

ABSTRACTS OF WORKING PAPERS IN ECONOMICS

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Aboody, David

PD December 2003. **TI** SFAS 123 Stock-Bases Compensation Expense and Equity Market Values. **AU** Aboody, David; Barth, Mary E.; Kasznik, Ron. **AA** Aboody: UCLA. Barth and Kasznik: Stanford University. **SR** Stanford Graduate School of Business Research Paper: 1694(R); Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 43. **PR** no charge. **JE** G12, M40. **KW** Accounting. Instrumental Variables Approach.

AB This study investigates the relation between share price and stock-based compensation expense that is disclosed but not recognized under SFAS 123, after controlling for net income, equity book value, and expected earnings growth. Our instrumental variables approach controls for the mechanical relation between share price and option values. We find that investors view SFAS 123 expense as an expense of the firm, and as sufficiently reliable to be reflected in their valuation assessments. Findings based on annual returns indicate SFAS 123 expense reflects on a timely basis changes in investor-perceived costs associated with stock-based compensation.

PD December 2003. **TI** Firms' Voluntary Recognition of Stock-Based Compensation Expense. **AU** Aboody, David; Barth, Mary E.; Kasznik, Ron. **AA** Aboody: UCLA. Barth and Kasznik: Stanford University. **SR** Stanford Graduate School of Business Research Paper: 1795(R); Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 50. **PR** no charge. **JE** J33, M40. **KW** Stock-Based Compensation Expense. Incentives of Top Management. Transparency.

AB This study investigates factors associated with firms' decisions in 2002 and early 2003 to recognize stock-based compensation expense under Statement of Financial Accounting Standards (SFAS) No. 123. We find that the likelihood of SFAS 123 expense recognition is significantly related to the extent the firm is active in capital markets, private incentives of top management and members of the board of directors, the extent of information asymmetry, and political costs. Although recognizing firms have significantly smaller SFAS 123 expense, we find no significant incremental relation between recognition likelihood and SFAS 123 expense magnitude after controlling for other factors we expect explain the recognition decision. We also find significant positive announcement returns for earlier announcing firms, particularly those stating that increased earnings transparency motivates their decision.

Adda, Jerome

PD October 2001. **TI** Smoking and Endogenous Mortality: Does Heterogeneity in Life Expectancy Explain Differences in Smoking Behavior? **AU** Adda, Jerome; Lechene, Valerie. **AA** Adda: University College London and IFS. Lechene: University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 77; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 37. **PR** only available electronically through website. **JE** D11, D12, I12. **KW** Endogenous Mortality. Potential Life Expectancy. Smoking. Rational Addiction. Health.

AB This paper proposes a joint model of tobacco consumption and mortality over the life-cycle. The decision to smoke is a trade off between current utility derived from smoking and a mortality risk increasing with age. Individuals with a longer potential life expectancy have more incentive to cut back on smoking and thus self select out of smoking. Using detailed data on mortality, morbidity and smoking we are able to identify this selection effect. We empirically evaluate its importance in explaining heterogeneity in smoking behavior among adults. We find that heterogeneity in potential life expectancy explains part of the heterogeneity in smoking behavior, even when conditioning on sex, education and occupation and information on other risky behavior. When we embed heterogeneous potential life expectancies within a rational addiction model of smoking, we find that the model is able to match the life cycle profiles of smoking.

Aghion, Philippe

PD October 2002. **TI** Competition and Innovation: An Inverted U Relationship. **AU** Aghion, Philippe; Bloom, Nicholas; Blundell, Richard; Griffith, Rachel; Howitt, Peter. **AA** Aghion: Harvard University and NBER. Bloom and Griffith: Institute for Fiscal Studies. Blundell: University College London. Howitt: Brown University and NBER. **SR** National Bureau of Economic Research Working Paper: 9269; Working Papers, NBER, 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 U.S.). **JE** L16, O31. **KW** Product Market Competition. Innovation. Patents. Inverted U.

AB This paper investigates the relationship between product market competition (PMC) and innovation. A growth model is developed in which competition may increase the incremental profit from innovating; on the other hand, competition may also reduce innovation incentives for laggards. There are four key predictions. First, the relationship between product market competition (PMC) and innovation is an inverted U-shape.

Second, the equilibrium degree of technological "neck-and-neckness" among firms should decrease with PMC. Third, the higher the average degree of "neck-and-neckness" in an industry, the steeper the inverted-U relationship. Fourth, firms may innovate more if subject to higher debt-pressure, especially at lower levels of PMC. We test these predictions with data on UK firms' patenting activity at the US patenting office. They are found to accord well with observed behavior.

Aizenman, Joshua

PD October 2002. **TI** The High Demand for International Reserves in the Far East: What's Going On? **AU** Aizenman, Joshua; Marion, Nancy. **AA** Aizenman: University of California, Santa Cruz and NBER. Marion: Dartmouth College. **SR** National Bureau of Economic Research Working Paper: 9266; 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** F31, F32, F34. **KW** International Reserves. Far East. Asian Financial Crisis.

AB This paper explores econometric and theoretical interpretations of the relatively high demand for international reserves by countries in the Far East and the relatively low demand by some other developing countries. Using a sample of about 125 developing countries, we show that reserve holdings over the 1980-1996 period seem to be the predictable outcome of a few key factors, such as the size of international transactions, their volatility, the exchange-rate arrangement, and political considerations. The estimating equation does a good job of predicting reserve holdings in Asia before the 1997 financial crisis. After the crisis, the estimating equation significantly under-predicts the reserve holdings of several key Far East countries, as one might expect from the Lucas Critique. This under-prediction is consistent with models explaining reserve demand in developing countries. Specifically, we show that sovereign risk and costly tax collection to cover fiscal liabilities lead to a relatively large precautionary demand for international reserves. In the aftermath of a crisis, countries that have to deal with higher perceived sovereign risk and higher fiscal liabilities (both funded and unfunded) will opt to increase their demand for reserves.

PD November 2002. **TI** Institutional Efficiency, Monitoring Costs, and the Investment Share of FDI. **AU** Aizenman, Joshua; Spiegel, Mark M. **AA** Aizenman: UCSC and NBER. Spiegel: Federal Reserve Bank of San Francisco. **SR** National Bureau of Economic Research Working Paper: 9324; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 16. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F21, F23, P14. **KW** Foreign Direct Investment. Corruption. Principal-Agent. Institutions.

AB This paper models and tests the implications of costly enforcement of property rights on the pattern of foreign direct investment (FDI). We posit that domestic agents have a comparative advantage over foreign agents in overcoming some of the obstacles associated with corruption and weak institutions. We model these circumstances in a principal-agent framework with costly ex-post monitoring and enforcement of an ex-ante labor contract. Ex-post monitoring and enforcement costs are assumed to be lower for domestic entrepreneurs than for foreign ones, but foreign producers enjoy a productivity

advantage. We use Mauro's (2001) index of economic corruption as an indicator of the strength of property right enforcement within a given country. We compare corruption levels for a large cross section of countries in 1989 to subsequent FDI flows from 1990 to 1999. We find that corruption is negatively associated with the ratio of subsequent foreign direct investment flows to both gross fixed capital formation and to private investment. This finding is true for both simple cross-sections and for cross-sections weighted by country size.

Akram, Muhammad

TI Invertibility Conditions for Exponential Smoothing Models. **AU** Hyndman, Rob J.; Akram, Muhammad; Archibald, Blyth.

Alcala, Francisco

PD October 2001. **TI** Trade and Productivity. **AU** Alcala, Francisco; Ciccone, Antonio. **AA** Alcala: Universidad de Murcia. Ciccone: Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 580; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. **PG** 51. **PR** papers only available on web page; no hard copies. **JE** F43, O40. **KW** International Trade. Labor Productivity. Trade Policy.

AB We estimate the effect of international trade on average labor productivity across countries. Our empirical approach relies on a summary measure of trade that, we argue, is preferable to the one conventionally used on both theoretical and empirical grounds. In contrast to the marginally significant and non-robust effects of trade on productivity found previously, our estimates are highly significant and robust even when we include institutional quality and geographic factors in the empirical analysis. We also examine the channels through which trade and institutional quality affect average labor productivity. Our finding is that trade works through labor efficiency, while institutional quality works through physical and human capital accumulation. We conclude with an exploratory analysis of the role of trade policies for average labor productivity.

Allen, Franklin

PD March 2003. **TI** Beauty Contests, Bubbles and Iterated Expectations in Asset Markets. **AU** Allen, Franklin; Morris, Stephen; Shin, Hyun Song. **AA** Allen: University of Pennsylvania. Morris: Yale University. Shin: London School of Economics. **SR** Yale Cowles Foundation Discussion Paper: 1406; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 37. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** E44, G12. **KW** Beauty Contests. Bubbles. Rational Expectations. Martingales. Public Information. Asset Prices.

AB In a financial market where traders are risk averse and short lived, and prices are noisy, asset prices today depend on the average expectation today of tomorrow's price. Thus (iterating this relationship) the date 1 price equals the date 1 average expectation of the date 2 average expectation of the date 3 price. This will not in general equal the date 1 average expectation of the date 3 price. We show how this failure of the law of iterated expectations for average belief can help

understand the role of higher order beliefs in a fully rational asset pricing model and explain overreaction to (noisy) public information.

