M.
TI Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis. AU Tauras, John A.; Johnston, Lloyd D.; O'Malley, Patrick M.

Obstfeld, Maurice
PD June 2001. TI Global Implications of Self-Orientated National Monetary Rules. AU Obstfeld, Maurice; Rogoff, Kenneth. AA Obstfeld: University of California, Berkeley

and CEPR. Rogoff: Princeton University. **SR** CEPR Discussion Paper: 2856; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E42, F33, F42. **KW** International Policy Coordination. Monetary Institutions. Monetary Policy Rules.
AB It is well known that if international linkages are relatively small, the potential gains to international monetary policy coordination are typically quite limited. What if, however, goods and financial markets are tightly linked? Is it then problematic if countries unilaterally design their institutions for monetary stabilization? Are the stabilization gains from having separate currencies largely squandered in the absence of effective international monetary coordination? We argue that under plausible assumptions the answer is no. Unless risk aversion is very high, lack of coordination in rule setting is a second-order problem compared to the overall gains from monetary policy stabilization.

Offer, Avner
PD January 2000. **TI** Economic Welfare Measurements and Human Well-Being. **AA** University of Oxford. **SR** University of Oxford, Discussion Papers in Economic and Social History: 34; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. **PG** 29. **PR** no charge. **JE** I31, N30, O11, P17. **KW** Welfare. Well-Being. GDP. National Accounts. Social Indicators.
AB GDP per head is not only an economic indicator, but is widely used as a welfare indicator. This use not well founded in economic theory. The paper compares income per head with three groups of alternative indicators: "extended national accounts", social indicators, and indicators of subjective well-being. All of these methods indicate a decline in the welfare productivity of GDP goods over time.

PD March 2002. **TI** Why Has the Public Sector Grown So Large in Market Societies? The Political Economy of Prudence in the UK, c.1870-2000. **AA** University of Oxford. **SR** University of Oxford, Discussion Papers in Economic and Social History: 44; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. **PG** 31. **PR** no charge. **JE** H11, H40, H54, N34. **KW** Public Sector. Prudence. Investment. Consumption. Privatization.
AB The public sector allocates 40 percent of expenditure in Britain. Why do affluent consumers acquire so much welfare outside the market? If choice is affected by myopic bias, optimization is costly, consumer choice is fallible, and collective consumption provides a "commitment device". For a century after 1870, collective investment gave superior payoffs, and collective consumption grew faster than the economy. Public/private standoffs were resolved against entrepreneurs. By the 1970s, prudential saturation set in, as public investment soared. Rising incomes, new goods, and falling prices shifted consumer preferences towards market provision, and crowded out the public sector. This shift supported investor capture of government, privatization and de-regulation. Consumer expenditure increased, while prudential investment declined sharply. In consequence, Victorian-style public/private standoffs have emerged again, with prudential crises in pensions, education, health, communications, and transport. These will need to be resolved once again by means of political

competition.

Ohanian, Lee E.
TI The Great U.K. Depression: A Puzzle and Possible Resolution. **AU** Cole, Harold L.; Ohanian, Lee E.

Ok, Efe A.
TI Mobility as Progressivity: Ranking Income Processes According to Equality of Opportunity. **AU** Benabou, Roland; Ok, Efe A.

Olarreaga, Marcelo
TI Mark-Ups, Entry Regulation and Trade: Does Country Size Matter? **AU** Hoekman, Bernard; Kee, Hiau Looi; Olarreaga, Marcelo.

Ongena, Steven
TI On the Sequencing of Projects, Reputation Building, and Relationship Finance. **AU** Egli, Dominik; Ongena, Steven; Smith, David C.

TI To What Extent Will the Banking Industry be Globalized? A Study of Bank Nationality and Reach in 20 European Nations. **AU** Berger, Allen N.; Dai, Qinglei; Ongena, Steven; Smith, David C.

Orbay, Hakan
TI Hierarchy Size and Environmental Uncertainty. **AU** Meagher, Kieron; Orbay, Hakan; Van Zandt, Timothy.

Ord, J. Keith
TI Prediction Intervals for Exponential Smoothing State Space Models. **AU** Hyndman, Rob J.; Koehler, Anne B.; Ord, J. Keith; Snyder, Ralph D.

TI Exponential Smoothing for Inventory Control: Means and Variances of Lead-Time Demand. **AU** Hyndman, Rob J.; Koehler, Anne B.; Ord, J. Keith; Snyder, Ralph D.

Ordonez de Haro, Jose-Manuel
TI Divisionalization in Vertical Structures. **AU** Bru, Luis; Ordonez de Haro, Jose-Manuel; Fauli-Oller, Ramon.

Orphanides, Athanasios
PD May 2002. **TI** Imperfect Knowledge, Inflation Expectations, and Monetary Policy. **AU** Orphanides, Athanasios; Williams, John C. **AA** Orphanides: Board of Governors of the Federal Reserve System. Williams: Federal Reserve Bank of San Francisco. **SR** Federal Reserve Bank of San Francisco Economic Research Department Working Paper: 2002/04; Working Papers Coordinator, Mail Stop 1130, Economic Research Department, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA 94120. Website: www.frbsf.org/publications/economics/papers/index.html. **PG** 35. **PR** no charge. **JE** D83, E52, E58. **KW** Inflation Targeting. Policy Rules. Rational Expectations. Learning. Inflation Persistence.
AB This paper investigates the role of imperfect knowledge about the structure of the economy in the formation of expectations, macroeconomic dynamics, and the efficient formulation of monetary policy. Economic agents rely on an adaptive learning technology to form expectations and continuously update their beliefs regarding the dynamic

structure of the economy. The process of perpetual learning introduces an additional layer of dynamic interactions between monetary policy and economic outcomes. We find that policies that would be efficient under rational expectations can perform poorly when knowledge is imperfect. In particular, policies that fail to maintain tight control over inflation are prone to episodes in which the public's expectations of inflation become uncoupled from the policy objective and stagflation results, in a pattern similar to that experienced in the United States during the 1970s. We show that policy should respond more aggressively to inflation under imperfect knowledge than under perfect knowledge.

Ortalo-Magne, Francois

PD October 2001. **TI** Housing Market Dynamics: On the Contribution of Income Shocks and Credit Constraints. **AU** Ortalo-Magne, Francois; Rady, Sven. **AA** Ortalo-Magne: London School of Economics and CEPR. Rady: Universitat Munchen. **SR** CEPR Discussion Paper: 3015; Centre for Economic Policy Research. Discussion Paper Orders. 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** E32, G12, G21, R21. **KW** Credit Constraints. Financial Liberalization. Housing Prices. Income Shocks. Overlapping Generations.
AB This paper presents a dynamic theory of housing market fluctuations. It develops a life-cycle model where households are heterogeneous with respect to income and preferences, and mortgage lending is restricted by a down-payment requirement. The market interaction of young credit- constrained households with older or richer unconstrained households generates the following results. (1) Current income of young credit-constrained households affects housing prices independently of aggregate income. (2) Housing prices and the number of housing transactions are positively correlated. (3) Housing prices over-react to income shocks. (4) A relaxation of the down-payment constraint triggers a boom-bust cycle. These results are consistent with patterns observed in the US and the UK.

Orzen, Henrik

TI An Experimental Study of Price Dispersion. **AU** Morgan, John; Orzen, Henrik; Sefton, Martin.

Ottaviano, Gianmarco I. P.

TI The District and the Global Economy: Exporting versus Foreign Location. **AU** Basevi, Giorgio; Ottaviano, Gianmarco I. P.

Overman, Henry

PD September 2001. **TI** The Economic Geography of Trade Production and Income: A Survey of Empirics. **AU** Overman, Henry; Redding, Stephen; Venables, Anthony J. **AA** Overman and Venables: University of London and CEPR. Redding: London School of Economics and CEPR. **SR** CEPR Discussion Paper: 2978; Centre for Economic Policy Research. Discussion Paper Orders, 90-98 Goswell Road. London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F12, R12. **KW** Economic Geography. Income Inequality. International Trade. Location of Production. Trade Flows.
AB This paper surveys the empirical literature on the economic geography of trade flows, factor prices, and the location of production. The discussion is structured around the empirical predictions of a canonical theoretical model. We review empirical evidence on the determinants of trade costs and the effects of these costs on trade flows. Geography is a major determinant of factor prices, and access to foreign markets alone is shown to explain some 35 percent of the cross-country variation in per capita income. The paper documents empirical findings of home market (or magnification) effects, suggesting that imperfectly competitive industries are drawn more than proportionately to locations with good market access. Sub-national evidence establishes the presence of industrial clustering, and we examine the roles played by product market linkages to customer and supplier firms, knowledge spillovers, and labor market externalities.

Oxenbridge, Sarah

PD September 2001. **TI** Collective Employee Representation and the Impact of Law: Initial Response to the Employment Relations Act 1999. **AU** Oxenbridge, Sarah; Deakin, Simon; Brown, William; Pratten, Cliff. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP206; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 23. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** J51, J53, K31. **KW** Collective Bargaining. Employment Representation. Trade Unions. Union Recognition.
AB Using interview data from managers and trade union officials, this paper examines how trade unions and employers have reacted to the introduction of the statutory procedure for union recognition in the Employment Relations Act 1999. The Act has had a substantial effect in shifting the balance of employer attitudes towards greater approval of trade unions and has accelerated the rate at which employers are redesigning their relationships with unions. The article explores the impact of such changes on trade union activity and collective representation more broadly.

Pacula, Rosalie Liccardo

TI Alcohol and Marijuana Use Among College Students: *Economic Complements or Substitutes?* **AU** Chaloupka, Frank J.; Pacula, Rosalie Liccardo; Wechsler, Henry; Williams, Jenny.

Park, Jee-Hyeong

TI *Dynamic Pricing in the Presence of Antidumping Policy:* Theory and Evidence. **AU** Blonigen, Bruce A.; Park, Jee-Hyeong.

Parsley, David C.

PD September 2001. **TI** Limiting Currency Volatility to Stimulate Goods Market Integration: A Price Based Approach. **AU** Parsley, David C.; Wei, Shang-Jin. **AA** Parsley: Vanderbilt University and Hong Kong Institute for Monetary Research. Wei: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8468; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 18. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** F15, F31, F33, F36.

KW Currency Volatility. Exchange Rate Stability.
AB This paper empirically studies the effect of instrumental and institutional stabilization of the exchange rate on the integration of goods markets. An instrumental stabilization of the exchange rate is accomplished through intervention in the foreign exchange market, or by monetary policies. An institutional stabilization, is an adoption a currency board or a common currency. In contrast to the literature that employs data on the volume of trade, an important novelty of this paper is the use of a 3-dimensional panel of prices of 95 very disaggregated goods (e.g., light bulbs) in 83 cities from around the world from 1990 to 2000. We find that goods market integration is increasing over time and is inversely related to distance, exchange rate variability, and tariff barriers. In addition, the impact of an institutional stabilization of the exchange rate provides a stimulus to goods market integration that goes far beyond an instrumental stabilization. Among the institutional arrangements, long-term currency unions demonstrate greater integration than more recent currency boards. All of them can improve their integration further relative to a U.S. benchmark.

PD September 2001. TI Limiting Currency Volatility to Stimulate Goods Market Integration: A Price-Based Approach. AU Parsley, David C.; Wei, Shang-Jin. AA Parsley: Vanderbilt University. Wei: The Brookings Institution. SR CEPR Discussion Paper: 2958; 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 F15, F31, F33, F36. KW Currency Union. Dollarization. Hard Pegs. Market Integration.
AB This paper empirically studies the effect of instrumental and institutional stabilization of the exchange rate on the integration of goods markets. An instrumental stabilization of the exchange rate is accomplished through intervention in the foreign exchange market, or by monetary policies. An institutional stabilization is an adoption of a currency board or a common currency. In contrast to the literature that employs data on the volume of trade, an important novelty of this paper is the use of a 3-dimensional panel of prices of 95 very disaggregated goods (e.g., light bulbs) in 83 cities from around the world from 1990- 2000. We find that goods market integration is increasing over time and is inversely related to distance, exchange rate variability, and tariff barriers. In addition, the impact of an institutional stabilization of the exchange rate provides a stimulus to goods market integration that goes far beyond an instrumental stabilization. Among the institutional arrangements, long-term currency unions demonstrate greater integration than more recent currency boards. All of them can improve their integration further relative to a US benchmark.

Parsons, George R.
TI Modeling Consumer Demand for a Large Set of Quality Differentiated Goods: Estimation and Welfare Results from a Systems Approach. AU von Haefen, Roger H.; Phaneuf, Daniel J.; Parsons, George R.

Paterson, John
PD June 2001. TI Corporate Governance: The Limits of Rationality and Proceduralisation. AA University of Westminster. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP198; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. PG 40. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE G30, K12, K22. KW Corporate Governance. Stakeholder. Rationality. Incomplete Contracts. Autopoiesis.
AB A striking feature of theorizing about corporate governance, whether from the perspective of economics or in terms of a stakeholder model of the company, is that even quite basic questions posed at the outset remain to be answered. Thus, in the case of economic theorizing about the firm, it has been said that findings to date must be seen as provisional in the absence of an adequate account of why contracts are incomplete. Similarly, in stakeholder theorizing, the pressing problem has been identified as one of detailing the rights and responsibilities of the various stakeholders and of suggesting how conflicts among the different groups can be resolved. In view of the obstacles encountered by traditional approaches, a range of alternatives from both law and economics is considered which may be described as procedural theories. Including conventionalist economics and autopoiesis, these alternative theories are seen to offer tantalizing possibilities of answering some of the questions currently confronting traditional approaches. Much work, however, remains to be done if this potential is to be fulfilled.

Paxson, Christina
TI Mortality, Income, and Income Inequality Over Time in Britain and the United States. AU Deaton, Angus; Paxson, Christina.

Pearson, Kenneth R.
TI Cobb-Douglas Utility -- Eventually! AU McLaren, Keith R.; Pearson, Kenneth R.; Powell, Alan A.; Rimmer, Maureen T.

Perotti, Enrico C.
PD December 2001. TI Confidence Building in Emerging Stock Markets. AU Perotti, Enrico C.; Laeven, Luc. AA Perotti: University of Amsterdam and CEPR. Laeven: World Bank. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2001/101; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it. PG 40. PR no charge; available only on website. JE F13, G15, L33. KW International Finance. Privatization. Financial Liberalization.
AB Investor confidence is a necessary condition for the development of emerging markets. Investors recognize that since market-oriented reform policies may be reversed or hindered, they face the risk of ex post policy changes with redistributive impact on investment returns. We argue that a sustained privatization or liberalization program represents a major test of political commitment, and contributes to reduced policy risk. The evidence from our panel study suggests that progress in privatization gradually leads to increased confidence. Moreover, increased confidence has a strong effect on local market development and is a significant determinant of excess returns. We conclude that, just as financial liberalization, the resolution of policy risk resulting from successful privatization has been an important source for the broadening and deepening of emerging stock markets.

Perri, Fabrizio
TI Competitive Equilibria With Limited Enforcement.
AU Kehoe, Patrick J.; Perri, Fabrizio.

Perry, Craig William
PD June 2001. TI The Self-Employed are Less Likely to have Health Insurance Than Wage Earners: So What? AU Perry, Craig William; Rosen, Harvey S. AA Perry: Princeton University Investment Co. Rosen: Princeton University and NBER. SR National Bureau of Economic Research Working Paper: 8316; National Bureau of Economic Research, 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 the U.S.). JE I11, I12, J21, J23. KW Self-Employed. Health Insurance. Wage-Earners.

AB There is considerable public policy concern over the relatively low rates of health insurance coverage among the self-employed in the United States. Presumably, the reason for the concern is that their low rates of insurance lead to worse health outcomes. We use data from the Medical Expenditure Panel Survey conducted in 1996 to analyze how the self-employed and wage-earners differ with respect to insurance coverage and health status. Using a variety of ways to measure health status, we find that the relative lack of health insurance among the self-employed does not affect their health. For virtually every subjective and objective measure of health status, the self-employed and wage earners are statistically indistinguishable from each other. Further, we present some evidence that this phenomenon is not due to the fact that individuals who select into self-employment are healthier than wage-earners, ceteris paribus. Thus, the public policy concern with the relative lack of health insurance among the self-employed may be somewhat misplaced.

PD September 2001. TI Insurance and the Utilization of Medical Services Among the Self- Employed. AU Perry, Craig William; Rosen, Harvey S. AA Perry: Princeton University Investment Co. Rosen: Princeton University and NBER. SR National Bureau of Economic Research Working Paper: 8490; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 27. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE I11, I12. KW Health Care. Self-Employed. Health Insurance. Medical Service Usage.

AB We use data from the medical Expenditure Panel Survey conducted in 1996 to analyze how the self-employed and wage-earners differ both with respect to insurance coverage and utilization of a variety of health care services. Our results suggest that for the self-employed, the link between insurance and utilization of health care services is not as strong as assumed in the policy debate. For a number of medical care services, the self-employed have the same rates of utilization as wage- earners, despite the fact that they are substantially less likely to be insured. And when the self-employed are less likely than wage-earners to utilize a particular medial service, the differences generally do not seem very large. The self-employed thus appear to be able to finance access to health care from sources other than insurance. Further, analysis of out-of-pocket expenditures on health care suggests that doing so doe not lead to substantial reductions in their ability to consume other goods and services.

Persico, Nicola
TI The Incentive Effects of Interim Performance Evaluations. AU Lizzeri, Alessandro; Meyer, Margaret A.; Persico, Nicola.

Perugini, Francesco
TI The Observational Equivalence of Taylor Rule and Taylor-Type Rules. AU Minford, Patrick; Perugini, Francesco; Srinivasan, Naveen.

Pesendorfer, Martin
TI Information Structures in Optimal Auctions. AU Bergemann, Dirk; Pesendorfer, Martin.

Pesendorfer, Wolfgang
PD August 2000. TI Second Opinions and Price Competition: Inefficiency in the Market for Expert Advice. AU Pesendorfer, Wolfgang; Wolinsky, Asher. AA Pesendorfer: Princeton University. Wolinsky: Northwestern University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1306; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 21. PR $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. JE D61, D82. KW Price Competition. Expert Opinion. Expert Advice.