Almazan, Andres

PD January 2004. **TI** Stakeholders, Transparency and Capital Structure. **AU** Almazan, Andres; Suarez, Javier; Titman, Sheridan. **AA** Almazan and Titman: University of Texas. Suarez: CEMFI and CEPR. **SR** CEPR Discussion Paper: 4181; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org/pubs/dps/DP4181.asp. **PG** 35. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D83, G32. **KW** Equity Issuance. Under-Investment. Market Scrutiny. Dynamic Capital Structure.

AB Firms that are more highly levered are forced to raise capital more often, a process that leads to the generation of information. Of course, transparency can improve the allocation of capital. When the information about the firm affects the terms under which the firm transacts with its customers and employees, however, transparency can have an offsetting negative effect. Under relatively general conditions, good news improves these terms of trade less than bad news worsens them, implying that increased transparency can lower firm value. In addition, we show that transparency can reduce the incentives of firms and stakeholders to undertake relationship-specific investments, can lead firms to pass up positive NPV investments that require external funding, and can lead firms to choose more conservative capital structures than they would otherwise choose. These effects are likely to be especially important for technology firms that require a reputation for being on the "leading edge".

Almeida, Heitor

PD October 2002. **TI** Corporate Demand for Liquidity. **AU** Almeida, Heitor; Campello, Murillo; Weisbach, Michael S. **AA** Almeida: New York University. Campello: University of Illinois. Weisbach: University of Illinois and NBER. **SR** National Bureau of Economic Research Working Paper: 9253; 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** D23, D92, G31, G32. **KW** Liquidity. Corporate Cash Policies. Financial Constraints.

AB This paper proposes a theory of corporate liquidity demand and provides new evidence on corporate cash policies. Firms have access to valuable investment opportunities, but potentially cannot fund them with the use of external finance. Firms that are financially unconstrained can undertake all positive NPV projects regardless of their cash position, so their cash positions are irrelevant. In contrast, firms facing financial constraints have an optimal cash position determined by the value of today's investments relative to the expected value of future investments. The model predicts that constrained firms will save a positive fraction of incremental cash flows, while unconstrained firms will not. We also consider the impact of Jensen (1986) style overinvestment on the model's equilibrium, and derive conditions under which overinvestment affects corporate cash policies. We test the model's implications and find that firms classified as financially constrained save a positive fraction of their cash flows, while firms classified as unconstrained do not. Moreover, constrained firms save a

higher fraction of cash inflows during recessions. These results are robust to the use of alternative proxies for financial constraints, and to several changes in the empirical specification. We also find weak evidence consistent with our agency-based model of corporate liquidity.

Alos-Ferrer, Carlos

PD March 2003. **TI** Trees and Decisions. **AU** Alos-Ferrer, Carlos; Ritzberger, Klaus. **AA** Alos-Ferrer: Universidad de Salamanca. Ritzberger: Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 129; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. **Website:** www.ihs.ac.at. **PG** 40. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** C72, D81. **KW** Choice Under Uncertainty. Extensive Form Games. Trees.

AB The traditional model of sequential decision making, for instance, in extensive form games, is a tree. Most texts define a tree as a connected directed graph without loops and a distinguished node, called the root. But an abstract graph is not a domain for decision theory. Decision theory perceives of acts as functions from states to consequences. Sequential decisions, accordingly, get conceptualized by mappings from sets of states to sets of consequences. Thus, the question arises whether a natural definition of a tree can be given, where nodes are sets of states. We show that, indeed, trees can be defined as specific collections of sets. Without loss of generality the elements of these sets can be interpreted as representing plays. Therefore, the elements can serve as states and consequences at the same time.

Alt, Raimund

PD November 2002. **TI** The Day-of-the-Week Effect Revisited: An Alternative Testing Approach. **AU** Alt, Raimund; Fortin, Ines; Weinberger, Simon. **AA** Alt and Fortin: Institute for Advanced Studies. Weinberger: not available. **SR** Institute for Advanced Studies (IHS), Economics Series: 127; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. **Website:** www.ihs.ac.at. **PG** 29. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** C12, C20, G14. **KW** Day-of-the-Week Effect. Multiple Hypotheses. Multiple Comparisons. Closed Test Procedures. Multiple Level a Test.

AB This paper questions traditional approaches for testing the day-of-the-week effect on stock returns. We propose an alternative approach based on the closure test principle introduced by Marcus, Peritz, and Gabriel (1976), which has become very popular in Biometrics and Medical Statistics. We test all pair-wise comparisons of daily expected stock returns, while the probability of committing any type I error is always kept smaller than or equal to some prespecified level α for each combination of true null hypotheses. We confirm day-of-the-week effects for the S&P 500, the FTSE 30, and the DAX 30 found in earlier studies, but find no evidence for the 1990's.

Altonji, Joseph G.

PD November 2002. **TI** An Evaluation of Instrumental Variable Strategies for Estimating the Effects of Catholic Schools. **AU** Altonji, Joseph G.; Elder, Todd E.; Taber, Christopher R. **AA** Altonji: Yale University and NBER. Elder: University of Illinois at Urbana-Champaign. Taber:

Northwestern University and NBER. **SR** National Bureau of Economic Research Working Paper: 9358; 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** C20, I20. **KW** Education.

AB Several previous studies have relied on religious affiliation and the proximity to Catholic schools as exogenous sources of variation for identifying the effect of Catholic schooling on a wide variety of outcomes. Using three separate approaches, we examine the validity of these instrumental variables. We find that none of the candidate instruments is a useful source of identification of the Catholic school effect, at least in currently available data sets.

Amato, Jeffery D.

PD March 2003. **TI** Communication and Monetary Policy. **AU** Amato, Jeffery D.; Morris, Stephen; Shin, Hyun Song. **AA** Amato: Bank for International Settlements. Morris: Yale University. Shin: London School of Economics. **SR** Yale Cowles Foundation Discussion Paper: 1405; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 21. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** D83, E52. **KW** Communication. Monetary Policy. Transparency. Common Knowledge.

AB One role of monetary policy is to coordinate expectations in the economy and greater transparency of monetary policy may lead to greater coordination. However, if transparent monetary policy helps coordinate expectations, then it must also magnify mistakes.

Amir, Rabah

PD May 2003. **TI** Merger Performance Under Uncertain Efficiency Gains. **AU** Amir, Rabah; Diamantoudi, Efrosyni; Xuc, Licun. **AA** Amir: Universite Catholique de Louvain. Diamantoudi and Xuc: University of Aarhus. **SR** CORE Discussion Paper: 2003/38; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 18. **PR** \$5 per paper; \$100 per year. **JE** D43, G34, L11, L22. **KW** Horizontal Merger. Bayesian Cournot Equilibrium. Efficiency Gains. Market Performance.

AB In view of the uncertainty over the ability of merging firms to achieve efficiency gains, we model the post-merger situation as a Cournot oligopoly wherein the outsiders face uncertainty about the merged entity's final cost. At the Bayesian equilibrium, a bilateral merger is profitable provided the non-merged firms sufficiently believe that the merger will generate large enough efficiency gains, even if ex-post none actually materialize. The effects of the merger on market performance are shown to follow similar threshold rules. The findings are broadly consistent with stylized facts. An extensive welfare analysis is conducted, bringing out the key role of efficiency gains and the different implications of consumer and social welfare standards.

Amplatz, Christian

TI The Maastricht Criteria and the Euro: Has the Convergence Continued? **AU** Polasek, Wolfgang; Amplatz, Christian.

Anderlini, Luca

PD January 2004. **TI** Should Courts Always Enforce What Contracting Parties Write? **AU** Anderlini, Luca; Felli, Leonardo; Postlewaite, Andrew. **AA** Anderlini: Georgetown University. Felli: London School of Economics and CEPR. Postlewaite: University of Pennsylvania. **SR** CEPR Discussion Paper: 4197; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4197.asp. **PG** 27. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D74, L14. **KW** Optimal Courts. Informational Externalities. Parties' Ex-Ante Welfare.

AB We find an economic rationale for the common sense answer to the question in our title -- courts should not always enforce what the contracting parties write. We describe and analyze a contractual environment that allows a role for an active court. An active court can improve on the outcome that the parties would achieve without it. The institutional role of the court is to maximize the parties' welfare under a veil of ignorance. We study a buyer-seller model with asymmetric information and ex-ante investments, in which some contingencies cannot be contracted on. The court must decide when to uphold a contract and when to void it. The parties know their private information at the time of contracting, and this drives a wedge between ex-ante and interim-efficient contracts. In particular, some types pool in equilibrium. By voiding some contracts that the pooling types would like the court to enforce, the court is able to induce them to separate, and hence to improve ex-ante welfare.

Anderson, Heather

TI Does Beta React to Market Conditions? Estimates of Bull and Bear Betas Using a Nonlinear Market Model with an Endogenous Threshold Parameter. **AU** Woodward, George; Anderson, Heather.

PD November 2003. **TI** Nonlinear Correlograms and Partial Autocorrelograms. **AU** Anderson, Heather; Vahid, Farshid. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/19; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 29. **PR** no charge. **JE** C22, C45, C51. **KW** Nonlinear Autocorrelograms. Nonlinear Time Series Models. Neural Networks. Model Selection Criteria. Nonlinear Partial Autocorrelograms.

AB This paper proposes neural network based measures of predictability in conditional mean, and then uses them to construct nonlinear analogues to autocorrelograms and partial autocorrelograms. In contrast to other measures of nonlinear dependence that rely on nonparametric estimation of densities or multivariate integration, our autocorrelograms are simple to calculate and appear to work well in relatively small samples.