AB We analyze a market where the consumer must rely on experts to identify the correct type of service. Medical services, repair services and various types of consulting and advisory services belong to this broad category. Our focus is on situations where the diagnosis of the consumer's needs is costly and the expert's effort is unobservable. We develop a model where experts offer competing contracts and the consumer may gather multiple opinions. We explore the incentives that a competitive sampling of prices and opinions provides for experts to exert effort and find that there is a tension between price competition and the quality of the advice provided in equilibrium. The equilibrium fails to realize the second best welfare optimum. On the other hand, limiting price competition via price control increases total welfare.

Petrin, Amil
TI The Consumer Gains from Direct Broadcast Satellites and the Competition with Cable Television. AU Goolsbee, Austan; Petrin, Amil.

Phaneuf, Daniel J.
TI Modeling Consumer Demand for a Large Set of Quality Differentiated Goods: Estimation and Welfare Results from a Systems Approach. AU von Haefen, Roger H.; Phaneuf, Daniel J.; Parsons, George R.

Piger, Jeremy
TI The Less Volatile U.S. Economy: A Bayesian Investigation of Timing, Breadth and Potential Explanations. AU Kim, Chang-Jin; Nelson, Charles; Piger, Jeremy.

TI A Markov-Switching Model of Business Cycle Dynamics with a Post- Recession "Bounce-Back" Effect. AU Kim, Chang-Jin; Morley, James C.; Piger, Jeremy.

Piketty, Thomas

AB   This paper presents new homogeneous series on top shares of income and wages from 1913 to 1998 in the US using individual tax returns data. Top income and wages shares display a U-shaped pattern over the century. Our series suggest that the "technical change" view of inequality dynamics cannot fully account for the observed facts. The large shocks that capital owners experienced during the Great Depression and World War II seem to have had a permanent effect: top capital incomes are still lower in the late 1990s than before World War I. A plausible explanation is that steep progressive taxation, by reducing drastically the rate of wealth accumulation at the top of the distribution, has prevented large fortunes to recover fully yet from these shocks. The evidence on wage inequality shows that top wages shares were flat before WWII and dropped precipitously during the war. Top wage shares have started recovering from this shock since the 1960s-1970s and are now higher than before WWII. We emphasize the role of social norms as a potential explanation for the pattern of wage shares.

Pinkston, Joshua C.

AB   This paper develops and tests a unique model asymmetric employer learning. The previous literature on asymmetric learning assumes that a worker's employer is perfectly informed while outside firms possess only public information. This paper relaxes that assumption, allowing firms to profitably bid for employed workers under conditions that were not profitable in previous models. The model in this paper is the first in the literature to predict either wage growth without promotions or mobility between firms without firm- or match-specific productivity. The bidding through which firms compete for a worker produces a sequence of wages that converges to the current employer's conditional expectation of the worker's productivity. This convergence of wages allows the model to be tested using an extension of existing work on employer learning. Wage regressions estimated on a sample of men from the NLSY produce strong evidence of asymmetric learning.

Piskorski, Tomasz

Pissarides, Christopher

Pitrun, Ivet

Polan, Magdalena

Pollitt, Michael G.

Portes, Richard

AB   This paper analyses the issues raised by EMU for the relationships between the Euro area and the international financial system. The depreciation of the Euro exchange rate since the beginning of EMU has attracted most attention. The paper argues that theory and the data support none of the conventional explanations and that a substantial appreciation will be required to bring the rate to a sustainable long- run equilibrium. It discusses exchange-rate intervention and suggests that the authorities should take a more active policy stance. The paper assesses the role of the Euro as an international currency and the underlying developments in the capital markets and foreign exchange markets. It concludes with discussion of policies towards the international role of the Euro, in areas such as: data needs; financial market developments; euroization; EMU and the international financial architecture; and the role of the Euro Group of finance ministers.

AB This paper begins with a discussion of the relation between economics and politics in the construction of EMU. It briefly considers how the structural characteristics of the European economies relate to the Single Market program, and how this initiative of the late 1980s both built the foundations for and led the way to EMU. It then considers in more detail the justification for monetary union and the process by which it was achieved. The analysis turns to instabilities that arise from the "domino effect" in regional integration and how those relate to EMU. A discussion of the problems of fiscal consolidation in a monetary union and the "Stability Pact" then leads to an enumeration of a range of problems that still face EMU. We conclude that both the integration of the real economy embodied in the Single Market program and the political commitment -- however imperfect and limited -- of the European Union are necessary conditions for the success of monetary union.

AB This paper considers how the European Union, and more specifically the euro area, can contribute to international financial stability. It sets the issues in the broader framework of financial globalization and international capital mobility. Sections 1-3 discuss globalization, international financial stability, and current threats to it -- notably, potential crises in key emerging market countries and a possible "hard landing" for the US dollar. In that context, EMU has clearly increased internal stability in the euro area and has promoted a dynamic development of capital markets. But in some respects, monetary union may have exacerbated systemic risks. Section 4 discusses financial supervision and regulation and procedures for dealing with liquidity crises. Section 5 turns to issues raised by EU enlargement. Section 6 considers aspects of EMU and the international financial system that relate to international financial stability. It stresses the need for coherent European positions on exchange-rate policy, the international financial architecture, and the euro as an international currency.

Portier, Franck
TI An Exploration into Pigou's Theory of Cycles.
AU Beaudry, Paul; Portier, Franck.

Portugal, Pedro
TI Disentangling the Minimum Wage Puzzle: An Analysis of Job Accessions and Separations from a Longitudinal Matched Employer-Employee Data Set. AU Cardoso, Ana Rute; Portugal, Pedro.

Postlewaite, Andrew
TI Courts of Law and Unforeseen Contingencies.
AU Anderlini, Luca; Felli, Leonardo; Postlewaite, Andrew.

Powell, Alan A.
TI Cobb-Douglas Utility -- Eventually! AU McLaren, Keith R.; Pearson, Kenneth R.; Powell, Alan A.; Rimmer, Maureen T.

Pratten, Cliff
TI The Limits of Statutory Trade Union Recognition.
AU Brown, William; Deakin, Simon; Hudson, Maria; Pratten, Cliff.

TI Collective Employee Representation and the Impact of Law: Initial Response to the Employment Relations Act 1999. AU Oxenbridge, Sarah; Deakin, Simon; Brown, William; Pratten, Cliff.

Prescott, Edward C.
TI Taxes, Regulations, and the Value of U.S. Corporations: A General Equilibrium Analysis. AU McGrattan, Ellen R.; Prescott, Edward C.

AB This paper reviews the role of micro non-convexities in the study of business cycles. One important non-convexity arises because an individual can work only one workweek length in a given week. The implication of this non-convexity is that the aggregate intertemporal elasticity of labor supply is large and the principal margin of adjustment is in the number employed -- not in the hours per person employed -- as observed. The paper also reviews a business cycle model with an occasionally binding capacity constraint. This model better mimics business cycle fluctuations than the standard real business cycle model. Aggregation in the presence of micro non-convexities is key in the model.

Prusa, Thomas J.
TI Antidumping. AU Blonigen, Bruce A.; Prusa, Thomas J.

Puga, Diego
TI From Sectoral to Functional Urban Specialization.
AU Duranton, Gilles; Puga, Diego.

Puhani, Patrick A.
AB This paper investigates whether and in what sense the West German wage structure has been "rigid" in the 1990s. To test the hypothesis that a rigid wage structure has been responsible for rising low-skilled unemployment, the paper proposes a methodology that makes less restrictive identifying assumptions than some previous related work. The paper finds that market forces justified the relative stability of educational wage premia. Relative wages did not, however, respond to

negative net demand shocks for young workers and white-collar workers.

Quack, Sigrid
TI   How Banks Construct and Manage Risk: A Sociological Study of Small Firms Lending in Britain and Germany. AU   Lane, Christel; Quack, Sigrid.

Quince, Thelma
PD   September 2001. TI   Entrepreneurial Collaboration: Terms of Endearment or Rules of Engagement? AA   University of Cambridge. SR   University of Cambridge, ESRC Centre for Business Research Working Paper: WP207; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. PG   19. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE   L21, M13. KW   Entrepreneurship. Collaboration. Small Businesses. Venture Teams.
AB   Small business research has generated little in the way of information or advice on collaborative entrepreneurship. The paper reports the findings of a survey of 106 collaborative entrepreneurs and describes their assessments of the benefits and disadvantages of co- ownership and their evaluation of the factors making for its success. The findings illustrate how those involved saw collaborative entrepreneurship in terms of economic, organizational and interpersonal relationships. Whilst the benefits of collaboration were primarily economic, the affective aspects of the close inter-personal relationship provided the "glue".

Quinn, Maura
TI   Markets, Competition, Cooperation and Innovation. AU   Kitson, Mike; Michie, Jonathan; Quinn, Maura.

Racine, Jeff
PD   November 2001. TI   Using R to Teach Econometrics. AU   Racine, Jeff; Hyndman, Rob J. AA   Racine: University of South Florida. Hyndman: Monash University. SR   Monash Department of Econometrics and Business Statistics Working Paper: 10/2001; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG   14. PR   no charge. JE   C81, C82, C87. KW   Econometrics. Object-Oriented. Open-Source. Statistical Software. Teaching.
AB   R, an open-source programming environment for data analysis and graphics, has in only a decade grown to become a de-facto standard for statistical analysis against which many popular commercial programs may be measured. The use of R for the teaching of econometric methods is appealing. It provides cutting-edge statistical methods which are, by R's open-source nature, available immediately. The software is stable, available at no cost, and exists for a number of platforms, including various flavors of Unix and Linux, Windows (9x/NT/2000), and the MacOS. Manuals are also available for download at no cost, and there is extensive on-line information for the novice user. This review focuses on using R for teaching econometrics. Since R is an extremely powerful environment, this review should also be of interest to researchers.

Radeny, Maren
TI   Valuing Indigenous Cattle Breeds in Kenya: An Empirical Comparison of Stated and Revealed Preference Value Estimates. AU   Scarpa, Riccardo; Kristjanson, P.; Drucker, Adam; Radeny, Maren; Ruto, Eric; Rege, J. Edward.

Rady, Sven
TI   Housing Market Dynamics: On the Contribution of Income Shocks and Credit Constraints. AU   Ortalo-Magne, Francois; Rady, Sven.

Ramadorai, Tarun
TI   The Information Content of International Portfolio Flows. AU   Froot, Kenneth A.; Ramadorai, Tarun.

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

Rangel, Antonio
TI   Intergenerational Fiscal Constitutions: How to Protect Future Generations Using Land Taxes and Federalism. AU   Conley, John P.; Rangel, Antonio.

Ravallion, Martin
TI   Wealth Distribution and Self-Employment in a Developing Economy. AU   Mesnard, Alice; Ravallion, Martin.

Ravikumar, B.
TI   Enduring Relationships in an Economy with Capital. AU   Khan, Aubhik; Ravikumar, B.

Ravn, Morten
PD   June 2001. TI   On Adjusting the HP-Filter for the Frequency of Observations. AU   Ravn, Morten; Uhlig, Harald. AA   Ravn: London Business School and CEPR. Uhlig: Humboldt Universitat. SR   CEPR Discussion Paper: 2858; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG   not available. PR   5 pounds, $8 or 8 euros. JE   C32, E32. KW   Business Cycles. HP-Filter. Temporal Aggregation. Trends.
AB   This paper studies how the HP-Filter should be adjusted, when changing the frequency of observations. It complements the results of Baxter and King (1999) with an analytical analysis, demonstrating that the filter parameter should be adjusted by multiplying it with the fourth power of the observation frequency ratios. This yields an HP parameter value of 6.25 for annual data given a value of 1600 for quarterly data. The relevance of the suggestion is illustrated empirically.

Razin, Assaf
PD   June 2001. TI   The "New Keynesian" Phillips Curve: Closed Economy vs. Open Economy. AU   Razin, Assaf; Yuen, Chi-Wa. AA   Razin: Tel Aviv University, NBER, CEPR, and CES-Ifo. Yuen: University of Hong Kong. SR   National Bureau of Economic Research Working Paper: 8313; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   8. PR $10.00 per copy (plus $10.00

per order for shipping outside the U.S.). **JE** E10, F30, F41. **KW** Open Economy. Phillips Curve. Capital Mobility. Consumption Smoothing. Sticky Prices.
AB The paper extends Woodford's (2000) analysis of the closed economy Phillips curve to an open economy with both commodity trade and capital mobility. We show that consumption smoothing, which comes with the opening of the capital market, raises the degree of strategic complementarity among monopolistically competitive suppliers, thus rendering prices more sticky and magnifying output responses to nominal GDP shocks.

PD July 2001. **TI** The Aging Population and the Size of the Welfare State. **AU** Razin, Assaf; Sadka, Efraim; Swagel, Phillip. **AA** Razin: Tel-Aviv University, Cornell University, and NBER. Sadka: Tel-Aviv University. Swagel: International Monetary Fund. **SR** National Bureau of Economic Research Working Paper: 8405; 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** H11, H31, H53. **KW** Dependency Ratio. Labor Taxes. Welfare State. Population Aging.
AB Data for the United States and countries in Western Europe indicate a negative correlation between the dependency ratio and labor tax rates and the generosity of social transfers, after controlling for other factors that influence the size of the welfare state. This is despite the increased political clout of the dependent population implied by the aging of the population. This paper develops an overlapping generations model of intra- and inter-generational transfers (including old-age social security) and human capital formation which addresses this seeming puzzle. We show that with democratic voting, an increase in the dependency ratio can lead to lower taxes or less generous social transfers.

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

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

Rebitzer, James B.
TI Incentives in HMOs. **AU** Gaynor, Martin; Taylor, Lowell J.; Rebitzer, James B.

Redding, Stephen
TI The Economic Geography of Trade Production and Income: A Survey of Empirics. **AU** Overman, Henry; Redding, Stephen; Venables, Anthony J.

Regibeau, Pierre
PD October 2001. **TI** Administrative Delays as Barriers to Trade. **AU** Regibeau, Pierre; Rockett, Katharine. **AA** University of Essex and CEPR. **SR** CEPR Discussion Paper: 3007; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** F13, H25. **KW** Administrative Delays. Barriers to Trade. Import Tariff. Tariff Revenues. World Welfare.
AB We study a two-country model where two firms must decide when to introduce their new product into the market. The home government may apply an import tariff, an administrative delay or both to the product of the foreign firm. An administrative delay imposes a waiting period between the time when the quality of the foreign product is determined and the time when the product can actually be sold. Our main interest is the differential effect of the tariff and the administrative delay on the timing of new product introductions and the resulting changes in home, foreign and world welfare. We show that administrative delays are less efficient instruments for maximizing home welfare than tariffs. With a tariff, the home government can affect the timing of entry to ensure that the domestic firm moves first at the socially optimal date. Although an optimally chosen delay can achieve the same pattern of introduction, it does not yield any tariff revenues. As a result, if the tariff may be set optimally, administrative delays are not used in a discriminatory manner.

Reichlin, Pietro
TI Risk and Intermediation in a Dual Financial Market Model. **AU** Bloise, Gaetano; Reichlin, Pietro.

Reinhart, Carmen M.
PD October 2001. **TI** What Hurts Most? G-3 Exchange Rate or Interest Rate Volatility. **AU** Reinhart, Carmen M.; Reinhart, Vincent R. **AA** Reinhart: University of Maryland and NBER. Reinhart: Board of Governors of the Federal Reserve System. **SR** National Bureau of Economic Research Working Paper: 8535; 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, F31, F32, F34, F36. **KW** Exchange Rate. Interest Rate Volatility. Emerging Markets. Monetary Policy. Stabilization.
AB With many emerging market currencies tied to the US dollar, movements in the exchange values of the currencies of major countries have the potential to influence the competitive position of many developing countries. According to some analysts, establishing target bands to reduce the variability of the G-3 currencies would limit those destabilizing shocks emanating from abroad. This paper examines the argument for such a target zone strictly from an emerging market perspective. Given that sterilized intervention by industrial economies tends to be ineffective, a commitment to damping G-3 exchange rate fluctuations requires a willingness on the part of G-3 authorities to use domestic monetary policy to that end. Under a system of target zones, then, relative prices for emerging market economies may become more stable, but debt-servicing costs may become less predictable. We use a simple trade model to show that the resulting consequences for welfare are ambiguous. Our empirical work supplements the traditional literature on North-South links by examining the importance of the volatilities of G-3 exchange rates, and US interest rate and consumption on capital flows and economic growth in developing countries.

Reinhart, Vincent R.
TI What Hurts Most? G-3 Exchange Rate or Interest Rate Volatility. **AU** Reinhart, Carmen M.; Reinhart, Vincent R.

Reis, George
TI Relative Profit Auctions. **AU** Morgan, John; Reis, George; Steiglitz, Ken.

Renneboog, Luc
TI Who Disciplines Management in Poorly Performing Companies? AU Franks, Julian R.; Mayer, Colin; Renneboog, Luc.

Repin, Dmitry V.
TI The Psychophysiology of Real-Time Financial Risk Processing. AU Lo, Andrew W.; Repin, Dmitry V.

Reuter, Peter
PD July 1999. TI Comparing the Cost-Effectiveness of Federal Mandatory Minimum Sentences and Other Federal Enforcement Programs. AU Reuter, Peter; Everingham, Susan. AA RAND Corporation. SR RAND Corporation Report: CT/162; Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. PG 12. PR $5.00. JE K14, K42. KW Prison Sentences. Mandatory Sentences. Imprisonment. Narcotic Laws.
AB Long sentences for serious crimes have intuitive appeal. They respond to deeply held beliefs about punishment for evil actions, and in many cases they ensure that further crimes that would have been committed will not be. But in the case of black-market crimes, a jailed supplier is often replaced by another supplier if demand remains. And not all agree whether mandatory minimums satisfy American standards of fairness and justice. This paper shows, if reducing consumption or violence is the goal, more can be achieved by spending additional money arresting, prosecuting, and sentencing dealers to standard prison terms than by spending it sentencing (fewer) dealers to longer, mandatory terms. The paper finds an exception in the case of the highest-level dealers--those who value their time most highly and are hardest to apprehend-- where sentences of mandatory minimum length appear to be the most cost- effective approach. However, current mandatory minimum laws are not focused on those dealers.

Rey, Helene
TI Financial Super-Markets: Size Matters for Asset Trade. AU Martin, Philippe; Rey, Helene.

Rimmer, Maureen T.
TI Cobb-Douglas Utility -- Eventually! AU McLaren, Keith R.; Pearson, Kenneth R.; Powell, Alan A.; Rimmer, Maureen T.

Rios-Rull, Jose-Victor
TI A Quantitative Theory of Unsecured Consumer Credit with Risk of Default. AU Chatterjee, Satyajit; Corbae, Dean; Nakajima, Makoto; Rios-Rull, Jose-Victor.

Rischkowsky, Barbara
TI Economic Evaluation of Smallholder Subsistence Livestock Production: Lessons from an Ethiopian Goat Development Program. AU Ayalew, Workneh ; King, J. M.; Burns, E.; Rischkowsky, Barbara.

Ristuccia, Cristiano A.
PD April 2002. TI Electricity Diffusion and Trend Acceleration in Inter-War Manufacturing Productivity. AU Ristuccia, Cristiano A.; Solomu, Solomos. AA University of Cambridge. SR University of Cambridge, DAE Working Paper: 0202; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 26. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE N11, N12, N13, N14, N60. KW Economic Growth. Economic History. Productivity. Long Swings. Electricity. Manufacturing.
AB This paper evaluates the link between the diffusion of electricity and the increase in labor productivity growth in the manufacturing sector during the inter-war period. A comparative analysis of the USA, Britain, Germany, and Japan shows that the trend acceleration in labor productivity is common to all these countries except Germany and is correlated with electricity diffusion. Germany's labor productivity growth was nevertheless sustained in 1925-1938. The USA saw an earlier acceleration because the diffusion of electricity-based general-purpose technologies in production was much faster than in the other countries examined.

PD April 2002. TI British Episodic Economic Growth 1850-1938. AU Ristuccia, Cristiano A.; Solomu, Solomos. AA University of Cambridge. SR University of Cambridge, DAE Working Paper: 0208; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 28. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE N13, N14, O52. KW Economic History. Economic Growth. Economic Cycles. Great Britain. Gross Domestic Product.
AB This paper argues that non-random measurement errors in the estimates of British Gross Domestic Product make the compromise estimate a biased indicator of medium-term economic growth. Since the compromise estimate of GDP has been widely accepted and used to describe macroeconomic trends in the British economy this has resulted in descriptions of British economic growth that are best explained as statistical artifacts. This paper questions the existence of an "Edwardian Climacteric", argues for a rethinking of the myth of the "Great Depression and offers new insights on inter-war economic growth.

Rivkin, Steven G.
TI Disruption versus Tiebout Improvement: The Costs and Benefits of Switching Schools. AU Hanushek, Eric A.; Kain, John F.; Rivkin, Steven G.

TI Does Peer Ability Affect Student Achievement? AU Hanushek, Eric A.; Markman, Jacob M.; Kain, John F.; Rivkin, Steven G.

Rob, Rafael
TI Vintage Capital, Distortions and Development. AU de Abreu Pessoa, Samuel; Rob, Rafael.

Robalino, David A.
PD 2000. TI Social Capital, Technology Diffusion and Sustainable Growth in the Developing World. AA RAND Corporation. SR RAND Corporation Report: RGSD/151; Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. PG not available. PR no charge. JE O10, O30, O40, Z13. KW Capitalism. Developing

Countries. Social Capital. Technology Diffusion. Growth.

AB . This research shows that social interactions are the source of externalities that when ignored may generate policy recommendations which are seriously biased. This paper develops an agent-based macro- econometric model for the developing world that endogenizes the process of technology diffusion by formalizing the role of social interactions. In this model, macro-behavior emerges from microeconomic decisions made by decentralized heterogeneous agents who are organized in networks. These networks influence agents' information flows, their expectations about the dynamics of the economic environment, and ultimately their technology adoption decisions. The model is used to address the question of how to allocate aggregate income to the creation of human and produced capital, and how to distribute over time the consumption of natural resources and environmental services, in order to generate a sustainable growth path that maximize intertemporal social welfare.

Robertsson, Goran
TI   Foreigners Trading and Price Effects Across Firms. AU   Dahlquist, Magnus; Robertsson, Goran.

Robson, Paul
TI   Changing Use of External Business Advice and Government Supports by SMEs in the 1990's. AU   Bennett, Robert; Robson, Paul.

Rockett, Katharine
TI   Administrative   Delays   as   Barriers   to   Trade. AU   Regibeau, Pierre; Rockett, Katharine.

Rodriguez Mora, Jose V.
TI   The Survival of the Welfare State. AU   Hassler, John; Rodriguez Mora, Jose V.; Storesletten, Kjetil; Zilibotti, Fabrizio.

Rodrik, Dani
TI   Why Are Some People (and Countries) More Protectionist than Others? AU   Mayda, Anna Maria; Rodrik, Dani.

Rogers, John H.
TI   An Empirical Comparison of Bundesbank and ECB Monetary Policy Rules. AU   Faust, Jon; Rogers, John H.; Wright, Jonathan H.

TI   Exchange Rate Forecasting: The Errors We've Really Made. AU   Faust, Jon; Rogers, John H.; Wright, Jonathan H.

Rogoff, Kenneth
TI   Global   Implications   of   Self-Orientated   National Monetary Rules. AU   Obstfeld, Maurice; Rogoff, Kenneth.

Rose, Andrew K.
TI   Does Currency Union Affect Trade? The Time Series Evidence. AU   Glick, Reuven; Rose, Andrew K.

Rosen, Harvey S.
TI . The Self-Employed are Less Likely to have Health Insurance Than Wage Earners: So What? AU   Perry, Craig William; Rosen, Harvey S.

TI   Insurance and the Utilization of Medical Services Among the Self- Employed. AU   Perry, Craig William; Rosen, Harvey S.

Rosenberg, Dinah

AB   We study zero-sum stochastic games in which players do not observe the actions of the opponent. Rather, they observe a stochastic signal that may depend on the state, and on the pair of actions chosen by the players. We assume each player observes the state and his own action. We propose a candidate for the max-min value, which does not depend on the information structure of player 2. We prove that player 2 can defend the proposed max-min value, and that in absorbing games player 1 can guarantee it. Analogous results hold for the min-max value. This paper thereby unites several results due to Coulomb.

Rosenberg, Nathan

AB   This paper examines the role that a particular innovative design in steam power, the Corliss engine, played in the intertwined processes of industrialization and urbanization that characterized the growth of the US economy in the late 19th century. Steam engines offered the possibility of allowing industry to locate where key considerations such as access to markets for inputs and outputs directed. The enhanced performance of the Corliss engine as well as its fuel efficiency helped it tip the balance in favor of steam in the fierce contest with waterpower. With the aid of detailed data on the location of Corliss engines and waterwheels and a two-stage estimation strategy, we show that the deployment of Corliss engines indeed served as a catalyst for the massive relocation of industry away from rural areas and into large urban centers, thus fueling the agglomeration economies, and attracting further population growth.

AA Rosenberg: Stanford University. Trajtenberg: Tel Aviv University. SR CEPR Discussion Paper: 3008; 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 O18, O31, O33, O40. KW General Purpose Technologies. Corliss Steam Engine. Growth. Urbanization. Waterpower.

AB The steam engine is widely regarded as the icon of the Industrial Revolution and a prime example of a "General Purpose Technology." This paper examines the role that a particular innovative design in steam power, the Corliss engine, played in the processes of industrialization and urbanization that characterized the growth of the US economy in the late 19th century. Waterpower offered abundant and cheap energy, but restricted the location of manufacturing. Steam engines offered the possibility of relaxing this severe constraint, allowing industry to locate where key considerations such as access to markets for inputs and outputs directed. The enhanced performance of the Corliss engine as well as its fuel efficiency helped tip the balance in favor of steam in the contest with waterpower. This paper shows that the deployment of Corliss engines indeed served as a catalyst for the massive relocation of industry away from rural areas and into large urban centers, thus fueling agglomeration economies, and attracting further population growth. This illustrates the fact that GPTs induce the widespread and more efficient relocation of economic activity, which in turn fosters long-term growth.

Rostagno, Massimo
TI Money Growth Monitoring and the Taylor Rule.
AU Christiano, Lawrence J.; Rostagno, Massimo.

Roush, Jennifer E.
PD October 2001. TI Evidence Uncovered: Long-Term Interest Rates, Monetary Policy, and the Expectations Theory. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 712; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 49. PR no charge. JE C11, C32, E43, E44, E52. KW Term Structure. Vector Auto Regression. Interest Rate Smoothing. Policy Regimes. Bayesian VAR.

AB A large body of literature has failed to find conclusive evidence that the expectations theory of the term structure holds in U.S. data. This paper asks more narrowly whether the theory holds conditional on an exogenous change in monetary policy. We argue that previous work on the expectations theory has failed to sufficiently account for interactions between monetary policy and bond markets in the determination of long and short interest rates. Using methods that directly account for this interaction, we find strong evidence supporting a term structure channel for policy that is consistent with the expectations theory. We show that the marginal effect of our consideration for this source of simultaneity bias is significant in uncovering evidence for the theory. We also discuss previous claims that policy regime changes and short-term interest rate smoothing by the Fed accounts for the theory's unconditional failure in light of our findings.

Rousseau, Peter L.
PD June 2001. TI Financial Systems, Economic Growth, and Globalization. AU Rousseau, Peter L.; Sylla, Richard. AA Rousseau: Vanderbilt University and NBER. Sylla: New York University and NBER. SR National Bureau of Economic Research Working Paper: 8323; National Bureau of Economic Research, 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 the U.S.). JE E44, F36, N10, N20. KW Growth. Globalization. Economic Integration. Financial Systems. International Trade.

AB This paper brings together two strands of the economic literature -- that on the finance-growth nexus and that on capital market integration -- and explores key issues surrounding each strand through both institutional/country histories and formal quantitative analysis. We begin with studies of the Dutch Republic, England, the U.S., France, Germany and Japan that span three centuries, detailing how in each case the emergence of a financial system jump-started economic growth. Using a cross-country panel of 17 countries covering the 1850-1997 period, we then uncover a robust correlation between financial factors and economic growth that is consistent with a leading role for finance, and show that these effects were strongest over the 80 years preceding the Great Depression. Next, we show that countries with more sophisticated financial systems engage in more trade and appear to be better integrated with other economies by identifying roles for both finance and trade in the convergence of interest rates that occurred among the Atlantic economies prior to 1914. Our results suggest that the growth and increasing globalization of these economies might indeed have been "finance-led".

Rudebusch, Glenn D.
PD February 2002. TI Assessing the Lucas Critique in Monetary Policy Models. AA Federal Reserve Bank of San Francisco. SR Federal Reserve Bank of San Francisco Economic Research Department Working Paper: 2002/02; Working Papers Coordinator, Mail Stop 1130, Economic Research Department, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA 94120. Website: www.frbsf.org/publications/economics/papers/index.html. PG 26. PR no charge. JE E17, E52. KW Lucas Critique. Monetary Policy. Structural Stability.

AB Empirical estimates of monetary policy rules suggest that the behavior of U.S. monetary policymakers changed during the past few decades. However, at the same time, statistical analyses of lagged representations of the economy, such as VARs, often have not rejected the null of structural stability. These two sets of empirical results appear to contradict the Lucas critique. This paper provides a reconciliation by showing that the apparent policy invariance of reduced forms is consistent with the magnitude of historical policy shifts and the relative insensitivity of the reduced forms of plausible forward-looking macroeconomic specifications to policy shifts.

Ruhm, Christopher J.
PD October 2001. TI Does Drinking Really Decrease in Bad Times? AU Ruhm, Christopher J.; Black, William E. AA Ruhm: University of North Carolina at Greensboro and NBER. Black: Mathematica Policy Research, Inc. SR National Bureau of Economic Research Working Paper: 8511; 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** E32, I12, I18. **KW** Alcohol Consumption. Macroeconomic Conditions. Substance Abuse.

AB This paper investigates the relationship between macroeconomic conditions, alcohol use, and drinking problems using individual-level data from the 1987-1999 years of the Behavioral Risk Factor Surveillance System. We confirm the procyclical variation in overall drinking identified in previous research using aggregate sales data and show that this largely results from changes in consumption among existing drinkers, rather than movements into or out of drinking. Moreover, the decrease in alcohol use occurring during bad economic times is concentrated among heavy consumers, with light drinking actually increasing in these periods. We find no evidence that the decline in overall drinking masks a rise in alcohol use for persons becoming unemployed during contractions, suggesting that any stress- induced increases in consumption are more than offset by reductions resulting from changes in economic factors such as lower incomes.

Ruiz-Castillo, Javier
TI The Influence of Demographics and Household Specific Price Indices on Consumption Based Inequality and Welfare: A Comparison of Spain and the United States. **AU** Garner, Thesia I.; Ruiz-Castillo, Javier; Sastre, Mercedes.

Ruto, Eric
TI Valuing Indigenous Cattle Breeds in Kenya: An Empirical Comparison of Stated and Revealed Preference Value Estimates. **AU** Scarpa, Riccardo; Kristjanson, P.; Drucker, Adam; Radeny, Maren; Ruto, Eric; Rege, J. Edward.

TI Valuing Indigenous Cattle Breeds in Kenya: An Empirical Comparison of Stated and Revealed Preference Value Estimates. **AU** Scarpa, Riccardo; Kristjanson, P.; Drucker, Adam; Radeny, Maren; Ruto, Eric; Rege, J. Edward.

Saar, Gideon
TI Dynamic Volume-Return Relation of Individual Stocks. **AU** Llorente, Guillermo; Michaely, Roni; Saar, Gideon; Wang, Jiang.

Sacerdote, Bruce
TI Why Doesn't the US Have a European-Style Welfare System? **AU** Alesina, Alberto; Sacerdote, Bruce; Glaeser, Edward.

Sadka, Efraim
TI The Aging Population and the Size of the Welfare State. **AU** Razin, Assaf; Sadka, Efraim; Swagel, Phillip.

Saez, Emmanuel
TI Income Inequality in the United States, 1913-1998. **AU** Piketty, Thomas; Saez, Emmanuel.

Saint-Paul, Gilles
PD June 2001. **TI** Distribution & Growth in an Economy with Limited Needs. **AA** Universite des Sciences Sociales de Toulouse and CEPR. **SR** CEPR Discussion Paper: 2834; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** D30, D42, E24, E25, F12.

KW Economic Growth. Income Distribution. Innovation. Knowledge Economy. Research and Development.
AB This paper studies a model of the distribution of income under bounded needs. Utility derived from any given good reaches a bliss point at a finite consumption level of that good. On the other hand, introducing new varieties always increases utility. Workers can specialize in material goods production or in the knowledge sector. It is shown that if the elasticity of labor supply to the knowledge sector is bounded, as productivity increases, the economy moves from a "Solovian zone", to a "Marxian" zone, since as consumption of a given good increases, the price elasticity of demand falls, and markups increase to infinity as consumption reaches the unit elasticity point. Such a point typically exists because of the finiteness of needs. It is also shown that if individual creativity is more unevenly distributed than productivity, technical progress always increases inequality. Redistribution from profits to workers always benefits poor workers regardless of their distortionary effect on the number of varieties. If wages are set by monopoly unions, they are proportional to productivity and the Marxian zone no longer exists. But technical progress always reduces employment in the material goods sector.

Saiz, Albert
PD October 2002. **TI** The Returns to Speaking a Second Language. **AU** Saiz, Albert; Zoido, Elena. **AA** Saiz: Federal Reserve Bank of Philadelphia and Harvard University. Zoido: Harvard University. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 02/16; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. **PG** 22. **PR** no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** I29, J24, J31. **KW** Second Language. Earnings. Human Capital.
AB Does speaking a foreign language have an impact on earnings? We use a variety of empirical strategies to address this issue for a representative sample of U.S. college graduates. Ordinary Least Squares regressions with a complete set of controls to minimize concerns about omitted variable biases, propensity score methods, and panel data techniques all lead to similar conclusions. The hourly earnings of those who speak a foreign language are more than 2 percent higher than the earnings of those who do not. We obtain higher and more imprecise point estimates using state high school graduation and college entry and graduation requirements as instrumental variables.

PD October 2002. **TI** Democracy to the Road: The Political Economy of Potholes. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 02/17; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. **PG** 15. **PR** no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** E62, H54, O17, R42. **KW** Democracy. Infrastructures. Political Economy. Dictatorship. Road Quality.
'**AB** Are dictatorships more prone to build and maintain roads? This paper identifies a puzzling fact: countries that are more democratic tend to have roads in worse conditions than

less democratic countries. Using lagged values of a democracy index to instrument for democracy in 1980 yields higher estimates of the magnitude of the association between democracy and bad roads. Instruments based on climate, population, and education yield similar results. The evidence points to a negative causal relationship from democracy to road quality. This paper also finds that changes to a more democratic government are associated with slower growth of the road network. This paper advances four non- mutually exclusive hypotheses that can explain the results and find support for one of them: dictatorships prefer a better highway network ready for external and internal military intervention.

Samuel, Shawna L.

TI The Contribution of Domestic and External Factors to Emerging Market Devaluation Crises: An Early Warning Systems Approach. AU Kamin, Steven B.; Schindler, John W.; Samuel, Shawna L.

Sancetta, Alessino

PD September 2002. TI New Test Statistics for Market Timing with Applications to Emerging Markets. AU Sancetta, Alessino; Satchell, Stephen E. AA University of Cambridge. SR University of Cambridge, DAE Working Paper: 0222; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. PG 37. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE C14, G11. KW Market Timing. Emerging Markets. U-Process. Invariance Principle. Strong Mixing. Non-Parametric. AB We provide a new framework for identifying market timing. Our analysis focuses on the smoothed joint history of the fund with the benchmark. The approach is fully non-parametric. Therefore, it has the advantage of avoiding the misspecification problems so common in this literature. The test statistic is some rank preserving function of a second order U-process. This empirical process allows us to define a set of statistics for market timing. We state the relevant asymptotic distribution. Some of these statistics are used to study the timing component of emerging markets funds using the dataset of Hwang and Satchell (1999).

Sandas, Patrik

TI Empirical Analysis of Limit Order Markets. AU Hollifield, Burton; Miller, Robert; Sandas, Patrik.

Santa-Clara, Pedro

TI International Risk Sharing is Better Than You Think (or Exchange Rates are Much Too Smooth). AU Brandt, Michael W.; Cochrane, John H.; Santa-Clara, Pedro.

Santomero, Anthony M.

TI An Overall Perspective on Banking Regulation. AU Freixas, Xavier; Santomero, Anthony M.