PD November 2003. **TI** The Decline in Income Growth Volatility in the United States: Evidence from Regional Data. **AU** Anderson, Heather; Vahid, Farshid. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/21; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 20. **PR** no charge. **JE** R10, R30. **KW** Business Location Decisions.

Composition Effects. Diversification. Output Growth Volatility. Regional and State Level Income.

AB We use US regional and state data to determine which regions have contributed most to the apparent decline in income growth volatility in the United States. We study changes in the variance of income growth in each region, changes in the covariance of growth between regions and changes in regional income growth shares. We establish that there has been a significant decline in the income growth volatility in thirty eight US states, and it is this, rather than changes in income shares, that is mostly responsible for the decline in the aggregate growth volatility. Further, we find that the twelve states that show no significant decline in their income growth volatility, are states with policies that make them unattractive to new businesses. We suggest that state level industrial policy may be a good, albeit partial, explanation for the decline in income growth volatility of the United States.

Anderson, Kym

PD January 2004. **TI** Golden Rice and the Looming GMO Trade Debate: Implications for the Poor. **AU** Anderson, Kym; Nielsen, Chantal Pohl. **AA** Anderson: University of Adelaide and CEPR. Nielsen: Danish Research Institute of Food Economics. **SR** CEPR Discussion Paper: 4195; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org/pubs/dps/DP4195.asp. **PG** 17. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D58, F13, O30, Q17, Q18. **KW** GMOs. Golden Rice. Rice Policy. WTO Agreements. Consumer Preferences.

AB The first generation of genetically modified crop varieties sought to increase farmer profitability by improving agronomic traits. The next generation of biotech research is focusing also on breeding for attributes desired by consumers. Although not yet commercially available, a new variety of rice, known as "Golden Rice", has been genetically engineered to contain a higher level of vitamin A. Thus in contrast with the current commercial applications of biotech crops, this new rice variety aims directly at benefiting consumers rather than producers. More specifically, it aims at improving the health of poor people in developing countries who rely on rice as their main staple food and whose diet is nutrient-deficient. This paper analyses empirically the potential economic effects of such an innovation in an environment of heated debates about the risks and benefits of these biotech developments. The emergence of genetically modified foods is generating policy reactions that are delaying the development and adoption of what promises to be a high-payoff technology, particularly for the world's poor. These policy reactions may lead to trade disputes, in which case the way this GMO issue is addressed in the WTO's dispute settlement body could have profound implications for poor households in developing countries.

PD January 2004. **TI** Will China's WTO Accession Worsen Rural Poverty? **AU** Anderson, Kym; Huang, Jikun; Ianchovichina, Elena. **AA** Anderson: University of Adelaide and CEPR. Huang: Center for Chinese Agricultural Policy. Ianchovichina: World Bank. **SR** CEPR Discussion Paper: 4196; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org/pubs/dps/DP4196.asp. **PG** 17. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** O19, O53, P31. **KW** WTO Accession.

China's Economic Reform. Income Inequality. Rural Poverty. **AB** Many fear China's accession to WTO will impoverish its farmers, via greater import competition in its agricultural markets. We explore that possibility bearing in mind that, even if producer prices of some (land-intensive) farm products fall, prices of other (labor-intensive) farm and non-farm products could rise. New estimates, from the global, economy-wide numerical simulation model known as GTAP, of the likely changes in agricultural and other product prices as a result of WTO accession are drawn on to examine empirically the real income implications of China's WTO accession. The results suggest farm/non-farm income inequality may well rise within China but rural-urban income inequality need not. The paper concludes with some policy suggestions for alleviating any pockets of farm household poverty that may emerge as a result of WTO accession.

Anderson, Richard G.

PD April 2003. **TI** Some Tables of Historical U.S. Currency and Monetary Aggregates Data. **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2003/006A; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. **Website:** research.stlouisfed.org/wp/. **PG** 35. **PR** no charge. **JE** E42, N11, N12, N21, N22. **KW** Monetary Aggregates. Historical Statistics.

AB This paper includes revised and extended versions of tables of historical U.S. currency and monetary aggregates data compiled for the forthcoming work: Susan B. Carter et al., editors, *Historical Statistics of the United States, Colonial Times to the Present, Millennial Edition*. Three volumes. Cambridge University Press, forthcoming. These tables, in part, update and extend tables that previously appeared in the 1976 *Bicentennial Edition of Historical Statistics*, with new descriptive notes.

Anderson, Simon P.

PD May 2003. **TI** Price Dispersion. **AU** Anderson, Simon P.; de Palma, Andre. **AA** Anderson: University of Virginia. de Palma: Institut Universitaire de France, University of Cergy-Pontoise, and University Catholique de Louvain. **SR** CORE Discussion Paper: 2003/32; CORE/Stat Library, Center for Operations Research and Econometrics, University Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. **Website:** www.core.ucl.ac.be/services/DP.html. **PG** 24. **PR** \$5 per paper; \$100 per year. **JE** C72, D43, D83. **KW** Price Dispersion. Reservation Price Rule. Passive Search.

AB We model firm pricing given consumers follow simple reservation price rules. Such reservation rules are rational when consumers are sufficiently impatient. The equilibrium exhibits price dispersion in pure strategies, with lower price firms earning higher profits. The range of price dispersion increases with the number of firms: the highest price is the monopoly one, while the lowest price tends to marginal cost. The average transaction price remains substantially above marginal cost even in the limit. Introducing shoppers may increase market prices. Finally, we show that equilibrium prices become less dispersed as consumers become more patient.

Andrews, Donald W. K.

PD March 2003. **TI** End-of-Sample Cointegration Breakdown Tests. **AU** Andrews, Donald W. K.; Kim, Jae-

Young. AA Andrews: Yale University. Kim: SUNY. SR Yale Cowles Foundation Discussion Paper: 1404; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 55. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C12, C52. KW Cointegration. Least Squares Estimator. Model Breakdown. Parameter Change Test. Structural Change. AB This paper introduces tests for cointegration breakdown that may occur over a relatively short time period, such as at the end of the sample. The breakdown may be due to a shift in the cointegrating vector or due to a shift in the errors from being $I(0)$ to being $I(1)$. Tests are introduced based on the post-breakdown sum of squared residuals and the post-breakdown sum of squared reverse partial sums of residuals. Critical values are provided using a parametric subsampling method. The regressors in the model are taken to be arbitrary linear combinations of deterministic, stationary, and integrated random variables. The tests are asymptotically valid when the number of observations in the breakdown period, m , is fixed and finite as the total sample size, $T+m$, goes to infinity. The tests are asymptotically valid under weak conditions. Simulation results indicate that the tests work well in the scenarios considered. Use of the tests is illustrated by testing for interest rate parity breakdown during the Asian financial crisis of 1997.

PD June 2003. TI Cross-Section Regression with Common Shocks. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1428; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 43. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C12, C13. KW Asymptotics. Common Shocks. Dependence. Exchangeability. Factor Model. Inconsistency. Regression. Cross-Section. AB This paper considers regression models for cross-section data that exhibit cross-section dependence due to common shocks, such as macroeconomic shocks. The paper analyzes the properties of least squares (LS) and instrumental variables (IV) estimators in this context. The results of the paper allow for any form of cross-section dependence and heterogeneity across population units. The probability limits of the LS and IV estimators are determined and necessary and sufficient conditions are given for consistency. The asymptotic distributions of the estimators are found to be mixed normal after re-centering and scaling. t , Wald, and F statistics are found to have asymptotic standard normal, chi-squared, and scale-chi-squared distributions, respectively, under the null hypothesis when the conditions required for consistency of the parameter under test hold. However, the absolute values of t , Wald, and F statistics are found to diverge to infinity under the null hypothesis when these conditions fail. Confidence intervals exhibit similarly dichotomous behavior. Hence, common shocks are found to be innocuous in some circumstances, but quite problematic in others. Using the general results, conditions are determined under which consistency of the LS and IV estimators holds and fails in models with factor structures.

Angrist, Joshua D.

PD November 2001. TI Protective or Counter-Productive? Labor Market Institutions and the Effect of Immigration on EU Natives. AU Angrist, Joshua D.; Kugler,

Adriana. AA Angrist: MIT. Adriana: Universitat Pompeu Fabra. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 587; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. PG 51. PR papers only available on web page; no hard copies. JE J23, J61, O52. KW Immigrant. European Unemployment. Labor Market Flexibility. Entry Costs.

AB We estimate the effect of immigrant flows on native employment in Western Europe, and then ask whether the employment consequences of immigration vary with institutions that affect labor market flexibility. Reduced flexibility may protect natives from immigrant competition in the near term, but our theoretical framework suggests that reduced flexibility is likely to increase the negative impact of immigration on equilibrium employment. In models without interactions, OLS estimates for a panel of European countries in the 1980s and 1990s show small, mostly negative immigration effects. To reduce bias from the possible endogeneity of immigration flows, we use the fact that many immigrants arriving after 1991 were refugees from the Balkan wars. An IV strategy based on variation in the number of immigrants from former Yugoslavia generates larger though mostly insignificant negative estimates. We then estimate models allowing interactions between the employment response to immigration and institutional characteristics including business entry costs. These results, limited to the sample of native men, generally suggest that reduced flexibility increases the negative impact of immigration. Many of the estimated interaction terms are significant, and imply a significant negative effect on employment in countries with restrictive institutions.