Santos, Tano

PD May 2001. TI Labor Income and Predictable Stock Returns. AU Santos, Tano; Veronesi, Pietro. AA Santos: University of Chicago and NBER. Veronesi: University of Chicago, NBER, and CEPR. SR National Bureau of Economic Research Working Paper: 8309; National Bureau of Economic Research, 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 the U.S.). JE G12, J30. KW Stock Market. Predictability. Stock Returns. CAPM. AB We propose and test a novel economic mechanism that generates stock return predictability on both the time series and the cross section. In our model, investors' income has two sources, wages and dividends, which grow stochastically over time. As a consequence, the fraction of total income produced by wages changes over time depending on economic conditions. We show that as this fraction fluctuates, the risk premium that investors require to hold stocks varies as well. We test the main implications of the model and find substantial support for it. A regression of stock returns on lagged values of the labor income to consumption ratio produces statistically significant coefficients and adjusted R^2's that are larger than those generated when using the dividend price ratio. Tests of the cross sectional implication find considerable improvements on the performance of both the conditional CAPM and CCAPM when compared to their unconditional counterparts.

Sarin, Rajiv

PD July 2001. TI Strategy Similarity and Coordination. AU Sarin, Rajiv; Vahid, Farshid. AA Sarin: Texas A&M University. Vahid: Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 08/2001; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. PG 21. PR no charge. JE C72, C91, D81, D83. KW Experimental Data. Adaptive Learning. Similarity. Coordination Games. Payoff Assessments. AB This paper introduces similarity among strategies in the payoff assessment model of choice (Sarin and Vahid (1999, GEB)). The assessments of strategies that are more similar to the chosen strategy are updated more similarly to the chosen strategy. We use this model to explain a recent experiment. The coordination game repeatedly played by the experimental subjects had two symmetric, efficient and strict stage game Nash equilibria. In the experiment, the subjects always converged to play one of these equilibria, and converged to this equilibrium remarkably fast. The model we propose converges to choose the same equilibrium, and does so in roughly the same number of repetitions. Statistical tests cannot distinguish between the choice distributions generated by the model and the observed choice distributions in almost every period.

Sarno, Lucio

PD August 2001. TI Purchasing Power Parity and the Real Exchange Rate. AU Sarno, Lucio; Taylor, Mark P. AA Warwick University and CEPR. SR CEPR Discussion Paper: 2913; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE F31, F41. KW Foreign Exchange. Purchasing Power Parity. Real Exchange Rate. AB We assess the progress made by the profession in understanding real exchange rate behavior, through a selective and critical but nonetheless expository review of the literature. Our reading of the literature leads us to the main conclusions that purchasing power parity might be viewed as a valid long-run international parity condition when applied to bilateral exchange rates among major industrialized countries and that

also means reversion in real exchange rates displays significant non-linearities. Further work investigating the effects of real shocks on the long-run equilibrium level also seems warranted.

PD May 2002. **TI** Federal Funds Rate Prediction. **AU** Sarno, Lucio; Thornton, Daniel L.; Valente, Giorgio. **AA** Sarno: University of Warwick and Federal Reserve Bank of St. Louis. Thornton: Federal Reserve Bank of St. Louis. Valente: University of Warwick. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/005A; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: www.stls.frb.org/research. **PG** 24. **PR** no charge. **JE** E43, E47. **KW** Federal Funds Rate. Term Structure of Interest Rates. Forecasting. Nonlinearity.
AB A large empirical literature has reported that both the federal funds futures market and the federal funds rate target contain valuable information for explaining the daily behavior of the US effective federal funds rate. A parallel literature on interest rate modeling has recorded evidence that the dynamics of interest rates displays significant regime-switching behavior. In this paper we produce forecasts of the federal funds rate out of sample at horizons up to 8 weeks ahead using linear and nonlinear, regime-switching equilibrium correction models of the funds rate and employing both point and density measures of forecast accuracy. Our main results suggest that the term structure of the federal funds futures rates has more out-of-sample explanatory power than the funds rate target and that nonlinear models provide a substantial forecasting improvement relative to their linear counterparts and to individual futures rates.

TI How Well Do Monetary Fundamentals Forecast Exchange Rates? **AU** Neely, Christopher J.; Sarno, Lucio.

Sastre, Mercedes

TI The Influence of Demographics and Household Specific Price Indices on Consumption Based Inequality and Welfare: A Comparison of Spain and the United States. **AU** Garner, Thesia I.; Ruiz-Castillo, Javier; Sastre, Mercedes.

Satchell, Stephen E.

TI The Implied Distribution for Stocks of Companies with Warrants and/or Executive Stock Options. **AU** Darsinos, Theofanis; Satchell, Stephen E.

TI On the Valuation of Warrants and Executive Stock Options: Pricing Formulae for Firms with Multiple Warrants/Executive Options. **AU** Darsinos, Theofanis; Satchell, Stephen E.

PD July 2002. **TI** The Impact of Technical Analysis on Asset Price Dynamics. **AU** Satchell, Stephen E.; Yang, Steffi J. H. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0219; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 38. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D82, D84, G12, G14. **KW** Price Dynamics. Heterogeneity. Bifurcation. Feedback Trading. Technical Analysis.
AB We study the impact of technical analysis in a context of heterogeneous, utility-maximizing agents. A framework is provided to capture observed diversity in forecast estimates as a

result of interaction between prior beliefs and asymmetric information. Using investment decisions of fundamentalists as a benchmark, agents' optimal demand difference, which reflects expectation heterogeneity and the use of technical analysis, offers insights into the endogenous uncertainty in asset pricing behavior. Technical analysis results in price feedback. We define a new family of feedback rules over cumulative distribution functions. Using bifurcation analysis, we show how prices asymptotically approach equilibrium and how significant feedback effects drive them off the equilibrium path. Both trend chasing strategy and contrarian strategy among technical trades are described in the model: the latter leads prices to overshoot the fundamental value with a high frequency; whereas in the former case, prices exhibit prolonged cyclic behavior.

TI New Test Statistics for Market Timing with Applications to Emerging Markets. **AU** Sancetta, Alessino; Satchell, Stephen E.

Scarpa, Riccardo

PD December 2001. **TI** Valuing Animal Genetic Resources in Peasant Economies: The Case of the Box Keken Creole Pig in Yucatan. **AU** Scarpa, Riccardo; Drucker, Adam; Anderson, Simon; Ferraes-Ehuan, Nancy; Gomez, Veronica; Risopatron, Carlos, R.; Rubio-Lionel, Olga. **AA** Scarpa: University of York. Drucker: International Livestock Research Institute, Ethiopia. Anderson: Imperial College at Wye. Ferraes-Ehuan, Gomez, Risopatron, and Rubio-Lionel: Universidad Autonoma de Yucatan, Mexico. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2001/103; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it. **PG** 25. **PR** no charge; available only on website. **JE** C93, Q12. **KW** Biodiversity Values. Genetic Resources. Stated Preference. Choice Experiments. Livestock Values. Non-Market Values. Creole Pig.
AB We report the results of a choice-experiment study to model preferences over a selection of breed traits of "creole" pigs. The study was conducted amongst households of backyard producers and small farmers rearing this local breed in Yucatan, Mexico. Hypothetical choice data were collected to estimate the preference of households over alternative pig profiles whose attributes distinguish creole pigs from the potentially more productive, yet less adapted exotic breeds currently threatening to severely displace this locally adapted animal genetic resource. The observed choices are employed to estimate a series of random utility models whose results are tested for preference equality between households and small farmers. Stated-preference based estimates are found to be of the same magnitude as revealed-preference producers costs. As a consequence the method is deemed to be appropriate for the valuation of non-market functions in production. Estimates conditional on household characteristics are then presented and discussed.

PD December 2001. **TI** Valuing Indigenous Cattle Breeds in Kenya: An Empirical Comparison of Stated and Revealed Preference Value Estimates. **AU** Scarpa, Riccardo; Kristjanson, P.; Drucker, Adam; Radeny, Maren; Ruto, Eric; Rege, J. Edward. **AA** Scarpa: University of York. Kristjanson and Radeny: Kenya Agricultural Research Institute, Kenya. Drucker and Rege: International Livestock Research Institute, Kenya. Ruto: University of York and International Livestock Research Institute, Ethiopia. **SR** Fondazione Eni Enrico

Mattei Note di Lavoro: 2001/104; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it. **PG** 29. **PR** no charge; available only on website. **JE** C93, Q12. **KW** Biodiversity Values. Genetic Resources. Stated Preference. Choice Experiments. Livestock Values. Non-Market Values. Shorthorn Zebu. Keyna. East Africa.

AB In this paper we investigate the performance of choice experiments (CEs) in Maasai cattle trading, by conducting an external test of preference consistency. This involves comparing value estimates for cattle attributes derived from CEs data with those obtained using a hedonic analysis of actual transactions by the same population of traders, in the same markets and over the same period. If CEs perform well, they can be used to investigate values of those genetically-determined livestock traits currently not prominent in pastoralists' populations, but desirable candidates for breeding or conservation programs (e.g. disease resistance). It is argued that these methods are important in developing countries where livestock are kept for economic reasons and for cultural and risk management functions which are critical to livelihood strategies, but not valued by markets. The results indicate that CEs estimates pass the external test and appear to be adequately precise in estimating values for cattle traits that are relevant in market transactions for Maasai traders. They may be, therefore, a promising tool for valuing phenotypic traits expressed by indigenous animal genetic resources.

Schaffer, Mark E.

TI Competition and Enterprise Performance in Transition Economies: Evidence from a Cross-Country Survey. **AU** Carlin, Wendy; Fries, Steven; Schaffer, Mark E.; Seabright, Paul.

Schankerman, Mark

PD September 2001. **TI** Idiosyncratic and Common Shocks to Investment Decisions. **AA** European Bank for Reconstruction and Development, London School of Economics, and CEPR. **SR** CEPR Discussion Paper: 2982; 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** D24, E22. **KW** Aggregate Shocks. Heterogeneity. Investment. Micro Shocks. Risk.

AB This paper shows how microeconomic data on investment plans can be used to study the structure of risk faced by firms. Revisions of investment plans form a martingale, and thus reveal the underlying shocks driving investment. We decompose revisions in investment plans into micro, sector and aggregate shocks, and exploit stock market data to distinguish between structural (value-related) shocks and measurement error in investment revisions. Using panel data for US firms, we find that micro shocks are not the dominant source of risk in investment decisions, and that much of the observed micro variation is actually due to heterogeneity in firm-level responses to aggregate shocks. Firms are able to diversify most idiosyncratic investment risk, and they do not appear to be liquidity-constrained.

Scherer, F. M.

PD November 2002. **TI** Technology Flows Matrix Estimation Revisited. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 02/18; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. **PG** 31. **PR** no charge except overseas airmail, $3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** O31, O32, O33. **KW** Research and Development. Technology Flows. Productivity Growth. Patents.

AB During the early 1980s Scherer estimated a highly disaggregated matrix of technology flows from U.S. industries that performed research and development (R&D) to industries expected to use the R&D outcomes. The results, extended to analyze how technology flows affected productivity growth in the 1960s and 1970s, are reported in Scherer (1982a, 1982b, and 1984). In this paper we see whether the desired matrix of technology flows could have been obtained using publicly available information, or information that could be gleaned as a by- product of existing surveys, without a costly effort extracting micro- data from a large sample of individual invention patents. From the tolerably good results we are able to emulate the original labor- intensive technology flows matrix using mainly input-output data as the carrier matrix.

Schindler, John W.

PD September 2001. **TI** Testing Optimality in Job Search Models. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 710; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 38. **PR** no charge. **JE** C11, C15, J64. **KW** Bayesian Analysis. Bayes Factors. Search Models.

AB This paper uses Bayesian techniques to compare three definitions of optimality for the basic job search model: the standard income- maximizing definition, an approximation to the standard definition, and a simple alternative. The important role of prior choice in these comparisons is illustrated. Using natural conjugate priors to represent hypothetical samples of data, we find that the simple alternative is preferred to the standard definition of optimality. However, using priors constructed from findings in the literature, we are able to find some evidence in favor of the standard definition of optimality.

TI The Contribution of Domestic and External Factors to Emerging Market Devaluation Crises: An Early Warning Systems Approach. **AU** Kamin, Steven B.; Schindler, John W.; Samuel, Shawna L.

Schmedders, Karl

TI Demand Uncertainty and Risk-Aversion: Why Price Caps May Lead to Higher Prices. **AU** Earle, Robert L.; Schmedders, Karl.

PD January 2002. **TI** Controlling Price Volatility Through Financial Innovation. **AU** Schmedders, Karl; Citanna, Alessandro. **AA** Schmedders: Northwestern University. Citanna: Groupe HEC. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1338; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 42. **PR** $3.00

U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C61, D52, G12. **KW** Incomplete Markets. Financial Innovations. Volatility.
AB In a three-period finite competitive exchange economy with incomplete financial markets and re-trading, we study the possibility of controlling asset price volatility through financial innovation. We first give sufficient conditions on preferences and endowments implying that whatever is the innovation which completes markets, it also reduces volatility, typically in this class of economies. We also numerically examine some interesting examples. Then we show the generic existence, even outside this class, of financial innovation which decreases equilibrium price volatility. The existence is obtained under conditions of sufficient market incompleteness. The financial innovation may consist of an asset which is only traded at time zero, or retraded, and with payoffs only at the terminal date. The existence is shown to be robust in the asset payoff space.

TI Price Caps and Uncertain Demand. **AU** Earle, Robert L.; Schmedders, Karl; Tatur, Tymon.

Schmidt-Hebbel, Klaus
TI One Decade of Inflation Targeting in the World: What Do We Know and What Do We Need to Know? **AU** Mishkin, Frederic S.; Schmidt-Hebbel, Klaus.

Schmitt-Grohe, Stephanie
PD September 2001. **TI** Solving Dynamic General Equilibrium Models Using a Second-Order Approximation to the Policy Function. **AU** Schmitt-Grohe, Stephanie; Uribe, Martin. **AA** Schmitt-Grohe: Rutgers University, NBER, and CEPR. Uribe: University of Pennsylvania and NBER. **SR** CEPR Discussion Paper: 2963; 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** C61, C63, E17, E27. **KW** Matlab Code. Second Order Approximation. Dynamic GE Models.
AB Linear approximation methods are useful to characterize certain aspects of the dynamic properties of complicated models. First-order approximation techniques are not however, well suited to handle questions such as welfare comparisons across alternative stochastic of policy environments. The problem with using linearized decision rules to evaluate second-order approximations to the objective function is that some second-order terms of the objective function are ignored when using a linearized decision rule. Such problems do not arise when the policy function is approximated to second-order or higher. In this paper we derive a second order approximation to the policy function of a dynamic, rational expectations model. Our approach follows the perturbation method described in Judd (1998) and developed further by Collard and Juillard (2001). We follow Collard and Juillard closely in notation and methodology. However we depart from this framework by explicitly incorporating a scale parameter for the variance of the exogenous shocks as an argument of the policy function. The paper closes with a brief description of a set of MATLAB programs designed to implement the method.

PD September 2001. **TI** Liquidity Traps with Global Taylor Rules. **AU** Schmitt-Grohe, Stephanie; Uribe, Martin. **AA** Schmitt-Grohe: Rutgers University, NBER, and CEPR. Uribe: University of Pennsylvania and NBER. **SR** CEPR

Discussion Paper: 2969; 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. Zero-Bound on Nominal Interest Rates.
AB A key result of a recent literature that focuses on the global consequences of Taylor-type interest rate feedback rules is that such rules, in combination with the zero-bound on nominal interest rates, can lead to unintended liquidity traps. An immediate question posed by this result is whether the government could avoid liquidity traps by ignoring the zero-bound, that is, by threatening to set the nominal interest rate at a negative value should the inflation rate fall below a certain threshold. This paper shows that even if the government could credibly commit to setting the interest rate at a negative value, self-fulfilling liquidity traps can still emerge. That is, deflationary equilibria originating arbitrarily near the intended equilibrium and leading to low (possibly zero) interest rates and low (and possibly negative) rates of inflation cannot be ruled out by lifting the zero-bound on the monetary policy rule. This result obtains in models with flexible and sticky prices and under continuous and discrete time.

Scholz, John Karl
TI Do Estate and Gift Taxes Affect the Timing of Private Transfers? **AU** Bernheim, B. Douglas; Scholz, John Karl; Lemke, Robert J.

Schott, Peter K.
PD September 2001. **TI** Do Rich and Poor Countries Specialize in a Different Mix of Goods? Evidence from Product-Level US Trade Data. **AA** Yale University and NBER. **SR** National Bureau of Economic Research Working Paper: 8492; 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** C21, F11, F14, L11. **KW** Product Differentiation. Exports. Imports. Trade Flows.
AB Unit values of US imports at the product level reveal a substantial degree of vertical product differentiation among countries exporting to the US. This specialization is not apparent by looking solely at trade flows. Two trends stand out. First, the portion of US import products originating in either rich or poor countries exclusively has fallen dramatically as US trade barriers have fallen from 41% in 1972 to 17% in 1994. Indeed, by 1994, nearly three quarters the products imported into the US were sourced simultaneously from rich and poor countries. Second, within-product unit value dispersion is positively and significantly correlated with source country income: men's shirts imported from Japan in 1994, for example, are about thirty times as expensive as shirts originating in the Philippines. These unit value premia, and their increase over time, are consistent with the factor proportions framework but convey a stark warning: industry trade flow data alone are too coarse to meet the assumptions underlying most tests of trade theory.

Scott, Andrew
TI Debt and Deficit Fluctuations and the Structure of Bond Markets. **AU** Marcet, Albert; Scott, Andrew.

Seabright, Paul

TI Competition and Enterprise Performance in Transition Economies: Evidence from a Cross-Country Survey. **AU** Carlin, Wendy; Fries, Steven; Schaffer, Mark E.; Seabright, Paul.

Sefton, Martin

TI An Experimental Study of Price Dispersion. **AU** Morgan, John; Orzen, Henrik; Sefton, Martin.

Sentana, Enrique

PD October 2001. **TI** Mean Variance Portfolio Allocation with a Value at Risk Constraint. **AA** Centre for Monetary and Financial Studies and CEPR. **SR** CEPR Discussion Paper: 2997; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $8 or 8 euros. **JE** G11. **KW** Market Risk Capital. Portfolio Frontier. Risk Management. Value at Risk. Mean-Variance Analysis.
AB This paper first provides a simple unifying approach to static Mean- Variance analysis and Value at Risk, which highlights their similarities and differences. The paper then uses it to explain how fund managers can take investment decisions that satisfy the VaR restrictions imposed on them by regulators, within the well-known Mean- Variance allocation framework. The paper does so by introducing a new type of line to the usual mean-standard deviation diagram, called IsoVaR, which represents all the portfolios that share the same VaR for a fixed probability level. Finally, the paper analyzes the "shadow cost" of a VaR constraint.

Serven, Luis

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

Seshadri, Ananth

TI The US Demographic Transition. **AU** Greenwood, Jeremy; Seshadri, Ananth.

TI The Baby Boom and Baby Bust: Some Macroeconomics for Population Economics. **AU** Greenwood, Jeremy; Seshadri, Ananth; Vandenbroucke, Guillaume.

TI Engines of Liberation. **AU** Greenwood, Jeremy; Seshadri, Ananth; Yorukoglu, Mehmet.

TI Technological Progress and Economic Transformation. **AU** Greenwood, Jeremy; Seshadri, Ananth.

Sgroi, Daniel

PD April 2002. **TI** Modelling Experience as Signal Accumulation. **AA** University of Cambridge. **SR** University of Cambridge, DAE Working Paper: 0205; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 17. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** D82, D83. J63. **KW** Herding. Private Information. Experience. Labor Turnover. Excess Inertia.
AB Experience gained in a workplace characterized by decision-making and learning-by-doing is modeled via a process of signal accumulation under several different frameworks. We initially look at the probability of success based on uninterrupted signal accumulation, then consider the impact of rapid labor turnover under two alternative regimes. The first allows new workers to gain some of their predecessor's experience through Bayesian inference on reported earlier actions. The means of information transfer between workers is therefore similar to observational learning in herding or informational cascade models. The second regime considers all experience to be lost when a worker is replaced. We see that although with valuable experience the first regime appears a much better outcome for firms, transferring some knowledge to future workers carries with it the risk of excess inertia in decision-making.

PD April 2002. **TI** Strategy Learning in 3x3 Games by Neural Networks. **AU** Sgroi, Daniel; Zizzo, Daniel J. **AA** Sgroi: University of Cambridge. Zizzo: University of Oxford. **SR** University of Cambridge, DAE Working Paper: 0207; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk./dae. **PG** 31. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** C45, C72, D83. **KW** Rationality. Learning. Neural Networks. Normal Form Games. Complexity.
AB This paper presents a neural network based methodology for examining the learning of game-playing rules in never-before seen games. A network is trained to pick Nash equilibria in a set of games and then released to play a larger set of new games. While faultlessly selecting Nash equilibria in never-before seen games is too complex a task for the network, Nash equilibria are chosen approximately 60% of the times. Furthermore, despite training the network to select Nash equilibria, what emerges are endogenously obtained bounded-rational rules which are closer to payoff dominance, and the best response to payoff dominance.

Shachmurove, Yochanan

PD June 2002. **TI** Applying Artificial Neural Networks to Business, Economics and Finance. **AA** City University of New York and University of Pennsylvania. **SR** University of Pennsylvania, CARESS Working Paper: 02/08; CARESS, University of Pennsylvania, 3718 Locust Walk, Philadelphia, PA 19104- 6297. Website: www.econ.upenn.edu/Centers/ CARESS/. **PG** 43. **PR** $3.00 for U.S. and Canada; $5.00 for Foreign; make checks payable to Trustees of the University of Pennsylvania. **JE** C32, C45, C50, G15. **KW** Artificial Neural Networks. Dynamic Interrelations. Forecasting.
AB This paper surveys the significance of recent work on emulative neural networks (ENNs) by researchers across many disciplines in the light of issues of indeterminacy. Financial and economic forecasters have witnessed the recent development of a number of new forecasting models. Traditionally, popular forecasting techniques include regression analysis, time-series analysis, moving averages and smoothing methods, and numerous judgmental methods. However, all of these have the same drawback insofar as they require assumptions about the form of population distribution. Regression models, for example assume that the underlying population is normally distributed. ENNs are members of a family of statistical techniques, as are flexible nonlinear regression models, discriminant models, data reduction models, and non-linear dynamic systems. They are trainable analytic tools that attempt to mimic information processing patterns in the brain. Because they do not necessarily require assumptions about population distribution, economists, mathematicians and statisticians are

increasingly using ENNs for data analysis.

Shadbegian, Ronald J.
TI   Plant   Vintage,   Technology,   and   Environmental Regulation. AU   Gray, Wayne B.; Shadbegian, Ronald J.

Shami, Roland G.
TI   Non-Linear Modelling of the Australian Business Cycle using a Leading Indicator. AU   Forbes, Catherine S.; Shami, Roland G.

Sheets, D. Nathan
TI   Regional Influences on U.S. Monetary Policy: Some Implications for Europe. AU   Meade, Ellen E.; Sheets, D. Nathan.

Sheppard, Kevin
TI   Theoretical and Empirical Properties of Dynamic Conditional Correlation Multivariate GARCH. AU   Engle, Robert F.; Sheppard, Kevin.

Shim, Maria
TI   Making a Name. AU   Goldin, Claudia; Shim, Maria.

Shimer, Robert
PD   October 2001. TI   The Assignment of Workers to Jobs In an Economy with Coordination Frictions. AA   Princeton University and NBER. SR   National Bureau of Economic Research Working Paper: 8501; 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   E24, J21, J41, J64. KW   Heterogeneous Agents. Coordination Friction. Equilibrium Unemployment. Vacancies. Assortative Matching.
AB   This paper studies the assignment of heterogeneous workers to heterogeneous jobs in the presence of coordination frictions. Firms offer human-capital-contingent wages, workers observe these and apply for a job. In a symmetric equilibrium, identical workers use identical mixed strategies in deciding where to apply, and the randomness introduced by mixed strategies generates equilibrium unemployment and vacancies. The equilibrium can be interpreted as the competitive equilibrium of a closely related model, ensuring constrained efficiency. The model generates a rich interaction between the heterogeneous workers and firms. Firms attract applications form multiple types of workers, and earn higher profits when they hire a more productive worker. Identical workers apply for jobs with different productivity and get higher wages when they land a more productive job. Despite this mismatch, this paper shows that in some special cases, the model generates assortative matching, with a positive correlation between matched workers' and firms' productivity.

TI   Changes in Unemployment Duration and Labor Force Attachment. AU   Abraham, Katharine G.; Shimer, Robert.

Shore-Sheppard, Lara D.
TI   The Measurement of Medicaid Coverage in the SIPP: Evidence from California, 1990-1996. AU   Card, David; Hildreth, Andrew K. G.; Shore-Sheppard, Lara D.

Short, Kathleen
PD   May 2002. TI   Experimental Poverty Measures Under Alternative Treatments of Medical Out-of-Pocket Expenditures: An Application of the Consumer Expenditure Survey. AU   Short, Kathleen; Garner, Thesia I. AA   U.S. Bureau of Labor Statistics. SR   U.S. Bureau of Labor Statistics Economic Working Paper: 358; BLS Economic Working Paper Series, c/o Glenda Driggers, 4945 Postal Square Building, 2 Massachusetts Avenue NE, Washington, DC 20212. Website: www.bls.gov/ore/orecatlg.htm. PG   23. PR   no charge. JE   I19, I31, I32. KW   Poverty Measurement. Consumer Expenditures. Healthcare.
AB   This paper presents experimental poverty measures that update those presented in Current Population Report, P60-216, "Experimental Poverty Measures: 1999". Estimates for 2000 are presented and compared with the official measure. In this paper we emphasize the difference in two of the measures that use Consumer Expenditure (CE) data to estimate medical out-of-pocket expenses. Poverty rates, poverty gaps, and income-to-poverty-threshold ratios are computed and compared across poverty measures for various subgroups, particularly children and the aged. Results show that alternate methods of measuring medical expenses affect our perception of the relative incidence of poverty, the depth of poverty experienced by these groups, and the number of people who are classified in extreme poverty (those with family income below one- half of the poverty threshold).

Sikoki, Bondan
TI   Health, Family Planning and Well-Being in Indonesia During an Economic Crisis: Early Results From the Indonesian Family Life Survey. AU   Frankenberg, Elizabeth; Beegle, Kathleen; Sikoki, Bondan; Thomas, Duncan.

Sill, Keith
TI   Self-Fulfilling Expectations and the Inflation of the 1970s: Evidence from the Livingston Survey. AU   Leduc, Sylvain; Sill, Keith; Stark, Tom.

TI   The Cyclical Behavior of State Employment During the Postwar Period. AU   Carlino, Gerald A.; DeFina, Robert H.; Sill, Keith.

Singh, Ajit
PD   December 2001. TI   Income Inequality in Advanced Economies: A Critical Examination of the Trade and Technology Theories and an Alternative Perspective. AA   University of Cambridge. SR   University of Cambridge, ESRC Centre for Business Research Working Paper: WP219; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. PG   17. PR $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. JE   D30, F10, O30. KW   Income Inequality. Trade. Technology. Skill Biased Technical Progress.
AB   This paper critically examines the trade and technology theories, which dominate the large and growing literature on the determinants of changes in income inequality in advanced industrial countries during the 1980's and 1990's. Both, despite differences in approach, have a common premise that advanced countries have experienced a fall in the relative demand for unskilled labor and an increase in that of skilled labor. This single explanation for both phenomena has been dubbed the

"transatlantic consensus". This paper argues that this consensus, together with the associated theories based on trade with the Third World and skill biased technological progress respectively, is analytically as well as empirically unsatisfactory. It puts forward an alternative analysis, which emphazises the role of institutions (e.g. Unions), macro-economic conditions and social norms. It naturally arrives at rather different policy conclusions from those of the orthodox economists.

Sinn, Hans-Werner

AB The upcoming demographic crisis in Germany demands fundamental reforms of the pension system. In a democracy, reforms are, however, only feasible when they are supported by the majority of the electorate. To determine whether the majority is in favor of reforms of the pension system, we calculate for each year the "indifference age" as the age of the cohort which is not affected by the reform and the "median age" as the age of the politically decisive cohort. Until 2023, the median age is below the indifference age implying that the young have the majority and the reform can be democratically enforced. After 2023, Germany will be characterized by a gerontocratic system where the old decide over the young. Only the fear that the young might emigrate -- and perhaps a certain altruistic attitude towards their own descendants -- will prevent the old from exploiting the young.

Skinner, Jonathan

AB Technological advances in health care have been shown to yield large average health benefits for the U.S. elderly population. However, less is known about the marginal or incremental benefits of health care spending. We use geographical variations in health care spending to measure the marginal value of greater health care intensity among the elderly Medicare population. To correct for the reverse causation problem -- that sicker areas tend to require more health care -- we use regional averages of physician visits in the last six months of life as a natural randomization for health care intensity. Using linear and semi-parametric instrumental variables, we find a large component of Medicare expenditures -- $26 billion in 1996 dollars, or nearly 20 percent of total Medicare expenditures -- appears to provide no benefit in terms of survival, nor is it likely that this extra spending improves the quality of life. While secular trends in health care technology have delivered large health benefits, variation in health care intensity at a point in time have not.

Smarzynska, Beata

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. 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 standards. Omitting this information in statistical analyses may give rise to misleading results. 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, the environmental standards of the host countries and pollution intensities 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 levels in host countries and using a firm-level data set on investment projects in 24 transition economies. With these improvements, we find some support for the "pollution haven" hypothesis, but the overall evidence is relatively weak and does not survive numerous robustness checks.

AB This paper studies the impact of corruption in a host country on a foreign investor's preference for a joint venture versus a wholly owned subsidiary. A simple model highlights a basic trade-off in using local partners. On the one hand, corruption makes local bureaucracy less transparent and increases the value of using a local partner to cut through the bureaucratic maze. On the other hand, corruption decreases the effective protection of investor's intangible assets and lowers the probability that disputes between foreign and domestic partners will be adjudicated fairly, which reduces the value of having a local partner. Empirical tests of the hypothesis on a firm-level data set show that corruption reduces inward FDI and shifts the ownership structure towards joint ventures. Conditional on FDI taking place, an increase in corruption from the Hungarian level to that of Azerbaijan decreases the probability of a wholly-owned subsidiary by 10-20 percent.

Technologically more advanced firms are found to be less likely to engage in joint ventures.

Smith, Bruce D.
TI   Intermediaries and Payments Instruments. AU   Bullard, James; Smith, Bruce D.

Smith, David C.
TI   On the Sequencing of Projects, Reputation Building, and Relationship Finance. AU   Egli, Dominik; Ongena, Steven; Smith, David C.

TI   To What Extent Will the Banking Industry be Globalized? A Study of Bank Nationality and Reach in 20 European Nations. AU   Berger, Allen N.; Dai, Qinglei; Ongena, Steven; Smith, David C.

Snyder, Ralph D.
TI   Prediction Intervals for Exponential Smoothing State Space Models. AU   Hyndman, Rob J.; Koehler, Anne B.; Ord, J. Keith; Snyder, Ralph D.

TI   Exponential Smoothing for Inventory Control: Means and Variances of Lead-Time Demand. AU   Hyndman, Rob J.; Koehler, Anne B.; Ord, J. Keith; Snyder, Ralph D.

TI   Reconstructing the Kalman Filter for Stationary and Non Stationary Time Series. AU   Forbes, Catherine S.; Snyder, Ralph D.

Sobel, Russell S.
TI   State Lottery Revenue: The Importance of Game Characteristics. AU   Garrett, Thomas A.; Sobel, Russell S.

TI   The Political Economy of FEMA Disaster Payments. AU   Garrett, Thomas A.; Sobel, Russell S.

Sokoloff, Kenneth L.
TI   The Evolution of Suffrage Institutions in the New World. AU   Engerman, Stanley L.; Sokoloff, Kenneth L.

Solan, Eilon
TI   On the MaxMin Value of Stochastic Games with Imperfect Monitoring. AU   Rosenberg, Dinah; Solan, Eilon; Vieille, Nicolas.

Solomu, Solomos
TI   Electricity Diffusion and Trend Acceleration in Inter-War Manufacturing Productivity. AU   Ristuccia, Cristiano A.; Solomu, Solomos.

TI   British Episodic Economic Growth 1850-1938. AU   Ristuccia, Cristiano A.; Solomu, Solomos.

Sorensen, Alan T.
PD   October 2001. TI   An Empirical Model of Heterogeneous Consumer Search for Retail Prescription Drugs. AA   University of California, San Diego and NBER. SR   National Bureau of Economic Research Working Paper: 8548; 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   D83, L65. KW   Pharmacy. Prescription Drugs. Price. Search.
AB   This paper uses detailed data on retail pharmacy

transactions to make inferences about the nature and intensity of consumer search for prescription drugs. Prescription prices exhibit patterns that should, in principle, induce search: in particular, prices vary widely across stores, and stores' price rankings are inconsistent across drugs (so the low-price pharmacy is different for one prescription vs. another). Estimates from a model of pharmacy choice suggest that search intensities are generally low: we estimate that for a typical prescription, the fraction of consumers that price-shops is approximately 5-10 percent. However, variation in this estimated search intensity across drugs is substantial and appears to be consistent with explanations based on rational search: for instance, price-shopping is more prevalent for maintenance medications than for one-time purchases, presumably because the benefits of finding a low price are magnified for prescriptions that are purchased repeatedly. Under some relatively strong assumptions imposed by the empirical model, the data also identify parameters of a search cost distribution, suggesting that the cost of conducting an exhaustive price search is approximately $15 for the average consumer.

Sorgard, Lars
TI   Unionized Oligopoly, Trade Liberalization and Location Choice. AU   Lommerud, Kjell Erik; Meland, Frode; Sorgard, Lars.

Soto, Marcelo
TI   Growth and Human Capital: Good Data, Good Results. AU   Cohen, Daniel; Soto, Marcelo.

Soto, Raimundo
TI   A Decade Lost and Found: Mexico and Chile in the 1980s. AU   Bergoeing, Raphael; Kehoe, Patrick J.; Kehoe, Timothy J.; Soto, Raimundo.

Souleles, Nicholas S.
TI   Do Liquidity Constraints and Interest Rates Matter for Consumer Behavior? Evidence from Credit Card Data. AU   Gross, David B.; Souleles, Nicholas S.

TI   An Empirical Analysis of Personal Bankruptcy and Delinquency. AU   Gross, David B.; Souleles, Nicholas S.

PD   August 2001. TI   Consumer Sentiment: Its Rationality and Usefulness in Forecasting Expenditure -- Evidence from the Michigan Micro Data. AA   University of Pennsylvania and NBER. SR   National Bureau of Economic Research Working Paper: 8410; 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   D12, E21. KW   Consumer Sentiment. Forecasting Expenditure. Michigan Micro Data.
AB   This paper provides one of the first comprehensive analyses of the household data underlying the Michigan Index of Consumer Sentiment. This data is used to test the rationality of consumer expectations and to assess their usefulness in forecasting expenditure. Expectations are found to be biased, at least ex post, in that forecast errors do not average out even over a sample period lasting almost 20 years. Forecasts are also inefficient, in that people's forecast errors are correlated with their demographic characteristics and/or aggregate shocks did not hit all people uniformly. Further, sentiment is found to be

useful in forecasting future consumption, even controlling for lagged consumption and macro variables like stock prices. This excess sensitivity is counter to the permanent income hypothesis (PIH). Higher confidence is correlated with less saving, consistent with precautionary motives and increases in expected future resources. Some of the rejection of the PIH is found to be due to the systematic demographic components in forecast errors. But even after controlling for these components, some excess sensitivity persists. More broadly, these results suggest that empirical implementations of forward-looking models need to better account for systematic heterogeneity in forecast errors.

TI   Physician Income Expectations and Specialty Choice.
AU   Nicholson, Sean; Souleles, Nicholas S.

Speight, George
PD   December 2000. TI   Who Bought the Inter-War Semi? The Socio-Economic Characteristics of New-House Buyers in the 1930s. AA   University of Oxford and the Bank of England. SR   University of Oxford, Discussion Papers in Economic and Social History: 38; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/.   PG   30.   PR   no charge. JE   N34, N64, R12, R31. KW   House Buyers. Housing Market. Households.
AB   Although the high level of private house-building in the 1930s was an important episode in Britain's economic and social development, the literature has not addressed adequately the nature of the demand for these houses. In particular, the class and income characteristics of their purchasers are poorly understood. The conventional wisdom in this area is due to Swenarton and Taylor, who have argued that the vast majority of house buyers were middle class and the few manual workers could afford to buy. In fact their argument contains several important flaws. This paper uses a broader and more reliable collection of evidence to show that "working-class" households broadly construed bought a large proportion of new houses from 1932-3 onwards. (The six years 1933 to 1938 account for well over half of all house built privately in the inter-war period.).

Spiegel, Yossi
TI   On the Evolutionary Emergence of Optimism. AU   Heifetz, Aviad; Spiegel, Yossi.