PD October 2002. TI How Important are Classroom Peer Effects? Evidence from Boston's Metco Program. AU Angrist, Joshua D.; Lang, Kevin. AA Angrist: MIT and NBER. Lang: Boston University and NBER. SR National Bureau of Economic Research Working Paper: 9263; 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 I21, J15. KW Boston's Metco Program. Peer Effects.

AB We study the impact of Metco, a long-running desegregation program that sends mostly black students out of the Boston public school district to attend schools in more affluent suburban districts. We focus on the impact of Metco on the students in one of the largest Metco-receiving districts. In the 2000 school year, Metco increased the proportion black in this district from about 7.5 percent to almost 12.5 percent. Because Metco students have substantially lower test scores than local students, this inflow generates a significant decline in scores, with an especially marked effect on the lower quantiles. The overall decline is due to a composition effect, however, since OLS estimates show no impact on average scores in the sample of all non-Metco students. On the other hand, OLS and fixed effects estimates show some evidence of an effect on the scores of minority 3rd graders in reading and language. Instrumental variables estimates for 3rd graders are imprecise but generally in line with OLS. Further analysis shows the negative effects on 3rd graders to be clearly present only for girls. Given the highly localized nature of these results, we conclude that any peer effects from Metco are modest and short-lived.

Anson, Jose

PD December 2003. **TI** Rules of Origin in North-South Preferential Trading Arrangements with an Application to NAFTA. **AU** Anson, Jose; Cadot, Olivier; de Melo, Jaime; Estevadeordal, Antoni; Suwa-Eisenmann, Akiko; Tumurchudur, Bolorma. **AA** Anson and Tumurchudur: Universite de Lausanne. Cadot: Universite de Lausanne and CEPR. de Melo: Universite de Geneve and CEPR. Estevadeordal: Inter-American Development Bank. Eisenmann: Institut National de la Recherche Agronomique. **SR** CEPR Discussion Paper: 4166; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4166.asp. **PG** 22. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F10, F11, F13. **KW** Rules of Origin. FTAs. NAFTA.

AB All preferential trading agreements (PTAs) short of a customs union use Rules of Origin (RoOs) to prevent trade deflection. RoOs raise production costs and create administrative costs. This paper argues that in the case of the recent wave of North-South PTAs, the presence of RoOs virtually limits the market access that these PTAs confer to the Southern partners. In the case of NAFTA, it is estimated that up to 40% of Mexico's preferential access to the US market in 2000 (estimated at 5%) was absorbed by RoOs-related administrative costs with non-administrative costs for Mexican firms of about 3% US of import value. These findings are coherent with the view that North-South PTAs could well be viewed like a principal-agent problem in which the Southern partners are just about left on their participation constraint.

PD December 2003. **TI** Tariff Evasion and Customs Corruption: Does PSI Help? **AU** Anson, Jose; Cadot, Olivier; Olarreaga, Marcelo. **AA** Anson: Universite de Lausanne. Cadot: Universite de Lausanne and CEPR. Olarreaga: World Bank and CEPR. **SR** CEPR Discussion Paper: 4167; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4167.asp. **PG** 33. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F10, F11, F13. **KW** Trade. Tariff Revenue. Corruption. Pre-shipment Inspection.

AB This paper provides a new approach to the evaluation of pre-shipment inspection (PSI) programs as ways of improving tariff-revenue collection and reducing fraud when customs administrations are corrupt. We build a model highlighting the contribution of surveillance firms to the generation of information and describing how incentives for fraud and collusive behavior between importers and customs are affected by the introduction of PSI. It is shown theoretically that the introduction of PSI has an ambiguous effect on the level of customs fraud. Empirically, our econometric results suggest that PSI reduced fraud in the Philippines; it increased it in Argentina and had no significant impact in Indonesia.

Antras, Pol

PD January 2004. **TI** Global Sourcing. **AU** Antras, Pol; Helpman, Elhanan. **AA** Antras: Harvard University. Helpman: Tel Aviv University and CEPR. **SR** CEPR Discussion Paper: 4170; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4170.asp. **PG** 25. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D23, F12,

F23, L11, L22. **KW** Trade. Imperfect Contracting. Property Rights. Multinational Firms.

AB We present a North-South model of international trade in which differentiated products are developed in the North. Sectors are populated by final-good producers who differ in productivity levels. Based on productivity and sector characteristics, firms decide whether to integrate into the production of intermediate inputs or outsource them. In either case they have to decide from which country to source the inputs. Final-good producers and their suppliers must make relationship-specific investments, both in an integrated firm and in an arm's-length relationship. We describe an equilibrium in which firms with different productivity levels choose different ownership structures and supplier locations, i.e., they choose different organizational forms. We then study the effects of within-sector heterogeneity and variations in industry characteristics on the relative prevalence of these organizational forms. The analysis sheds light on the structure of foreign trade within and across industries.

Aragones, Enriqueta

PD February 2004. **TI** Fact-Free Learning. **AU** Aragones, Enriqueta; Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David. **AA** Aragones: Institut d'Analisi Economica, C.S.I.C. Gilboa: Tel Aviv University and Yale University. Postlewaite: University of Pennsylvania. Schmeidler: Tel Aviv University and Ohio State University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/06; Mrs. Stella Padch, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 31. **PR** no charge. **JE** D80, D83. **KW** Induction. Learning. NP-Completeness. Linear Regression.

AB People may be surprised by noticing certain regularities that hold in existing knowledge they have had for some time. That is, they may learn without getting new factual information. We argue that this can be partly explained by computational complexity. We show that, given a data base, finding a small set of variables that obtain a certain value of R^2 is computationally hard, in the sense that this term is used in computer science. We discuss some of the implications of this result and of fact-free learning in general.

Archibald, Blyth

TI Invertibility Conditions for Exponential Smoothing Models. **AU** Hyndman, Rob J.; Akram, Muhammad; Archibald, Blyth.

Arrunada, Benito

PD January 2002. **TI** A Transaction-Cost View of Title Insurance and its Role in Different Legal Systems. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 565; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. **PG** 33. **PR** papers only available on web page; no hard copies. **JE** G22, K11, L85. **KW** Transaction Costs. Property Rights. Land Titles. Title Insurance. Real Estate. **AB** Title insurance indemnifies real estate right holders for losses caused by pre-existing title defects that are unknown

when the policy is issued. It first appeared in the US in the last third of the 19th century, to complement the personal liability and the errors and omission insurance of professionals examining title quality. Poor organization of public records led US title insurers to integrate title examination and settlement services, which account for more than 90 percent of their revenue. European title insurers, however, do not produce information on title quality. Their policies are issued on a casualty basis, complementing and enforcing the professional liability of conveyancers. Future development is uncertain because of adverse selection, possible competitive reactions from the established systems of land conveyance and the ability of the larger European banks to self-insure title risks.

Arslanalp, Serkan

PD November 2003. **TI** Is Debt Relief Efficient? **AU** Arslanalp, Serkan; Henry, Peter Blair. **AA** Stanford University. **SR** Stanford Graduate School of Business Research Paper: 1837; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. **Website:** gobi.stanford.edu/ResearchPapers/. **PG** 61. **PR** no charge. **JE** F34. **KW** Debt Relief. Less Developed Countries. Brady Plan.

AB When Less Developed Countries (LDCs) announce debt relief agreements under the Brady Plan, their stock markets appreciate by an average of 60 percent in real dollar terms -- a \$42 billion increase in shareholder value. In contrast, there is no significant stock market increase for a control group of LDCs that do not sign Brady agreements. The results persist after controlling for IMF programs, trade liberalizations, capital account liberalizations, and privatization programs. The stock market appreciations successfully forecast higher future net resource transfers, investment and growth. Creditors also benefit from the Brady Plan. Controlling for other factors, stock prices of US commercial banks with significant LDC loan exposure rise by 35 percent -- a \$13 billion increase in shareholder value. The results suggest that debt relief can generate large efficiency gains when the borrower suffers from debt overhang.

PD November 2003. **TI** Helping The Poor to Help Themselves: Debt Relief or Aid? **AU** Arslanalp, Serkan; Henry, Peter Blair. **AA** Stanford University. **SR** Stanford Graduate School of Business Research Paper: 1838; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. **Website:** gobi.stanford.edu/ResearchPapers/. **PG** 36. **PR** no charge. **JE** F34. **KW** Debt Relief. Debt Overhang. Economic Institutions. HIPC's.

AB Debt relief is unlikely to stimulate investment and growth in the world's highly indebted poor countries (HIPC's). This is because the HIPC's do not suffer from debt overhang. The principal obstacle to investment and growth in the world's poorest countries is a lack of basic economic institutions that provide the foundation for profitable economic activity. If the goal is to help poor countries build the institutions that best suit their development needs, then the energy and resources currently devoted to the HIPC initiative could be more effectively employed as direct foreign aid.

Asquith, Paul

PD October 2002. **TI** Information Content of Equity Analyst Reports. **AU** Asquith, Paul; Mikhail, Michael B.; Au, Andrea S. **AA** Asquith: MIT and NBER. Mikhail: Duke

University. Au: MIT. **SR** National Bureau of Economic Research Working Paper: 9246; 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** G11, G14, G24, M41. **KW** Analyst Reports. Earnings Forecasts. Price Targets. **AB** This paper investigates the market reaction to the information released in security analyst reports. It shows that the market reacts significantly and positively to changes in recommendation levels, earnings forecasts, and price targets. While changes in price targets and earnings forecasts both provide information to the market, revisions in price targets have a larger and more significant impact than comparable revisions in earnings forecasts. The text of the report is also a significant source of information as it provides the justifications supporting an analyst's summary opinion. When all of this information is considered simultaneously, some of it, notably the earnings forecasts, is subsumed. The results further show that analysts correctly predict price targets slightly over 50% of the time. Finally, the valuation methodology used does not seem to be correlated with either the market's reaction or the analyst's accuracy.