Squintani, Francesco
TI   Communication and Voting with Double-Sided Information.   AU   Doraszelski, Ulrich; Gerardi, Dino; Squintani, Francesco.

TI   Individual Accountability in Teams. AU   Marx, Leslie M.; Squintani, Francesco.

Srinivasan, Naveen
TI   The Observational Equivalence of Taylor Rule and Taylor-Type Rules.   AU   Minford, Patrick; Perugini, Francesco; Srinivasan, Naveen.

Stabile, Mark
TI   Household Responses to Public Home Care Programs. AU   Coyte, Peter C.; Stabile, Mark.

Staiger, Douglas
PD   June 2001. TI   Prices, Wages and the U.S. NAIRU in the 1990s. AU   Staiger, Douglas; Stock, James H.; Watson, Mark W. AA   Staiger: Dartmouth College and NBER. Stock: Harvard University and NBER. Watson: Princeton University and NBER. SR   National Bureau of Economic Research Working Paper: 8320; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   54. PR $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). JE   E31, E50, J30, J64. KW   Wages. Prices. Unemployment. Inflation. Univariate Trends.
AB   Using quarterly macro data and annual state panel data, we examine various explanations of the low rate of price inflation, strong real wage growth, and low rate of unemployment in the U.S. economy during the late 1990s. Many of these explanations employ shifts in the coefficients of price and wage Phillips curves. We find, however, that once one accounts for the univariate trends in the unemployment rate and in the rate of productivity growth, these coefficients are stable. This suggests that many explanations, such as persistent beneficial supply shocks, changes in firms' pricing power, changes in price expectations arising from shifts in Fed policy, and changes in wage setting behavior miss the mark. Rather, we suggest that explanations of movements of wages, prices and unemployment over the 1990s, and indeed over the past forty years, must focus on understanding the univariate trends in the unemployment rate and in productivity growth and, perhaps, the relation between the two.

Stark, Tom
TI   Is Macroeconomic Research Robust to Alternative Data Sets? AU   Croushore, Dean; Stark, Tom.

TI   Self-Fulfilling Expectations and the Inflation of the 1970s: Evidence from the Livingston Survey. AU   Leduc, Sylvain; Sill, Keith; Stark, Tom.

TI   Forecasting Coin Demand. AU   Croushore, Dean; Stark, Tom.

Steckel, Richard H.
PD   October 2001. TI   Health and Nutrition in the Preindustrial Era: Insights from a Millennium of Average Heights in Northern Europe. AA   Ohio State University and NBER. SR   National Bureau of Economic Research Working Paper: 8542; 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   I12, J11, N33. KW   Urbanization. Industrialization. Middle Ages. Height. Health. Nutrition.
AB   This essay places the debate over human welfare during industrialization in the context of very long-term economic developments by examining an important aspect of living standards -- health and nutrition -- since the Middle Ages. The paper uses average stature determined from military records along with a neglected source, skeletal data. Average heights fell from an average of 173.4 centimeters in the early Middles Ages to a low of 165.8 centimeters during the seventeenth and eighteenth centuries. This decline of 7.6 centimeters exceeds by a factor of two any downturns found during industrialization in several countries that have been studied. Moreover, recovery to levels achieved in the early Middle Ages was not attained

until the early twentieth century. The paper links the decline in average height to climate deterioration; growing inequality; urbanization and the expansion of trade and commerce, which facilitated the spread of diseases; the global spread of diseases associated with European expansion and colonization; and conflicts or wars over state building or religion.

Steiglitz, Ken
TI Relative Profit Auctions. **AU** Morgan, John; Reis, George; Steiglitz, Ken.

Steinmeier, Thomas L.
TI Imperfect Knowledge, Retirement and Saving. **AU** Gustman, Alan L.; Steinmeier, Thomas L.

Stenbacka, Rune
TI Information Sharing in Banking: A Collusive Device? **AU** Gehrig, Thomas; Stenbacka, Rune.

TI Screening Cycles. **AU** Gehrig, Thomas; Stenbacka, Rune.

Stern, Jon
TI Modelling the Costs of Electricity Regulation: Evidence of Human Resource Constraints in Developing Countries. **AU** Domah, Preetum; Pollitt, Michael G.; Stern, Jon.

Stevens, John J.
TI The Home Market and the Pattern of Trade: Round Three. **AU** Holmes, Thomas J.; Stevens, John J.

Stewart, Jay
PD March 2002. **TI** Recent Trends in Job Stability and Job Security: Evidence from the March CPS. **AA** U.S. Bureau of Labor Statistics. **SR** U.S. Bureau of Labor Statistics Economic Working Paper: 356; BLS Economic Working Paper Series, c/o Glenda Driggers, 4945 Postal Square Building. 2 Massachusetts Avenue NE, Washington, DC 20212. Website: www.bls.gov/ore/orecatlg.htm. **PG** 27. **PR** no charge. **JE** J11, J63, J65. **KW** Job Stability. Job Security. Job Separations.
AB This paper examines recent trends in job stability and job security using data from the March CPS. I find that overall job separation rates changed very little, while there were large changes in the component transitions. Employment-to-unemployment transitions declined dramatically, indicating a significant increase in job security. For men, nearly all of this increase occurred in the 1990s, while for women, the increase was more uniform throughout the period. There was an equally dramatic increase in employment-to-employment transitions, indicating that it has become easier to change employers. I also examine the trends for married couples. I find that job stability fell for married couples, but that job security increased. The decrease in stability would have been smaller and the increase in security would have been larger were it not for the increase in the proportion of couples in which the wife's earnings are a significant share of total earnings.

Stock, James H.
TI Prices, Wages and the U.S. NAIRU in the 1990s. **AU** Staiger, Douglas; Stock, James H.; Watson, Mark W.

Storesletten, Kjetil
TI The Survival of the Welfare State. **AU** Hassler, John; Rodriguez Mora, Jose V.; Storesletten, Kjetil; Zilibotti, Fabrizio.

TI The Survival of the Welfare State. **AU** Hassler, John; Rodriguez Mora, Jose V.; Storesletten, Kjetil; Zilibotti, Fabrizio.

TI A Positive Theory of Geographic Mobility and Social Insurance. **AU** Hassler, John; Mora, Jose V. Rodriguez; Storesletten, Kjetil; Zilibotti, Fabrizio.

TI A Positive Theory of Geographic Mobility and Social Insurance. **AU** Hassler, John; Mora, Jose V. Rodriguez; Storesletten, Kjetil; Zilibotti, Fabrizio.

Strobl, Eric
TI Foreign Direct Investment, Agglomerations and Demonstration Effects: An Empirical Investigation. **AU** Barry, Frank; Gorg, Holger; Strobl, Eric.

Stulz, Rene M.
TI Why are Foreign Firms Listed in the U.S. Worth More? **AU** Doidge, Craig; Karolyi, G. Andrew; Stulz, Rene M.

Sunley, Peter
TI Taking Risks in Regions: The Geographical Anatomy of Europe's Emerging Venture Capital Market. **AU** Martin, Rod; Sunley, Peter; Turner, Dave.

Susmel, Raul
TI Volatility Dependence and Contagion in Emerging Equity Markets. **AU** Edwards, Sebastian; Susmel, Raul.

Swagel, Phillip
TI The Aging Population and the Size of the Welfare State. **AU** Razin, Assaf; Sadka, Efraim; Swagel, Phillip.

Swanson, Eric
TI Identifying VARs Based on High Frequency Futures Data. **AU** Faust, Jon; Swanson, Eric; Wright, Jonathan H.

Sylla, Richard
TI Financial Systems, Economic Growth, and Globalization. **AU** Rousseau, Peter L.; Sylla, Richard.

Tan, Elaine S.
PD June 2002. **TI** "The Bull is Half the Herd": Property Rights and Enclosures in England, 1750-1850. **AA** University of Oxford. **SR** University of Oxford, Discussion Papers in Economic and Social History: 46; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. **PG** 21. **PR** no charge. **JE** N13, N53, Q10, Q16. **KW** Land Ownership. Agriculture. Enclosure. Open Fields. Property Rights.
AB This paper proposes that one function of the open fields was to reduce the transaction costs of cow-keeping by lowering commoners' costs of bulling. At enclosure, cow-keeping fell among small owners who, unlike large farmers, had difficulty obtaining bulling services and were not substantial enough to own both the bull and the cow; they were therefore worse off with enclosures. The minimum acreage required to restore cow

keepers to their pre-enclosure economic position indicates that even commoners who were given some land at settlement lost out with the change in property rights.

Tatur, Tymon
TI Price Caps and Uncertain Demand. **AU** Earle, Robert L.; Schmedders, Karl; Tatur, Tymon.

Tauras, John A.
PD June 2001. **TI** Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis. **AU** Tauras, John A.; Johnston, Lloyd D.; O'Malley, Patrick M. **AA** Tauras: University of Illinois at Chicago and NBER. Johnston and O'Malley: University of Michigan. **SR** National Bureau of Economic Research Working Paper: 8331; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 21. **PR** $10.00 per copy (plus $10.00 per order for shipping outside the U.S.). **JE** D40, I10, I12, J13. **KW** Cigarette Prices. Addiction. Youth.
AB Over the past three decades a significant amount of economic research has established that increasing cigarette prices reduce cigarette smoking among both adults and adolescents. The consensus estimates for the price elasticity of adult demand from these studies fall in a narrow range of -0.3 to -0.5. A smaller literature on youth responsiveness to cigarette prices has also emerged. A majority of these studies concluded that youth are up to three times as responsive to price as are adults. Only four econometric studies have attempted to model youth and young adult smoking initiation decisions. All four studies concluded that cigarette prices are insignificant determinants of smoking initiation. This study addresses the limitations of the previous studies on smoking initiation and examines the impact of cigarette prices and youth access laws on adolescent smoking initiation. Discrete-time hazard methods are used to model the probability of initiation. Contradicting the results of the four previous studies, the results of this study indicate that increases in the price of cigarettes would significantly reduce the number of adolescents who start smoking. The results are mixed with respect to youth access restrictions.

PD June 2001. **TI** The Demand for Nicotine Replacement Therapies. **AU** Tauras, John A.; Chaloupka, Frank J. **AA** University of Illinois at Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8332; National Bureau of Economic Research, 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 the U.S.). **JE** D40, I10, I12. **KW** Health. Substance Abuse. Fixed Effects. NRT. Cigarette Prices.
AB This paper is the first econometric study to examine the determinants of nicotine replacement therapy (NRT) demand. Pooled cross-sectional time-series scanner-based data for 50 major metropolitan markets in the United States covering the period between the second quarter 1996 and the third quarter 1999 are used in the analysis. Fixed effects modeling is employed to assess the impact of NRT prices, cigarette prices, and other determinants on NRT demand. The estimates indicate that decreases in the price of NRT and increases in the price of cigarettes would lead to substantial increases in per- capita sales of NRT products. The average own-price elasticity of demand for Nicoderm CQ, Nicorette, and Nicotrol is -1.4, -1.5,

and -1.1 respectively. The average cross-price elasticity of demand for Nicoderm CQ and Nicorette is 0.68 and 081 respectively.

Taylor, Alan M.
TI Australian Growth: A Californian Perspective. **AU** McLean, Ian W.; Taylor, Alan M.

Taylor, Lowell J.
TI Incentives in HMOs. **AU** Gaynor, Martin; Taylor, Lowell J.; Rebitzer, James B.

Taylor, M. Scott
TI International Trade and the Environment: A Framework for Analysis. **AU** Copeland, Brian R.; Taylor, M. Scott.

Taylor, Mark P.
TI Purchasing Power Parity and the Real Exchange Rate. **AU** Sarno, Lucio; Taylor, Mark P.

TI Why is it so Difficult to Beat the Random Walk Forecast of Exchange Rates? **AU** Kilian, Lutz; Taylor, Mark P.

Temin, Peter
PD March 2001. **TI** A Market Economy in the Early Roman Empire. **AA** MIT. **SR** University of Oxford, Discussion Papers in Economic and Social History: 39; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. **PG** 34. **PR** no charge. **JE** D40, F10, N20, N70, P00. **KW** Markets. Roman Empire. Trade.
AB This paper argues that the economy of the early Roman Empire was primarily a market economy. The parts of this economy located far from each other were not tied together as tightly as markets often are today, but they still functioned as part of a comprehensive Mediterranean market. This conclusion is important because it brings the description of the Roman economy as a whole into accord with the fragmentary evidence we have about individual market transactions. In addition, this synthetic view provides a platform on which to investigate further questions about the origins and eventual demise of the Roman economy and about conditions for the formation and preservation of markets in general.

Thomas, Duncan
TI Health, Family Planning and Well-Being in Indonesia During an Economic Crisis: Early Results From the Indonesian Family Life Survey. **AU** Frankenberg, Elizabeth; Beegle, Kathleen; Sikoki, Bondan; Thomas, Duncan.

TI Measuring Change in Indonesia. **AU** Beegle, Kathleen; Frankenberg, Elizabeth; Thomas, Duncan.

Thomas, Julia K.
PD March 2002. **TI** Is Lumpy Investment Relevant for the Business Cycle? **AA** University of Minnesota and Federal Reserve Bank of Minneapolis. **SR** Federal Reserve Bank of Minneapolis Staff Report: 302; Research Department, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291. Website: www.minneapolisfed.org. **PG** 21. **PR** no charge. **JE** E22, E32. **KW** Lumpy Investment. (S,s) Adjustment. Business Cycles.

AB Previous research has suggested that discrete and occasional plant- level capital adjustments have significant aggregate implications. In particular, it has been argued that changes in plants' willingness to invest in response to aggregate shocks can at times generate large movements in total investment demand. In this study, I re-assess these predictions in a general equilibrium environment. Specifically, assuming non-convex costs of capital adjustment, I derive generalized (S,s) adjustment rules yielding lumpy plant-level investment within an otherwise standard equilibrium business cycle model. In contrast to previous partial equilibrium analyses, model results reveal that the aggregate effects of lumpy investment are negligible. In general equilibrium, households' preference for relatively smooth consumption profiles offsets changes in aggregate investment demand implied by the introduction of lumpy plant-level investment. As a result, adjustments in wages and interest rates yield quantity dynamics that are virtually indistinguishable from the standard model.

TI Nonconvex Factor Adjustments in Equilibrium Business Cycle Models: Do Nonlinearities Matter? AU Khan, Aubhik; Thomas, Julia K.

TI Inventories and the Business Cycle: An Equilibrium Analysis of (S,s) Policies. AU Khan, Aubhik; Thomas, Julia K.

Thomas, Mark
TI A Plea for Errors. AU Feinstein, Charles H.; Thomas, Mark.

Thornton, Daniel L.
TI Federal Funds Rate Prediction. AU Sarno, Lucio; Thornton, Daniel L.; Valente, Giorgio.

Timmermann, Allan G.
TI Option Prices Under Bayesian Learning: Implied Volatility Dynamics and Predictive Densities. AU Guidolin, Massimo; Timmermann, Allan G.

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

TI Willpower and Personal Rules. AU Benabou, Roland; Tirole, Jean.

Tisdell, Clem
AB The number of breeds of domesticated animals, especially livestock, have declined rapidly. The proximate causes and processes involved in loss of breeds are outlined. The path-dependent effect and Swanson's dominance-effect are discussed in relation to breed selection. While these help to explain genetic erosion, they need to be supplemented to provide a further explanation of biodiversity loss. It is shown that the extension of markets and economic globalization have contributed significantly to genetic loss of breeds. In addition, the decoupling of animal husbandry from surrounding natural environmental conditions is further eroding the stock of genetic resources, particularly industrialized intensive animal husbandry. Recent trends in animal husbandry raise very serious sustainability issues, apart from animal welfare concerns.

Tong, Daochi
AB This study examines the roles of the financial sector in financing China's development, and the relationship between financial sector reform, restructuring of state-owned enterprise, and the reform of the social welfare system in China. Its findings should help policymakers, policy analysts, scholars, and executives in banking and financial institutions assess financial sector reform in China.

Topel, Robert H.
TI Entry, Pricing and Product Design in an Initially Monopolized Market. AU Davis, Steven J.; Murphy, Kevin M.; Topel, Robert H.

Town, Robert J.
TI Bayesian Inference for Hospital Quality in a Selection Model. AU Geweke, John; Gowrisankaran, Gautam; Town, Robert J.

Trajtenberg, Manuel
TI A General Purpose Technology at Work: The Corliss Steam Engine in the late 19th Century US. AU Rosenberg, Nathan; Trajtenberg, Manuel.

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

TI A General Purpose Technology at Work: The Corliss Steam Engine in the Late 19th Century. AU Rosenberg, Nathan; Trajtenberg, Manuel.

Tse, Yiu Kuen
AB In this paper we propose a Bayesian method for estimating hyperbolic diffusion models. The approach is based on the Markov Chain Monte Carlo (MCMC) method after

discretization via the Milstein scheme. Our simulation study shows that the hyperbolic diffusion exhibits many of the stylized facts about asset returns documented in the financial econometrics literature, such as slowly declining autocorrelation function of absolute terms. We demonstrate that the MCMC method provides a useful tool to analyze hyperbolic diffusions. In particular, quantities of posterior distributions obtained from MCMC outputs can be used for statistical inferences.

Turner, Dave
TI Taking Risks in Regions: The Geographical Anatomy of Europe's Emerging Venture Capital Market. AU Martin, Rod; Sunley, Peter; Turner, Dave.

Turner, Sarah
TI Trade in University Training: Cross-State Variation in the Production and Use of College-Educated Labor. AU Bound, John; Groen, Jeffrey; Kezdi, Gabor; Turner, Sarah.

Uebelmesser, Silke
TI When Will the Germans Get Trapped in their Pension System? AU Sinn, Hans-Werner; Uebelmesser, Silke.

Uhlig, Harald
TI On Adjusting the HP-Filter for the Frequency of Observations. AU Ravn, Morten; Uhlig, Harald.

Uribe, Martin
TI Solving Dynamic General Equilibrium Models Using a Second-Order Approximation to the Policy Function. AU Schmitt-Grohe, Stephanie; Uribe, Martin.

TI Liquidity Traps with Global Taylor Rules. AU Schmitt-Grohe, Stephanie; Uribe, Martin.

Vahid, Farshid
TI The Missing Link: Using the NBER Recession Indicator to Construct Coincident and Leading Indices of Economic Activity. AU Issler, Joao Victor; Vahid, Farshid.

TI Strategy Similarity and Coordination. AU Sarin, Rajiv; Vahid, Farshid.