Atkinson, Adele

PD March 2003. **TI** Measuring Pupil Attainment in English Secondary Schools: A Preliminary Analysis. **AU** Atkinson, Adele; Wilson, Deborah. **AA** Atkinson: University of Bristol. Wilson: University of Bath and University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/063; CMPO, Department of Economics, University of Bristol, Mary Pacey Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. **Website:** www.bris.ac.uk/cmipo/publications.html. **PG** 9. **PR** no charge; hardcopies can be obtained from cmipo-office@bristol.ac.uk. **JE** H40, I21, J16, L30. **KW** Education. Pupil Attainment. Gender Gap.

AB This paper examines patterns of attainment of boys and girls at different stages of their secondary education and investigates factors that may affect pupil outcomes. We employ a national dataset of matched examination results from the Department for Education and Skills containing pupil Key Stage 3 results from 1997 and GCSE (or equivalent) exam results from 1999. We find that boys underachieve relative to their female peers. This gender gap widens between the ages of 14 and 16. Grammar schools outperform comprehensives and secondary moderns for both genders at both Key Stage 3 and GCSE. When we consider a measure of the "value added" by different school types between these two stages however, we find that comprehensives add more value on average than grammar schools for female pupils. The relative importance of gender and school type (proxied by admissions policy) on pupil outcomes depends on the measure of pupil attainment.

Au, Andrea S.

TI Information Content of Equity Analyst Reports. **AU** Asquith, Paul; Mikhail, Michael B.; Au, Andrea S.

Auerbach, Alan J.

PD October 2002. **TI** Is There a Role for Discretionary Fiscal Policy? **AA** University of California, Berkeley and NBER. **SR** National Bureau of Economic Research Working Paper: 9306; 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 E62, H62. KW Fiscal Balance. Discretionary Fiscal Policy. Budget Balance.

AB This paper reviews the state of discretionary fiscal policy. Among its findings are: (1) In recent years, U.S. discretionary fiscal policy appears to have become more active in response to both cyclical conditions and a simple measure of budget balance. (2) Considerable uncertainty remains about how large an impact discretionary fiscal policy has on output. (3) There is little evidence that discretionary fiscal policy has played an important stabilization role during recent decades. (4) Budgetary pressure may weaken the efficacy of expansionary fiscal policy. Conversely, contractionary fiscal policy might have a salutary effect on output. This possibility may be relevant for understanding the impact of fiscal policy in the 1990s, although the mechanism is unclear. (5) The automatic stabilizers embedded in the fiscal system have experienced little net change since the 1960s and have contributed to cushioning cyclical fluctuations. However, the tax system has many attributes that weaken its potential role as an automatic stabilizer, particularly with respect to investment. (6) The government's reported fiscal position, to which fiscal policy appears responsive, is a poor measure of the underlying fiscal balance.

Bacchetta, Philippe

PD November 2002. **TI** Why Do Consumer Prices React less than Import Prices to Exchange Rates? **AU** Bacchetta, Philippe; van Wincoop, Eric. **AA** Bacchetta: University of Lausanne and CEPR. van Wincoop: University of Virginia and NBER. **SR** National Bureau of Economic Research Working Paper: 9352; Working Papers, NBER, 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 U.S.). JE F31, F40. KW Consumer Prices. Exchange Rates. Pass-Through. Import Prices.

AB It is well known that the extent of pass-through of exchange rate changes to consumer prices is much lower than to import prices. One explanation is local distribution costs. Here we consider an alternative, complementary, explanation based on the optimal pricing strategies of firms. We consider a model where foreign exporting firms sell intermediate goods to domestic firms. Domestic firms assemble the imported intermediate goods and sell final goods to consumers. When domestic firms face significant competition from other domestic final goods producing sectors (e.g., the non-traded goods sector), we show that they prefer to price in domestic currency, while exporting firms tend to price in the exporter's currency. In that case the pass-through to import prices is complete, while the pass-through to consumer prices is zero.

Bacharach, Michael

PD October 2001. **TI** Is Trust Self-Fulfilling? An Experimental Study. **AU** Bacharach, Michael; Guerra, Gerardo A.; Zizzo, Daniel John. **AA** University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 76; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. PG 31. PR only available electronically through website. JE C79, C92, D84. KW Trust Game.

Experiment. Trust Responsiveness. Kindness. Need to Trust.

AB A person is said to be "trust responsive" if she fulfils trust because she believes the truster trusts her. The experiment we report was designed to test for trust responsiveness and its robustness across payoff structures, and to disentangle it from other possible factors making for trustworthiness, including perceived kindness, perceived need, and inequality aversion. We elicit the truster's confidence that the trustee will fulfill, and the trustee's belief about the truster's confidence after the trustee receives evidence relevant to this. We find evidence of strong trust responsiveness. We also find that perceptions of kindness and of need increase trust responsiveness, and that perceptions of kindness and need raise fulfilling rates only in conjunction with trust responsiveness.

Bajari, Patrick

PD January 2004. **TI** House Prices and Consumer Welfare. **AU** Bajari, Patrick; Benkard, C. Lanier; Krainer, John. **AA** Bajari and Benkard: Stanford University and NBER. Krainer: Federal Reserve Bank of San Francisco. **SR** Stanford Graduate School of Business Research Paper: 1840; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. PG 14. PR no charge. JE D60, R21, R31. KW Economic Theory. Housing. Microeconomics.

AB We develop a new approach to measuring changes in consumer welfare due to changes in the price of owner-occupied housing. In our approach, an agent's welfare adjustment is defined as the transfer required to keep expected discounted utility constant given a change in current house prices. We demonstrate that, up to a first-order approximation, there is no aggregate change in welfare due to price increases in the existing housing stock. This follows from a simple market clearing condition where capital gains experienced by sellers are exactly offset by welfare losses to buyers. We show that this result holds (approximately) even in a model that accounts for changes in consumption and investment plans prompted by current house price changes. There can, however, be changes in welfare due to additions to the stock of housing, or to changes in the price of renovating and upgrading the existing stock of housing. For the United States, we estimate the welfare cost of house price appreciation to be an average of \$127 per household per year over the 1984-1998 period.

Baland, Jean-Marie

PD March 2003. **TI** Commons as Insurance and the Welfare Impact of Privatization. **AU** Baland, Jean-Marie; Francois, Patrick. **AA** Baland: University of Namur. Francois: Tilburg University, University of British Columbia, and University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/069; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmipo/publications.html. PG 20. PR no charge; hardcopies can be obtained from cmipo-office@bristol.ac.uk. JE D23, D63, L33, Q15, Q20. KW Common Property. Privatization. Insurance.

AB It is shown here that despite the efficiency gains from privatization, when markets are incomplete, all individuals may be made worse off by privatization, even when the resource is equitably privatized. Such market incompleteness is common in

the developing world and can explain the often encountered resistance to efficiency enhancing privatizing reforms, especially in the case of village level landholdings and forests. The advantage of commonly held property arises because of its superior insurance properties (which tend to provide income maintenance in low states). Sufficient conditions are established under which any feasible insurance scheme under private property cannot ex ante Pareto dominate allocations under the commons.

Baldenius, Tim

PD September 2003. **TI** External and Internal Pricing in Multidivisional Firms. **AU** Baldenius, Tim; Reichelstein, Stefan. **AA** Baldenius: Columbia University. Reichelstein: Stanford University. **SR** Stanford Graduate School of Business Research Paper: 1825; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 37. **PR** no charge. **JE** L11, L22. **KW** Multidivisional Firms. Transfer Pricing Problem. Double Marginalization.

AB Multidivisional firms frequently rely on external market prices in order to value internal transactions across profit centers. This paper examines the transfer pricing problem in a setting in which an upstream division has monopoly power in selling a proprietary component both to a downstream division within the same firm and to external customers. When internal transfers are valued at the prevailing market price, the resulting transactions are distorted by double marginalization. We ask whether the imposition of intracompany discounts can alleviate or even eliminate the effects of double marginalization. When the production capacity of the upstream division is effectively unconstrained, we find that discounts will increase the firm's overall profit only under certain conditions. At the same time, it is impossible for any discount rule to induce prices and sales quantities that fully maximize the firm's corporate profit. In contrast, if the production capacity of the selling division is constrained, suitably chosen discounts will always improve the firm's overall profit relative to a policy under which internal transfers are valued at the market price. With constrained capacity, we identify conditions under which discounts set inversely to the external price elasticity of demand can fully eliminate the double marginalization problem and thereby achieve efficient decentralization.

Baldwin, Richard E.

PD October 2002. **TI** Agglomeration, Integration and Tax Harmonization. **AU** Baldwin, Richard E.; Krugman, Paul. **AA** Baldwin: Graduate Institute of International Studies and NBER. Krugman: Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 9290; 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** F12, F15, H20, H87. **KW** Agglomeration. Tax Gap. Integration.

AB We show that agglomeration forces can reverse standard international-tax-competition results. Closer integration may result first in a "race to the top" and then a race to the bottom, a result that is consistent with recent empirical work showing that the tax gap between rich and poor nations follows a bell-shaped path (Devereux, Griffith and Klemm 2002). Moreover, split-the-difference tax harmonization can make both nations worse off. This may help explain why tax harmonization -- which is

Pareto improving in the standard model -- is so difficult in the real world. The key theoretical insight is that agglomeration forces create quasi-rents that can be taxed without inducing delocation. This suggests that the tax game is something subtler than a race to the bottom. Advanced "core" nations may act like limit-pricing monopolists toward less advanced "periphery" countries. Since agglomeration rents are a bell-shaped function of the level of integration, the equilibrium tax gap in our tax game is also bell-shaped.

Ball, Laurence

PD October 2002. **TI** Short-Run Money Demand. **AA** Johns Hopkins University and NBER. **SR** National Bureau of Economic Research Working Paper: 9235; Working Papers, NBER, 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 U.S.). **JE** E41. **KW** Money Demand. Interest Rate. Partial Adjustment Model. Near Monies.

AB The paper estimates a long-run demand function for M1, using U.S. data for 1959-1993. This paper interprets deviations from this long-run relation with Goldfeld's partial adjustment model. A key innovation is the choice of the interest rate in the money demand function. Most previous work uses a short-term market rate, but this paper uses the average return on "near monies" -- close substitutes for M1 such as savings accounts and money market mutual funds. This approach yields a predicted path of M1 velocity that closely matches the data. The volatility of velocity after 1980 is explained by volatility in the returns on near monies.

Bar-Gill, Oren

PD February 2003. **TI** Law and Preferences. **AU** Bar-Gill, Oren; Fershtman, Chaim. **AA** Bar-Gill: Harvard University. Fershtman: Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/03; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 33. **PR** no charge. **JE** D60, D70, K20. **KW** Endogenous Preferences. Legal Rules. Fairness Concern.

AB Legal rules do more than provide incentives; they change people. When preferences and norms are endogenously determined via a process of imitation and learning, legal rules, by affecting the market outcome, may affect the dynamics of preference formation. Analyzing the effect of different legal rules should, therefore, go beyond the analysis of the incentives they provide. It should also include an analysis of their effect on the distribution of preferences and norms of behavior. We illustrate this claim by considering a simple market game in which individuals may have preferences that include fairness concerns. We show that different legal rules change not only the pattern of trade in a market game, but also the individuals' fairness concern. That is, different rules may eventually make individuals care more (or less) about a fair outcome.

Barlevy, Gadi

PD April 2004. **TI** Earnings Inequality and the Business Cycle. **AU** Barlevy, Gadi; Tsiddon, Daniel. **AA** Barlevy: Federal Reserve Bank of Chicago and NBER. Tsiddon: Tel Aviv University and CEPR. **SR** Tel Aviv Foerder Institute

for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/08; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. PG 44. PR no charge. JE E32, J20, J30, N10, N30. KW Business Cycles. Wage Inequality. Income Inequality. Human Capital. Stochastic Ben-Porath Model.

AB Economists have long viewed recessions as contributing to increasing inequality. However, this conclusion is largely based on data from a period in which inequality was increasing over time. This paper examines the connection between long-run trends and cyclical variation in earnings inequality. We develop a model in which cyclical and trend inequality are related, and find that in our model, recessions tend to amplify long-run trends, i.e. they involve more rapidly increasing inequality when long-run inequality is increasing, and more rapidly decreasing inequality when long-run inequality is decreasing. In support of this prediction we present evidence that during the first half of the 20th Century when earnings inequality was generally declining, earnings disparities indeed appeared to fall more rapidly in downturns, at least among workers at the top of the earnings distribution.

Barndorff-Nielsen, Ole E.

PD July 2001. **TI** Econometric Analysis of Realized Volatility and its Use in Estimating Stochastic Volatility Models. **AU** Barndorff-Nielsen, Ole E.; Shephard, Neil. **AA** Barndorff-Nielsen: University of Aarhus. Shephard: University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 71; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. PG 24. PR only available electronically through website. JE C32, G12. KW Quadratic Variation. Realized Volatility. Stochastic Volatility Models.

AB The availability of intra-day data on the prices of speculative assets means that we can use quadratic variation like measures of activity in financial markets, called realized volatility, to study the stochastic properties of returns. Here we derive the moments and the asymptotic distribution of the realized volatility error -- the difference between realized volatility and the actual volatility. These properties can be used to allow us to estimate the parameters of stochastic volatility models.

PD July 2001. **TI** Normal Modified Stable Processes. **AU** Barndorff-Nielsen, Ole E.; Shephard, Neil. **AA** Barndorff-Nielsen: University of Aarhus. Shephard: University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 72; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. PG 18. PR only available electronically through website. JE C32, G12. KW Levy Process. Inverse Gaussian. OU Process. Stable Processes. Stochastic Volatility.

AB This paper discusses two classes of distributions, and stochastic processes derived from them: modified stable (MS) laws and normal modified stable (NMS) laws. This extends corresponding results for the generalized inverse Gaussian (GIG) and generalized hyperbolic (GH) or normal generalized inverse Gaussian (NGIG) laws. The wider framework thus

established provides, in particular, for added flexibility in the modeling of the dynamics of financial time series, of importance especially as regards OU based stochastic volatility models for equities. In the special case of the tempered stable OU process an exact option pricing formula can be found, extending previous results based on the inverse Gaussian and gamma distributions.

Barrios, Salvador

PD May 2003. **TI** Geographic Concentration and Establishment Scale: Can Panel Data Tell Us More? **AU** Barrios, Salvador; Bertinelli, Luisito; Strobl, Eric. **AA** Universite Catholique de Louvain. **SR** CORE Discussion Paper: 2003/36; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 11. PR \$5 per paper; \$100 per year. JE C23, R12. KW Agglomeration. Plant Size. Ireland.

AB In a recent study, Holmes and Stevens (2002) identify for the first time a positive relationship that exists between establishment scale and local industry concentration using a large cross-sectional plant level data set for the US. Using an exhaustive plant level panel data set for Irish manufacturing covering nearly three decades, we are able to extend their analysis in two ways. Firstly, we show that failing to control for fixed effects biases the relationship upward, although the essence of it still remains. Secondly, the link is substantially weaker when plants locate for the first time in an area, but strengthens with age for those that survive in the long run. We link our results to recent contributions on the dynamics of geographic concentration.

PD May 2003. **TI** Industry Mobility and Geographic Concentration in the European Union. **AU** Barrios, Salvador; Strobl, Eric. **AA** Universite Catholique de Louvain. **SR** CORE Discussion Paper: 2003/43; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 5. PR \$5 per paper; \$100 per year. JE F14, F15, R12. KW Geographic Concentration. Industry Mobility. Europe.

AB We study the pattern of geographic concentration of industries in EU countries and regions between 1972 and 1995. We find that changes in concentration levels were mainly due to industry mobility rather than historical accidents and past levels of concentration as often argued by the New Economic Geography literature.

Barth, James R.

PD November 2002. **TI** Bank Regulation and Supervision: What Works Best? **AU** Barth, James R.; Caprio, Gerard, Jr.; Levine, Ross. **AA** Barth: Auburn University and Milken Institute. Caprio: The World Bank. Levine: University of Minnesota and NBER. **SR** National Bureau of Economic Research Working Paper: 9323; Working Papers, NBER, 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 U.S.). JE G21, G28, G38, L51, L89. KW Bank Regulation. Bank Supervision. Banking Sector Development. Banking Sector Efficiency. Banking Sector Fragility.

AB This paper uses our new database on bank regulation and

supervision in 107 countries to assess the relationship between specific regulatory and supervisory practices and banking sector development, efficiency, and fragility. The paper examines: (i) regulatory restrictions on bank activities and the mixing of banking and commerce; (ii) regulations on domestic and foreign bank entry; (iii) regulations on capital adequacy; (iv) deposit insurance system design features; (v) supervisory power, independence, and resources, (vi) loan classification stringency, provisioning standards, and diversification guidelines; (vii) regulations fostering information disclosure and private-sector monitoring of banks; and (viii) government ownership. The results, albeit tentative, raise a cautionary flag regarding government policies that rely excessively on direct government supervision and regulation of bank activities. The findings instead suggest that policies that rely on guidelines that (1) force accurate information disclosure, (2) empower private-sector corporate control of banks, and (3) foster incentives for private agents to exert corporate control work best to promote bank development, performance, and stability.

Barth, Mary E.

TI SFAS 123 Stock-Bases Compensation Expense and Equity Market Values. **AU** Aboody, David; Barth, Mary E.; Kasznik, Ron.

TI Firms' Voluntary Recognition of Stock-Based Compensation Expense. **AU** Aboody, David; Barth, Mary E.; Kasznik, Ron.

Basu, Parantap

PD January 2004. **TI** Optimal Dynamic Taxation with Indivisible Labor. **AU** Basu, Parantap; Marsiliani, Laura; Renstroem, Thomas I. **AA** Basu: Fordham University. Marsiliani: University of Durham. Renstroem: University of Durham and CEPR. **SR** CEPR Discussion Paper: 4190; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4190.asp. **PG** 16. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E62, H21. **KW** Optimal Taxation. Dynamic Taxation. Indivisible Labor.

AB In this paper, we take the field of optimal dynamic taxation further in two directions. Using a model with invisible labor, as in Hansen (1986) and Rogerson (1988), we first explore the short-run dynamics of the capital-income tax, particularly whether the tax, under the second-best program, goes to zero in finite or infinite time. We derive two classes of preferences for which the optimal capital tax reaches zero in a finite time. Second, we ask what preference structures will leave labor untaxed at all times? An exponential preference structure is derived, for which labor is untaxed both in the short and long run.