TI Capturing the Shape of Business Cycles with Nonlinear Autoregressive Leading Indicator Models. AU Anderson, Heather M.; Athanasopoulos, George; Vahid, Farshid.

TI Statistical Inference on Changes in Income Inequality in Australia. AU Athanasopoulos, George; Vahid, Farshid.

TI Nonlinear Autoregressive Leading Indicator Models of Output in G-7 Countries. AU Anderson, Heather M.; Athanasopoulos, George; Vahid, Farshid.

Valente, Giorgio
TI Federal Funds Rate Prediction. AU Sarno, Lucio; Thornton, Daniel L.; Valente, Giorgio.

van den Berg, Gerard J.
PD October 2001. TI Counseling and Monitoring of Unemployed Workers: Theory and Evidence from a Controlled Social Experiment. AU van den Berg, Gerard J.; van der Klaauw, Bas. AA van den Berg: Vrije Universiteit Amsterdam, IZA, Tinbergen Institute Amsterdam, and CEPR.

van der Klaauw: Free University Amsterdam and CEPR. SR CEPR Discussion Paper: 2986; 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 J58, J64, J65. KW Labor Market Policy. Multi-Tasking. Social Experiment. Search Channels. Effort.
AB We investigate the effect of counseling and monitoring on the individual employment transition rate. We theoretically analyze these policies in a job search model with two search channels and endogenous search effort. In the empirical analysis we use unique administrative and survey data concerning a social experiment with full randomization and compliance. The results show that counseling and monitoring do not affect the work exit rate. Monitoring causes a shift from informal to formal job searching. We combine our empirical results with the results from our theoretical analysis and the existing empirical literature to establish a comprehensive analysis of the effectiveness of these policies.

van der Klaauw, Bas
TI Counseling and Monitoring of Unemployed Workers: Theory and Evidence from a Controlled Social Experiment. AU van den Berg, Gerard J.; van der Klaauw, Bas.

Van Mieghem, Jan A.
TI Spontaneous Collective Action. AU Diermeier, Daniel; Van Mieghem, Jan A.

TI Coordination in Turnout Games. AU Diermeier, Daniel; Van Mieghem, Jan A.

van Ours, Jan C.
TI Using Employer Hiring Behavior to Test the Educational Signaling Hypothesis. AU Albrecht, James; van Ours, Jan C.

van Ryzin, Gregg
TI Migration Consequences of Welfare Reform. AU Kaestner, Robert; Kaushal, Neeraj; van Ryzin, Gregg.

van Wincoop, Eric
TI Borders, Trade and Welfare. AU Anderson, James E.; van Wincoop, Eric.

Van Zandt, Timothy
PD June 2001. TI Information Overload in a Network of Targeted Communication. AA INSEAD and CEPR. SR CEPR Discussion Paper: 2836; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR; United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $8 or 8 euros. JE D62, D83. KW Information Overload. Limited Attention. Communication.
AB As the costs of generating and transmitting information fall, the main bottlenecks in communication networks are becoming the human receivers, who are overloaded with information. For networks of targeted communication, this paper discusses the meaning of information overload, provides a theoretical treatment of its causes, and examines mechanisms for allocating the attention of receivers. Mechanisms for allocating attention include surcharges on communication and auctions. These mechanisms increase the cost of sending messages and shift the task of screening messages from the

receivers to the senders. This shift may benefit both the receivers and the senders because the senders know the contents of the messages whereas the receivers do not. We show that, if the communication cost is low, then an increase in the communication cost benefits most (but not all) receivers. The increase benefits all the senders if either the extra cost is a tax that is redistributed to them as lump-sum transfers or if the senders' information about the receivers is sufficiently accurate.

TI   Hierarchy Size and Environmental Uncertainty.
AU   Meagher, Kieron; Orbay, Hakan; Van Zandt, Timothy.

Vandenbroucke, Guillaume
TI   The Baby Boom and Baby Bust: Some Macroeconomics for Population Economics.   AU   Greenwood, Jeremy; Seshadri, Ananth; Vandenbroucke, Guillaume.

Vegh, Carlos A.
TI   Living with the Fear of Floating: An Optimal Policy Perspective. AU   Lahiri, Amartya; Vegh, Carlos A.

Venables, Anthony J.
TI   The Economic Geography of Trade Production and Income: A Survey of Empirics.   AU   Overman, Henry; Redding, Stephen; Venables, Anthony J.

TI   Industrial Clusters: Equilibrium, Welfare and Policy. AU   Norman, Victor D.; Venables, Anthony J.

Ventura, Jaume
TI   The World Income Distribution.   AU   Acemoglu, Daron; Ventura, Jaume.

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

TI   Comparative Advantage and the Cross-Section of Business Cycles. AU   Kraay, Aart; Ventura, Jaume.

TI   Product Prices and the OECD Cycle. AU   Kraay, Aart; Ventura, Jaume.

Verboven, Frank
TI   Market Integration and Convergence to the Law of One Price: Evidence from the European Car Market. AU   Goldberg, Pinelopi Koujianou; Verboven, Frank.

Verhoogen, Eric
PD   September 2002. TI   Fairness and Freight-Handlers: A Test of Fair-Wage Theory in a Trucking Firm. AU   Verhoogen, Eric; Burks, Stephen V.; Carpenter, Jeffrey P. AA   Verhoogen: UC Berkeley. Burks: University of Minnesota, Morris. Carpenter: Middlebury College. SR   University of California, Berkeley, The Center for Labor Economics Working Paper: 56; The Center for Labor Economics, University of California, Berkeley, 549 Evans Hall, #3880, Berkeley, CA 94720-3380.   Website: elsa.berkeley.edu/users/cle/wpapers.html. PG   33. PR   free copies available electronically through website. JE   J31, J33, J64, L92. KW   Wage Fairness. Trucking. Unemployment. Freight-Handlers.
AB   We draw on evidence from an internal attitude survey in a national, unionized trucking firm to investigate the factors that influence employees' wage-fairness perceptions and the effect of such perceptions on employee performance. We find a robust association between the rate of unemployment in the local labor market and wage-fairness perceptions of employees in the firm, which we argue reflects a causal relationship. The gap between an individual employee's current wage and her predicted wage in the outside labor market has a similar, but less robust, effect. We also find modest support for the proposition that increases in wage-fairness perceptions generate improvements in employee performance, as measured by the rate of disciplinary dismissals.

Verma, Sujata
TI   Rescue Packages and Output Losses Following Crises. AU   Dooley, Michael P.; Verma, Sujata.

Veronesi, Pietro
TI   Labor Income and Predictable Stock Returns. AU   Santos, Tano; Veronesi, Pietro.

PD   September 2001. TI   Belief Dependent Utilities, Aversion to State-Uncertainty and Asset Prices. AA   University of Chicago and CEPR. SR   CEPR Discussion Paper: 2965; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG   not available. PR   5 pounds, $8 or 8 euros. JE   D81, G12. KW   Asset Pricing. State Dependent Preferences. Uncertainty Aversion.
AB   This paper reinterprets standard axioms in choice theory to introduce the concepts of "belief dependent" utility functions and aversion to "state-uncertainty." It shows that this type of preference helps to explain the various stylized facts of asset returns, including a high equity risk premium, a low risk-free rate, a high return volatility, stock return predictability and volatility clustering. In one particular specification consistent with habit formation preferences, I also argue that "aversion to state-uncertainty" gives rise to "aversion to long-run risk," that is, to the uncertainty surrounding the long-run average of future consumption. In order to solve for asset prices and returns under general conditions about the hidden state variable, the paper also develops a discretization methodology to obtain approximate analytical solutions. In a parsimonious parameterization, I then show that the model calibrated to real consumption generates unconditional moments for asset returns that closely match the empirical ones. Finally, due to the estimated time-variation in the dispersion of the conditional distribution on the drift rate of consumption, the model also generates a time series of conditional return volatility in line with the ex-post integrated volatility of stock returns.

Viegi, Nicola
TI   Labour Market Reform and Monetary Policy in EMU: Do Asymmetries Matter? AU   Hughes Hallett, Andrew; Viegi, Nicola.

Vieille, Nicolas
TI   On the MaxMin Value of Stochastic Games with Imperfect Monitoring. AU   Rosenberg, Dinah; Solan, Eilon; Vieille, Nicolas.

von Haefen, Roger H.
PD   February 2002. TI   Modeling Consumer Demand for a Large Set of Quality Differentiated Goods: Estimation and Welfare Results from a Systems Approach. AU   von Haefen,

Roger H.; Phaneuf, Daniel J.; Parsons, George R. **AA** von Haefen: U.S. Bureau of Labor Statistics. Phaneuf: North Carolina State University. Parsons: University of Delaware. **SR** U.S. Bureau of Labor Statistics Economic Working Paper: 353; BLS Economic Working Paper Series, c/o Glenda Driggers, 4945 Postal Square Building, 2 Massachusetts Avenue NE, Washington, DC 20212. Website: www.bls.gov/ore/orecatlg.htm. **PG** 24. **PR** no charge. **JE** C15, D12, D16, Q26. **KW** Welfare Measurement. Demand System Estimation. Simulation.
AB We develop an approach for estimating individual level preferences for a large set of quality differentiated goods and for constructing Hicksian welfare measure for price and quality changes within a demand system framework. Our approach uses a simulated maximum likelihood estimation procedure for recovering estimates of the structural parameters and an adaptive Metropolis-Hastings algorithm for constructing Hicksian consumer surplus estimates. We illustrate our approach with a recreation data set consisting of day trips to 62 Mid- Atlantic beaches.

Wagner, Caroline S.
PD March 2001. **TI** Science and Technology Collaboration: Building Capacity in Developing Countries? **AU** Wagner, Caroline S.; Brahmakulam, Irene; Jackson, Brian; Wong, Anny; Yoda, Tatsuro. **AA** RAND Corporation. **SR** RAND Corporation Report: MR/1357.0/WB; Distribution Services, RAND Corporation, 1700 Main Street, PO Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. **PG** 90. **PR** $10.00. **JE** D24, O30. **KW** Developing Countries. International Cooperation. Technology. Capacity.
AB This report analyzes spending and publication data and examines relevant literature to determine whether funds from the wealthiest S&T performing countries are supporting collaboration with the developing world. It investigates whether funds being spent by scientists working across national boundaries on collaborative projects are building S&T capacity in developing countries. Trends in S&T collaboration are examined for evidence of increasing capacity in the developing world. The benefits of collaboration to parties in both developed and developing countries are discussed. An index of S&T capacity for 150 countries of the world is included; publications are mapped to show patterns of international linkages. Comments by scientists working collaboratively are included to shed light on the nature of these relationships.

Wakelin, Katharine
TI Regional Underdevelopment: Is FDI the Solution? A Semiparametric Analysis. **AU** Girma, Sourafel; Wakelin, Katharine.

Walker, Ian
TI Dispersion in the Economic Return to Schooling. **AU** Harmon, Colm; Hogan, Vincent; Walker, Ian.

Wallner, Klaus
PD June 2001. **TI** Specific Enlargement and the EU Enlargement. **AA** Oregon State University, Stockholm School of Economics, and CEPR. **SR** CEPR Discussion Paper: 2837; 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** D71, F02, F15. **KW** EU Enlargement. Hold-Up Problems. Sunk Costs.
AB This paper analyses a hold-up problem in the EU enlargement process. EU-specific anticipatory investments of private firms lower the governments outside option. The EU takes advantage of the applicants' increased dependency and extracts more surpluses through entrance conditions that benefit it and impose huge costs on applicants. If private firms pay less than the full entrance fee in taxes, enlargement immiserizes the entrant. While in practice an applicant may possess sufficient bargaining power to avoid immiserization, the hold-up problem reduces its potential gains from joining the EU. This result suggests that previous calculations, ignoring both the applicants' costs of joining the EU and the dynamics of their bargaining position during the negotiations, overestimate the welfare effects of membership.

PD June 2001. **TI** Price Wars in Finite Sequential Move Price Competition. **AA** Oregon State University, Stockholm School of Economics, and CEPR. **SR** CEPR Discussion Paper: 2850; 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** C72, C73, D43, L13. **KW** Discounting. Finite Games. Price Wars. Sequential Moves.
AB This paper characterizes the unique Markov equilibrium in the sequential move, finite horizon pricing duopoly with discounting. Simple, short cycles repeat until the last two periods. For discount factors above 0.75488, there are three-period reaction function cycles and below 0.75488, two-period cycles. The equilibrium path in the latter case has continued E-undercutting at high prices, followed by infrequent but regular price wars. In a price war, a firm lowers all the way to a trigger level low enough to induce rivals to raise prices in the next period. While the price war is costly, both firms benefit in form of a higher market price in the following periods. Average long-run industry profits are bounded below by half the monopoly level, and are non-monotonic in the discount factor.

Wang, Jiang
TI Asset Prices and Trading Volume Under Fixed Transactions Costs. **AU** Lo, Andrew W.; Mamaysky, Harry; Wang, Jiang.

TI Dynamic Volume-Return Relation of Individual Stocks. **AU** Llorente, Guillermo; Michaely, Roni; Saar, Gideon; Wang, Jiang.

TI Trading Volume: Implications of An Intertemporal Capital Asset Pricing Model. **AU** Lo, Andrew W.; Wang, Jiang.

Warnock, Francis E.
TI A Simple Measure of the Intensity of Capital Controls. **AU** Edison, Hali J.; Warnock, Francis E.

PD April 2002. **TI** Financial Centers and the Geography of Capital Flows. **AU** Warnock, Francis E.; Cleaver, Chad. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 722; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 43. **PR** no charge. **JE** C82, F32, G15. **KW** Portfolio Flows.

Equity and Bond Flows. International Investment Position. Net Foreign Assets.

AB We examine an assumption common in empirical work on bilateral portfolio capital flows that the countries the flows are attributed to are also the countries of the security's issuer, seller, or ultimate buyer. We estimate U.S. investors' holdings of debt and equities in over 40 countries and, for the same countries, foreign investors' holdings of U.S. debt and equities. A comparison of our estimates with data from benchmark surveys provides insight into U.S. data on international debt and equity transactions. We find that the data do not track the location of U.S. investment or the location of investors in U.S. assets very well. Because the U.S. portfolio flow data collection system was designed to measure cross-border transactions with foreign counterparties who are often intermediaries, the majority of the flows are attributed to financial centers. By aggregating our country-level estimates, we find that U.S. data accurately portray net inflows into U.S. equities and net outflows into foreign bonds. However, the data substantially overcount net inflows into U.S. bonds and may undercount net outflows into foreign equities. We conclude with a discussion of the implications of our findings.

Watson, Mark W.

TI Prices, Wages and the U.S. NAIRU in the 1990s.
AU Staiger, Douglas; Stock, James H.; Watson, Mark W.

Wechsler, Henry

TI Alcohol and Marijuana Use Among College Students: Economic Complements or Substitutes? AU Chaloupka, Frank J.; Pacula, Rosalie Liccardo; Wechsler, Henry; Williams, Jenny.

TI Alcohol and Marijuana Use Among College Students: *Economic Complements or Substitutes?* AU Chaloupka, Frank J.; Pacula, Rosalie Liccardo; Wechsler, Henry; Williams, Jenny.

Weeds, Helen

TI Irreversible Investment with Strategic Interactions.
AU Mason, Robin; Weeds, Helen.

Wei, Shang-Jin

TI Limiting Currency Volatility to Stimulate Goods Market Integration: A Price Based Approach. AU Parsley, David C.; Wei, Shang-Jin.

TI Limiting Currency Volatility to Stimulate Goods Market Integration: A Price-Based Approach. AU Parsley, David C.; Wei, Shang-Jin.

TI Pollution Havens and Foreign Direct Investment: Dirty Secret or Popular Myth? AU Smarzynska, Beata; Wei, Shang-Jin.

TI Corruption and Foreign Direct Investment: Firm-Level Evidence. AU Smarzynska, Beata; Wei, Shang-Jin.

TI Tax Rates and Tax Evasion: Evidence from "Missing Imports" in China. AU Fisman, Raymond; Wei, Shang-Jin.

Weinberg, Steven A.

PD August 2001. TI *Interpreting the Volatility Smile: An Examination of the Information Content of Option Prices.* AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 706; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 43. PR no charge. JE F31, G13, G15. KW Foreign Exchange. Derivative Asset Pricing. Probability Density Functions. Option Prices.

AB This paper evaluates how useful the information contained in options prices is for predicting future price movements of the underlying assets. We develop an improved semiparametric methodology for estimating risk-neutral probability density functions (PDFs), which allows for skewness and intertemporal variation in higher moments. We use this technique to estimate a daily time series of risk-neutral PDFs spanning the late 1980's through 1999, for S&P 500 futures, U.S. dollar/Japanese yen futures and U.S. dollar/deutsche mark futures, using options on these futures. For the foreign exchange futures, we find little discernable additional information contained in the estimated PDFs beyond the information derived from the Black-Scholes model, a fully parametric specification. For S&P 500 futures, we find that the risk-neutral distribution implied by the volatility smile better fits the realized returns than the Black-Scholes model, although this better overall fit is not exhibited in the second and third moments.

Weinstein, David E.

TI *Do Factor Endowments Matter for North-North Trade?*
AU Davis, Donald R.; Weinstein, David E.

TI Bones, Bombs and Break Points: The Geography of Economic Activity. AU Davis, Donald R.; Weinstein, David E.

TI Market Size, Linkages, and Productivity: A Study of Japanese Regions. AU Davis, Donald R.; Weinstein, David E.

TI What Role for Empirics in International Trade? AU Davis, Donald R.; Weinstein, David E.

Welsh, Janet

TI The Management of Pay as the Influence of Collective Bargaining Diminishes. AU Brown, William; Marginson, Paul; Welsh, Janet.

Wennberg, John E.

TI The Efficiency of Medicare. AU Skinner, Jonathan; Fisher, Elliott; Wennberg, John E.

West, Martin

PD October 2000. TI State Intervention in English Education, 1833-1891: A Public Goods and Agency Approach. AA Harvard University. SR University of Oxford, Discussion Papers in Economic and Social History: 37; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.nuff.ox.ac.uk/economics/history/. PG 33. PR no charge. JE H41, I21, I28, N33. KW Education. State Intervention. Institutions. Public Good.

AB By anachronistically attributing the origin and growth of popular education entirely to state intervention, standard histories of state education have failed to delimit sufficiently the state's role in educational development. This paper offers a theoretically based examination of the British state's

intervention in the emerging market for popular education in England during the nineteenth century. It complements conventional neoclassical analysis with recent developments from the fields of methodological individualism and "new institutional" economics to identify the specific reasons the state first became involved in mass education. The eventual national system of state- provided, free elementary schools, managed by local representative bodies and funded in part through local rates is re-conceptualized as an imperfect solution to problems inherent in achieving an optimal level of schooling in the emerging mass market for education.

Wey, Christian
TI Bargaining, Mergers and Technology Choice in Bilaterally Oligopolistic Industries. **AU** Inderst, Roman; Wey, Christian.

White, Lucy
TI Precautionary Bidding in Auctions. **AU** Eso, Peter; White, Lucy.

Wigger, Berthold
TI Trade Union Objectives and Economic Growth. **AU** Irmen, Andreas; Wigger, Berthold.

Wilcox, David W.
TI Fiscal Policy and Social Security Policy During the 1990s. **AU** Elmendorf, Douglas W.; Liebman, Jeffrey B.; Wilcox, David W.

Wilhelm, William J., Jr.
TI IPO Allocations: Discriminatory or Discretionary? **AU** Ljungqvist, Alexander P.; Wilhelm, William J., Jr..

TI Evidence of Information Spillovers in the Production of Investment Banking Services. **AU** Benveniste, Lawrence M.; Ljungqvist, Alexander P.; Wilhelm, William J., Jr..; Yu, Xiaoyun.

Wilkinson, Frank
TI Partnership, Ownership and Control: The Impact of Corporate Governance on Employment Relations. **AU** Deakin, Simon; Hobbs, Richard; Konzelmann, Sue; Wilkinson, Frank.

PD June 2001. **TI** The Theory and Practice of Wage Subsidisation: Some Historical Reflections. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP201; CBR, Judge Institute of Management Building, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, United Kingdom. Website: www.cbr.cam.ac.uk. **PG** 25. **PR** $10.00/5 pounds/EUROS 8; checks payable to University of Cambridge. **JE** I38, J30. J40, J60, J78. **KW** Wage Supplementation. Social Welfare. Wage Subsidies. Unemployment. **AB** Economists explain welfare dependency of the unemployed and in-work poverty by the low labor market quality of the poor. Work can be made to pay by working family tax credits. But these might lower wages and price non-recipients out of the market, widening the eligibility for the wage supplementation and raising social welfare bills. This was precisely the effect of the Speenhamland system of wage supplementation of the early 19th Century, which permanently affected labor markets and attitudes to welfare and the poor.

The possibility of working family tax credit having a similar effect cannot be ruled out.

Williams, John C.
TI Investment, Capacity, and Uncertainty: A Putty-Clay Approach. **AU** Gilchrist, Simon; Williams, John C.

TI Imperfect Knowledge, Inflation Expectations, and Monetary Policy. **AU** Orphanides, Athanasios; Williams, John C.

Willis, Jonathan L.
TI The Economics of Labor Adjustment: Mind the Gap. **AU** Cooper, Russell W.; Willis, Jonathan L.

TI The Economics of Labor Adjustment: Mind the Gap. **AU** Cooper, Russell W.; Willis, Jonathan L.

Winkelmann, Rainer
PD October 2001. **TI** Health Care Reform and the Number of Doctor Visits -- An Econometric Analysis. **AA** University of Zurich and CEPR. **SR** CEPR Discussion Paper: 3021; 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** C25, I11, I18. **KW** Co-Payment. Count Data. Moral Hazard. Germany. Health Care Reform. Probit. Possion. Log-Normal. **AB** The paper evaluates the German health care reform of 1997, using the individual number of doctor visits as outcome measure. A new econometric model, the Probit-Poisson-log-normal model with correlated errors, describes the data better than existing count data models. Moreover, it has an attractive structural interpretation, as it allows the reforms to have a different effect at different parts of the distribution. The overall effect of the reform was a 10 percent reduction in the number of doctor visits. The effect was much larger in the lower part of the distribution than in the upper part.

Winter, Joachim K.
TI Aging and International Capital Flows. **AU** Boersch-Supan, Axel H.; Ludwig, Alexander; Winter, Joachim K.

TI Population Aging, Savings Behavior and Capital Markets. **AU** Boersch-Supan, Axel H.; Winter, Joachim K.

Wolfram, Catherine
TI Pharmaceutical Prices and Political Activity. **AU** Ellison, Sara Fisher; Wolfram, Catherine.

Wolinsky, Asher
TI Game Theory and Industrial Organization. **AU** Bagwell, Kyle; Wolinsky, Asher.

TI Rationalizable Outcomes of Large Independent Private-Value First- Price Discrete Auctions. **AU** Dekel, Eddie; Wolinsky, Asher.

TI Second Opinions and Price Competition: Inefficiency in the Market for Expert Advice. **AU** Pesendorfer, Wolfgang; 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: 1305; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 17. **PR** $3.00 U.S.; $5.00 via international mail; $2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** H21, H24. **KW** Property Tax. Incentives. Property Ownership.

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 prices. 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.

Wollny, Clemens B. A.

PD December 2001. **TI** The Need to Conserve Farm Animal Genetic Resources Through Community-Based Management in Africa: Should Policy Makers be Concerned? **AA** University of Goettingen. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2001/105; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it. **PG** 17. **PR** no charge; available only on website. **JE** Q12, Q16, Q18. **KW** Farm Animals. Genetic Resources. Breed. Community Management. Policy Development. Conservation. Diversity.

AB This paper outlines some key factors contributing to the erosion of animal genetic resources (AnGR) and discusses strategic options for livestock sector policy makers to counter such erosion. It is argued that to improve food security through the conservation of AnGR will depend on the ability of communities to decide on and implement appropriate breeding strategies. This cannot be realized without enabling policies. An action plan for conservation of AnGR is proposed for policy makers in Africa. This should include, inter alia, the removal of perverse incentives, controlled crossbreeding and the promotion of decentralized community-based management and full stakeholder participation.

Wolman, Alexander L.

TI The Pitfalls of Discretionary Monetary Policy. **AU** Khan, Aubhik; King, Robert G.; Wolman, Alexander L.

TI Optimal Monetary Policy. **AU** Khan, Aubhik; King, Robert G.; Wolman, Alexander L.

Wong, Anny

TI Science and Technology Collaboration: Building Capacity in Developing Countries? **AU** Wagner, Caroline S.; Brahmakulam, Irene; Jackson, Brian; Wong, Anny; Yoda, Tatsuro.

TI Science and Technology Collaboration: Building Capacity in Developing Countries? **AU** Wagner, Caroline S.; Brahmakulam, Irene; Jackson, Brian; Wong, Anny; Yoda, Tatsuro.

Wong, Gary K. K.

TI Modelling Regular and Estimable Inverse Demand Systems: A Distance Function Approach. **AU** McLaren, Keith R.; Wong, Gary K. K.

Wright, Gavin

TI Early Twentieth Century Productivity Growth Dynamics: An Inquiry into the Economic History of "Our Ignorance". **AU** David, Paul A.; Wright, Gavin.

Wright, Jill

TI Bayesian Estimation of a Stochastic Volatility Model Using Option and Spot Prices. **AU** Forbes, Catherine S.; Martin, Gael M.; Wright, Jill.

Wright, Jonathan H.

TI An Empirical Comparison of Bundesbank and ECB Monetary Policy Rules. **AU** Faust, Jon; Rogers, John H.; Wright, Jonathan H.

TI Exchange Rate Forecasting: The Errors We've Really Made. **AU** Faust, Jon; Rogers, John H.; Wright, Jonathan H.

TI Identifying VARs Based on High Frequency Futures Data. **AU** Faust, Jon; Swanson, Eric; Wright, Jonathan H.

Wyplosz, Charles

TI The International Lender of Last Resort: How Large is Large Enough? **AU** Jeanne, Olivier; Wyplosz, Charles.

TI When Does Capital Account Liberalization Help More than it Hurts? **AU** Arteta, Carlos; Eichengreen, Barry; Wyplosz, Charles.

TI When Does Capital Account Liberalization Help More Than it Hurts? **AU** Arteta, Carlos; Eichengreen, Barry; Wyplosz, Charles.

Yang, Steffi J. H.

TI The Impact of Technical Analysis on Asset Price Dynamics. **AU** Satchell, Stephen E.; Yang, Steffi J. H.

Yang, Zhenlin

PD November 2002. **TI** A Class of Nonlinear Stochastic Volatility Models and Its Implications on Pricing Currency Options. **AU** Yang, Zhenlin; Yu, Jun; Zhang, Xibin. **AA** Yang: University of Singapore. Yu: University of Auckland. Zhang: Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 17/2002; Department of Econometrics and Business Statistics, Monash University, Clayton, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/Depts/EBS/. **PG** 22. **PR** no charge. **JE** C22, C52, G12. **KW** Box-Cox Transformations. Stochastic Volatility. MCMC. Exchange Rate Volatility. Option Pricing.

AB This paper proposes a class of stochastic volatility (SV) models which offers an alternative to the one introduced in Andersen (1994). The class encompasses all standard SV models that have appeared in the literature, including the well known lognormal model, and allows us to empirically test all standard specifications in a convenient way. We develop a likelihood-based technique for analyzing the class. Daily dollar/pound exchange rate data reject all the standard models and suggest evidence of nonlinear SV. An efficient algorithm is

proposed to study the implications of this nonlinear SV on pricing currency options and it is found that the lognormal model overprices options.

Yashiv, Eran
TI   A Macroeconomic Experiment in Mass Immigration.
AU   Hercowitz, Zvi; Yashiv, Eran.

Yetman, James
TI   Predetermined Prices and the Persistent Effects of Money on Output. AU   Devereux, Michael B.; Yetman, James.

Yorukoglu, Mehmet
TI   Engines of Liberation.   AU   Greenwood, Jeremy; Seshadri, Ananth; Yorukoglu, Mehmet.

Young, Alwyn
PD   October   2001.   TI   Demographic   Fluctuations, Generational   Welfare   and   Intergenerational   Transfers. AA   University of Chicago and NBER.   SR   National Bureau of Economic Research Working Paper: 8530; National Bureau of Economic Research, 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   the   U.S.).   JE   D60,   D90,   I30,   J11. KW   Ramsey Model. Generational Welfare. Intergenerational Transfers. Baby Boom.
AB   This paper extends the Ramsey model's normative analysis to issues of generational welfare and intergenerational transfers. A planner, who maximizes the discounted welfare of an endless stream of generations, is intrinsically biased against larger cohorts, which are more costly to provide utility. Imperfect production substitutability produces a market bias against baby booms as well, lowering their lifetime income. The market bias, however, tends to be greater than that of the planner, who provides the baby boom cohort with more favorable lifetime transfers. Intuitively, the baby boom benefit is from temporarily reduced elderly dependency, allowing greater lifetime consumption relative to lifetime income. Declining   population   growth   leads   to   rising   elderly dependency, which the planner supports with increasing intergenerational transfers. Secularly rising social security taxes, and declining lifetime returns, with baby boom cohort receiving more favorable treatment than their heavily burdened successors, are consistent with the wishes of a social planner in an environment with declining population growth.

Yu, Jun
TI   Estimation   of Hyperbolic Diffusion using MCMC Method. AU   Tse, Yiu Kuen; Yu, Jun; Zhang, Xibin.

TI   A Class of Nonlinear Stochastic Volatility Models and Its Implications on Pricing Currency Options.   AU   Yang, Zhenlin; Yu, Jun; Zhang, Xibin.

Yuen, Chi-Wa
TI   The "New Keynesian" Phillips Curve: Closed Economy vs. Open Economy.   AU   Razin, Assaf; Yuen, Chi-Wa.

Zenou, Yves
TI   The Importance of the Distribution of Consumers in Horizontal Product Differentiation.   AU   Calvo Armengol, Antoni; Zenou, Yves.

Zhang, Lei
TI   Exchange Rate Monitoring Bands: Theory and Policy.
AU   Corrado, Luisa; Miller, Marcus; Zhang, Lei.

Zhang, Xibin
TI   Estimation   of   Hyperbolic   Diffusion   using   MCMC Method. AU   Tse, Yiu Kuen; Yu, Jun; Zhang, Xibin.

TI   A Class of Nonlinear Stochastic Volatility Models and Its Implications   on   Pricing   Currency   Options.   AU   Yang, Zhenlin; Yu, Jun; Zhang, Xibin.

TI   Influence Diagnostics in GARCH Processes.   AU   King, Maxwell L.; Zhang, Xibin.

Zhao, Xueyan
PD   October 2002.   TI   Who Bears the Burden and who Receives the Gain? -- The Case of GWRDC R&D Investments in the Australian Grape and Wine Industry.   AA   Monash University.   SR   Monash Department of Econometrics and Business Statistics Working Paper: 15/2002; Department of Econometrics and Business Statistics, Monash University, Clayton,   Victoria   3800,   Australia.   Website: www.buseco.monash.edu.au/Depts/EBS/.   PG   16.   PR   no charge.   JE   C69, D61, H43, Q13, Q16, Q18.   KW   R&D Promotion. Levy Incidence. Wine Industry. Equilibrium Displacement.
AB   It is only when R&D levies are invested in the sectors in which they are raised that the distribution of the benefits among industry sectors is exactly the same as the incidence of the levies. This paper examines the distributions of both costs and returns from the Australian grape and wine R&D investments and the divergence between the two distributions. The real shares of R&D costs are estimated through the incidence of the levies and compared with the nominal shares. Grape- growers, winemakers and overseas consumers are shown to receive bigger proportions of gains than their proportions of costs, but the Australian government and other domestic parties as a group bear a much higher proportion of costs than returns. The paper discussed implications of results to the equity issue between premium and non- premium producers, the free-rider issue for overseas consumers, and the justification of government funding of grape and wine R&D.

Zheng, Charles
PD   September 2000.   TI   An Optimal Auction When Resale Cannot Be Prohibited.   AA   Northwestern University. SR   Northwestern   University,   Center   for   Mathematical Studies in Economics and Management Science Discussion Paper: 1303; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/.   PG   40. PR $3.00   U.S.; $5.00   via   international   mail; $2.00 Northwestern   faculty/students;   make   check   payable   to Northwestern University.   JE   D44, D82.   KW   Auction. Optimal Auction. Resale. Secondary Market. Collusion.
AB   A criticism of auction theory was that resales may wash away the impact of auction design, with bidders able to buy the good later. This paper considers a seller's auction-design problem   when   they   cannot   prohibit   resales.   The   new mechanism designed here uses a novel payment scheme to cut off the unwanted information linkage between auctions and resales, and it subsidizes the disadvantaged bidder -- even more than the "optimal" auction would do -- so that he will choose to

resell the good at prices desirable for the initial seller. Expecting such prices, the advantaged bidder cannot profit from distorting bids. Motivating the disadvantaged bidder by the subsidy and resale profit, the new mechanism intensifies the bidding competition and optimizes for the initial seller. Due to the subsidy, with a positive probability the good ends with a bidder who values it less than others. Consequently, an optimally designed auction can still manipulate where a good will eventually go, despite bidders' free access to resales.

Ziderman, Adrian
TI   Can Vocational Education Improve the Wages of Minorities and Disadvantaged Groups? The Case of Israel. AU   Neuman, Shoshana; Ziderman, Adrian.

Zizzo, Daniel J.
TI   Strategy Learning in 3x3 Games by Neural Networks. AU   Sgroi, Daniel; Zizzo, Daniel J.

Zoega, Gylfi
TI   Is Wage Compression a Necessary Condition for Firm-Financed General Training? AU   Booth, Alison L.; Zoega, Gylfi.

Zoghi, Cindy
PD   December 2002. TI   The Distribution of Decision Rights within the Workplace: Evidence from Canadian, Australian and UK Establishments. AA   U.S. Bureau of Labor Statistics. SR   U.S. Bureau of Labor Statistics Economic Working Paper: 363; BLS Economic Working Paper Series, c/o Glenda Driggers, 4945 Postal Square Building, 2 Massachusetts Avenue NE, Washington, DC 20212. Website: www.bls.gov/ore/orecatlg.htm. PG   26. PR   no charge. JE   D21, D23, L23. KW   Decision Rights. Hierarchies. Decentralization.
AB   The optimal allocation of decision rights in an organization reflects ·a trade-off between the costs of transferring relevant information within the hierarchy and the costs that occur when decision-making agents have different objectives than the principal. This paper is a first attempt to quantitatively analyze the allocation of decision rights within the workplace. I use detailed questions on decision-making from three separate data sets to measure the decentralization of decision rights within the hierarchy, to determine what establishment characteristics are related to the location of decision rights, and to examine what human resource practices are correlated with centralization.

Zoido, Elena
TI   The Returns to Speaking a Second Language. AU   Saiz, Albert; Zoido, Elena.

Zolkiewski, Zbigniew
TI   The Effect of Ownership and Competitive Pressure on Firm Performance in Transition Countries, Micro Evidence from Bulgaria, Romania and Poland. AU   Angelucci, Manuella; Estrin, Saul; Konings, Jozef; Zolkiewski, Zbigniew.

Zucker, Lynne G.
PD   October 2001. TI   Commercializing Knowledge: University Science, Knowledge Capture, and Firm Performance in Biotechnology. AU   Zucker, Lynne G.; Armstrong, Jeff S.;

Darby, Michael R. AA   Zucker and Darby: UCLA and NBER. Armstrong: Analysis Group. SR   National Bureau of Economic Research Working Paper: 8499; 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   L14, L65, O31, O32. KW   Commercializing Knowledge. Discovery. Patents.
AB   Commercializing knowledge involves transfer from discovering scientists to those who will develop it commercially. New codes and formulae describing discoveries develop slowly -- with little incentive if value is low and many competing opportunities if high. Hence new knowledge remains naturally excludable and appropriable. Team production allows more knowledge capture of tacit, complex discoveries by firm scientists. A robust indicator of a firm's tacit knowledge capture is the number of research articles written jointly by firm scientists and discovering, "star" scientists, nearly all working at top universities. An operationally attractive generalization of our star measure -- collaborative research articles between firm scientists and top research university scientists -- replicates the impact on firm success. In panel analyses, publications by firm scientists with stars and/or top-112 university scientists increase the number and citation rate for firm patents. Further, star articles increase these rates significantly more than other top-112 university scientists' articles. Ross-sectional analyses of products and employment show a similar pattern of positive effects on firms' success of collaborations with stars or top university scientists, but estimates of differential effects are non-robust due to multicollinearity. Venture capital funding has significant, usually positive effects on firm success.