Bayer, Patrick

PD May 2004. **TI** Residential Segregation in General Equilibrium. **AU** Bayer, Patrick; McMillan, Robert; Rueben, Kim. **AA** Bayer: Yale University. McMillan: University of Toronto. Rueben: Public Policy Institute of California. **SR** Yale Economic Growth Center Discussion Paper: 885; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. **PG** 45. **PR** \$2.00 plus postage. **JE** J71, R14. **KW** Segregation. General Equilibrium. Endogenous

Sorting. Urban Housing Market. Locational Equilibrium. Counterfactual Simulation. Discrete Choice.

AB This paper studies the causes and consequences of racial segregation using a new general equilibrium model that treats neighborhood compositions as endogenous. The model is estimated using unusually detailed restricted Census micro-data covering the entire San Francisco Bay Area, and in combination with a rich array of econometric estimates, serves as a powerful tool for carrying out counterfactual simulations that shed light on the causes and consequences of segregation. In terms of causes, and contrasting with prior research, our GE simulations indicate that equalizing income and education across race would be unlikely to result in significant reductions in racial segregation, as minority households would sort into newly formed minority neighborhoods. Indeed, among Asian and Hispanic households, segregation increases. In terms of consequences, this paper provides the first evidence that sorting on the basis of race gives rise to significant reductions in the consumption of local public goods by minority households and upper-income minority households in particular. These consumption effects are likely to have important intergenerational implications.

Beaudry, Paul

PD October 2002. **TI** Decomposing the Twin-Peaks in the World Distribution of Output-Per-Worker. **AU** Beaudry, Paul; Collard, Fabrice; Green, David A. **AA** Beaudry: University of British Columbia, CIAR, and NBER. Collard: Universite de Toulouse I. Green: University of British Columbia. **SR** National Bureau of Economic Research Working Paper: 9240; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 37. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E22, O33, O41. **KW** Twin-Peaks. Income Distribution. Growth.

AB This paper examines changes in the distribution of per-worker-output across countries over the period 1960-98, with a particular focus on identifying the forces behind the hollowing out of the middle of the distribution and the associated emergence of a twin-peaks phenomenon. The main finding of the paper is that most of the change in shape of the world distribution of income between 1960 and 1998 can be accounted for by changes in the parameters driving the growth process. In particular, we show that role of physical capital investment and population growth in affecting output growth has increased substantially over the period and that this increase can account for all the hollowing-out of the distribution. In contrast, we do not find that changes in the distribution of variables played much of a role, nor do we find any significant effects coming through non-linear convergence mechanisms or increased importance of education. Our results suggest that research aimed at understanding changes in the world distribution of income should focus on explaining why the social returns to physical capital accumulation were so high over the period 1978-98. The paper ends by discussing elements that help understand this phenomena.

Belletini, Giorgio

PD June 2003. **TI** Special Interests and Technological Change. **AU** Belletini, Giorgio; Ottaviano, Gianmarco I. P. **AA** Belletini: University of Bologna. Ottaviano: University of Bologna and CEPR. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/59; Fondazione Eni Enrico Mattei, Corso

Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.

PG 16. PR no charge; available only on website. JE C72, C73, O38, O41. KW Technological Change. Technology Option. Pressure Groups. Dynamic Common Agency.

AB We study an OLG economy where productivity growth comes from two alternative sources: process innovation and learning-by-doing. There is a trade-off between the two in so far as frequent technological updates reduce the scope for learning on existing technologies. A conflict is shown to arise between the young and the old, because the former favor innovation while the latter prefer learning. We model the interaction between overlapping generations and policy makers as a dynamic common agency problem, where competing generations invest a certain amount of resources to lobby either for the maintenance of the current technology or the adoption of a new one. By focusing on truthful Markov perfect equilibria, we characterize the political equilibrium and show its dependence on the underlying demographic, technological and preference parameters.

Belongia, Michael T.

PD November 2002. TI The Own-Price of Money and a New Channel of Monetary Transmission. AU Belongia, Michael T.; Ireland, Peter N. AA Belongia: University of Mississippi. Ireland: Boston College and NBER. SR National Bureau of Economic Research Working Paper: 9341; Working Papers, NBER, 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 U.S.). JE E32, E51, E52. KW Monetary Transmission. Real Business Cycle Theory.

AB Traditionally, the effects of monetary policy actions on output are thought to be transmitted via monetary or credit channels. Real business cycle theory, by contrast, highlights the role of real price changes as a source of revisions in spending and production decisions. Motivated by the desire to focus on the effects of price changes in the monetary transmission mechanism, this paper incorporates a direct measure of the real own-price of money into an estimated vector autoregression and a calibrated real business cycle model. Consistent with this new view of the monetary transmission mechanism, both approaches reveal that movements in the own-price of money are strongly related to movements in output.

Benkard, C. Lanier

TI House Prices and Consumer Welfare. AU Bajari, Patrick; Benkard, C. Lanier; Krainer, John.

Bergemann, Dirk

PD April 2003. TI Dynamic Price Competition. AU Bergemann, Dirk; Valimaki, Juuso. AA Bergemann: Yale University. Valimaki: Helsinki School of Economics and University of Southampton. SR Yale Cowles Foundation Discussion Paper: 1412; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 45. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE D50, D83. KW Dynamic Competition. Marginal Contribution. Markov Perfect Equilibrium. Common Agency.

AB We consider the model of price competition for a single buyer among many sellers in a dynamic environment. The

surplus from each trade is allowed to depend on the path of previous purchases, and as a result, the model captures phenomena such as learning by doing and habit formation in consumption. We characterize Markovian equilibria for finite and infinite horizon versions of the model and show that the stationary infinite horizon version of the model possesses an equilibrium where all the sellers receive an equilibrium payoff equal to their marginal contribution to the social welfare.

PD May 2003. TI Robust Mechanism Design. AU Bergemann, Dirk; Morris, Stephen. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1421; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 56. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C79, D82. KW Mechanism Design. Common Knowledge. Universal Type Space. Interim Equilibrium. Ex-Post Equilibrium. Dominant Strategies.

AB The mechanism design literature assumes too much common knowledge of the environment among the players and planner. We relax this assumption by studying implementation on richer type spaces, with more high order uncertainty. We study the "ex post equivalence" question: when is interim implementation on all possible type spaces equivalent to requiring ex post implementation on the space of payoff types? We show that ex post equivalence holds when the social choice correspondence is a function and in simple quasi-linear environments. When ex post equivalence holds, we identify how large the type space must be to obtain the equivalence. We also show that ex post equivalence fails in general, including in quasi-linear environments with budget balance. For quasi-linear environments, we provide an exact characterization of when interim implementation is possible in rich type spaces. In this environment, the planner can fully extract players' belief types with the same beliefs about others' types but different payoff types.

Bergstresser, Daniel

PD October 2002. TI Asset Allocation and Asset Location: Household Evidence from the Survey of Consumer Finances. AU Bergstresser, Daniel; Poterba, James. AA Bergstresser: Harvard University. Poterba: MIT and NBER. SR National Bureau of Economic Research Working Paper: 9268; 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 D12, D14, G11, G23, H29. KW Tax-deferred Account. Taxable Account. Portfolio Choice. Consumer Finances.

AB The rapid growth of assets in self-directed tax-deferred retirement accounts has generated a new set of financial decisions for many households. In addition to deciding which assets to hold, households with substantial assets in both taxable and tax-deferred accounts must decide where to hold them. This paper uses data from the Survey of Consumer Finances to assess how many households have enough assets in both taxable and tax-deferred accounts to face significant asset location choices. It also investigates the asset location decisions these households make. Many households hold equities in their tax-deferred accounts but not in their taxable accounts, while also holding taxable bonds in their taxable accounts. Most of these households could reduce their taxes by relocating heavily-taxed fixed income assets to their tax-deferred account.

Asset allocation inside and outside tax-deferred accounts is quite similar. For nearly three quarters of the households that hold apparently tax-inefficient portfolios, a shift of less than \$10,000 in financial assets can move their portfolio to a tax-efficient allocation. Asset location decisions within IRAs appear to be sensitive to marginal tax rates; we do not find evidence for such sensitivity in other tax-deferred accounts.

Berk, Jonathan B.

PD October 2002. **TI** Mutual Fund Flows and Performance in Rational Markets. **AU** Berk, Jonathan B.; Green, Richard C. **AA** Berk: University of California, Berkeley and NBER. Green: Carnegie Mellon University. **SR** National Bureau of Economic Research Working Paper: 9275; 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** G11, G12, G14. **KW** Portfolio Management. Mutual Funds. Active Managers.

AB We develop a simple rational model of active portfolio management that provides a natural benchmark against which to evaluate observed relationship between returns and fund flows. We show that many effects widely regarded as anomalous are consistent with this simple explanation. In the model, investments with active managers do not outperform passive benchmarks because of the competitive market for capital provision, combined with decreasing returns to scale in active portfolio management. Consequently, past performance cannot be used to predict future returns, or to infer the average skill level of active managers. The lack of persistence in active manager returns does not imply that differential ability across managers is nonexistent or unrewarded, that gathering information about performance is socially wasteful, or that chasing performance is pointless. A strong relationship between past performance and the flow of funds exists in our model, indeed this is the market mechanism that ensures that no predictability in performance exists. Calibrating the model to the fund flows and survivorship rates, we find these features of the data are consistent with the vast majority (80%) of active managers having at least enough skill to make back their fees.

Bernard, Andrew

PD January 2004. **TI** Relative Wage Variation and Industry Location. **AU** Bernard, Andrew; Redding, Stephen; Schott, Peter; Simpson, Helen. **AA** Bernard: Tuck School of Business at Dartmouth and NBER. Redding: London School of Economics and CEPR. Schott: Yale School of Management and NBER. Simpson: Institute for Fiscal Studies. **SR** CEPR Discussion Paper: 4213; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org/pubs/dps/DP4213.asp. **PG** 15. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J30. **KW** Industry Location. Wages. Skill Premia.

AB Relative wages vary considerably across regions of the United Kingdom, with skill-abundant regions exhibiting lower skill premia than skill-scarce regions. This paper shows that the location of economic activity is correlated with the variation in relative wages. UK regions with low skill premia produce different sets of manufacturing industries than regions with high skill premia. Relative wages are also linked to subsequent economic development: over time, increases in the employment share of skill-intensive industries are greater in regions with

lower initial skill premia. Both results suggest firms adjust production across and within regions in response to relative wage differences.

Bernardo, Antonio E.

PD October 2002. **TI** Financial Market Runs. **AU** Bernardo, Antonio E.; Welch, Ivo. **AA** Bernardo: UCLA. Welch: Yale University and NBER. **SR** National Bureau of Economic Research Working Paper: 9251; Working Papers, NBER, 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 U.S.). **JE** G10, G20, N20. **KW** Financial Markets. Risk Taking. Liquidity.

AB Our paper offers a minimalist model of a run on a financial market. The prime ingredient is that each risk-neutral investor fears having to liquidate after a run, but before prices can recover back to fundamental values. During the run, only the risk-averse market-making sector is willing to absorb shares. To avoid having to possibly liquidate shares at the marginal post-run price in which case the market-making sector will already hold a lot of share inventory and thus be more reluctant to absorb additional shares, all investors may prefer selling their shares into the market today at the average run price, thereby causing the run itself. Consequently, stock prices are low and risk is allocated inefficiently. Liquidity runs and crises are not caused by liquidity shocks per se, but by the fear of future liquidity shocks.

Bernhardt, Dan

PD June 2003. **TI** Near-Sighted Justice. **AU** Bernhardt, Dan; Nosal, Ed. **AA** Bernhardt: University of Illinois. Nosal: Federal Reserve Bank of Cleveland. **SR** Federal Reserve Bank of Cleveland Working Paper: 03/04; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. **Website:** www.clevelandfed.org/research/workpaper/index.htm. **PG** 32. **PR** no charge. **JE** D80, G33. **KW** Bankruptcy Judge. Moral Hazard. Adverse Selection.

AB Chapter 11 structures complex negotiations between creditors and debtors that are overseen by a bankruptcy court. This paper identifies conditions under which it is optimal for the court to sometimes err in determining whether a firm should be liquidated. Such errors can affect the optimal action choices by both good and bad entrepreneurs. We first characterize the optimal error rate without renegotiation, providing conditions under which it is optimal for the court both to sometimes mistakenly liquidate "good firms," but not "bad firms." When creditors and debtors can renegotiate to circumvent an error-driven court and creditors have all of the bargaining power, we show that for a broad class of action choices, a blind court -- one that ignores all information and hence is equally likely to liquidate a good firm as a bad one -- is optimal. For another class of action choices, the optimal court design places the burden of proof on the entrepreneur. The robust feature is that in the optimal court design, the court sometimes errs in determining whether a firm should be liquidated.

Bernheim, B. Douglas

PD February 2002. **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 Federal Reserve Bank of Cleveland Working Paper: 02/01; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. PG 48. PR no charge. JE D12, D18, G11, G22. KW Life Insurance. Financial Vulnerability.

AB Using the 1995 Survey of Consumer Finances and 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 a diminished 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.

PD November 2002. TI Addiction and Cue-Conditioned Cognitive Processes. AU Bernheim, B. Douglas; Rangel, Antonio. AA Stanford University and NBER. SR National Bureau of Economic Research Working Paper: 9329; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 40. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D11, D91, I12. KW Addiction. Cue-Conditioning. Cognitive Processes. Neuroscience.

AB We propose an economic theory of addiction based on the premise that cognitive mechanisms such as attention affect behavior independently of preferences. We argue that the theory is consistent with foundational evidence (e.g., from neuroscience and psychology) concerning the nature of decision-making and addiction. The model is analytically tractable, and it accounts for a broad range of stylized facts concerning addiction. It also generates a plausible qualitative mapping from the characteristics of substances into consumption patterns, thereby providing a basis for empirical tests. Finally, the theory provides a clear standard for evaluating social welfare, and it has a number of striking policy implications.

Bertinelli, Luisito

TI Geographic Concentration and Establishment Scale: Can Panel Data Tell Us More? AU Barrios, Salvador; Bertinelli, Luisito; Strobl, Eric.

PD May 2003. TI Does Urbanization Always Foster Human Capital Accumulation? AA Universite Catholique de Louvain. SR CORE Discussion Paper: 2003/40; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 15. PR \$5 per paper; \$100 per year. JE J24, R20, R23. KW Urbanization. Human Capital Accumulation. Cross-Country Estimations.

AB The importance of human capital has been crucial in

explaining the process of economic development. In the present study, we perform cross-country estimations, measuring the relation between human capital accumulation and urbanization. Using a macro level approach we highlight a U-shaped relation, where urbanization rates below 40 percent deter human capital accumulation. This especially holds for developing countries, raising policy concerns on issues of over-urbanization.

Bhattacharya, Jay

PD October 2002. TI Does Medicare Benefit the Poor? New Answers to an Old Question. AU Bhattacharya, Jay; Lakdawalla, Darius. AA Bhattacharya: Stanford University and NBER. Lakdawalla: RAND and NBER. SR National Bureau of Economic Research Working Paper: 9280; 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 D39, I11, I18. KW Distribution of Benefits. Medicare. Poor.

AB Previous research has found that Medicare benefits flow primarily to the most economically advantaged groups and that the financial returns to Medicare are consequently higher for the rich than for the poor. Taking a different approach, we find very different results. According to the Medicare Current Beneficiary Survey, the poorest groups receive the most benefits at any given age. In fact, the advantage of the poor in benefit receipt is so great that it easily overcomes their higher death rates. This leads to the result that the financial returns to Medicare are actually much higher for poorer groups in the population and that Medicare is a highly progressive public program. These new results appear to owe themselves to our measurement of socioeconomic status at the individual level, in contrast to the aggregated measures used by previous research.

PD November 2002. TI The Link Between Public and Private Insurance and HIV-Related Mortality. AU Bhattacharya, Jay; Goldman, Dana; Sood, Neeraj. AA Bhattacharya: Stanford University and NBER. Goldman: RAND and NBER. Sood: RAND. SR National Bureau of Economic Research Working Paper: 9346; Working Papers, NBER, 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 U.S.). JE G22, I11, I12. KW Insurance. Mortality. HIV.

AB As policymakers consider expanding insurance coverage for HIV+ individuals, it is useful to ask if insurance has any affect on health outcomes; and, if so, whether public insurance is as efficacious as private insurance in preventing premature deaths among HIV+ patients. Using data from a nationally representative cohort of HIV-infected persons receiving regular medical care, we estimate the impact of different types of insurance on mortality in this population. We find that ignoring observed and unobserved health status leads one to conclude (misleadingly) that insurance may not be protective for HIV patients. After accounting for observed and unobserved heterogeneity, insurance does protect against premature death, but private insurance is more effective than public coverage. The better outcomes associated with private insurance are attributable to the more restrictive prescription drug policies of Medicaid.

Billah, M. Baki

PD January 2003. TI Empirical Information Criteria for Time Series Forecasting Model Selection. AU Billah, M.

Baki; Hyndman, Rob J.; Koehler, Anne B. AA Billah and Hyndman: Monash University. Koehler: Miami University. SR Monash Department of Econometrics and Business Statistics Working Paper: 2003/02; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. PG 19. PR no charge. JE C22, C52, C53. KW Exponential Smoothing. Forecasting. Information Criteria. M3 Competition. Model Selection.

AB In this paper, we propose a new Empirical Information Criterion (EIC) for model selection which penalizes the likelihood of the data by a function of the number of parameters in the model. It is designed to be used where there are a large number of time series to be forecast. However, a bootstrap version of the EIC can be used where there is a single time series to be forecast. The EIC provides a data-driven model selection tool that can be tuned to the particular forecasting task. We compare the EIC with other model selection criteria including Akaike's Information Criterion (AIC) and Schwarz's Bayesian Information Criterion (BIC). The comparisons show that for the M3 forecasting competition data, the EIC outperforms both the AIC and BIC, particularly for longer forecast horizons. We also compare the criteria on simulated data and find that the EIC does better than existing criteria in that case also.

Billot, Antoine

PD February 2004. TI Probabilities: Frequencies Viewed in Perspective. AU Billot, Antoine; Gilboa, Itzhak; Samet, Dov; Schmeidler, David. AA Billot: University de Paris II, IUF and CERAS-ENPC. Gilboa: Tel Aviv University and Yale University. Samet: Tel Aviv University. Schmeidler: Tel Aviv University and Ohio State University. SR Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/05; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. PG 23. PR no charge. JE D80. KW Case-Based Decision Theory. Probability. Perspective.

AB A decision maker is asked to quantify her beliefs over a state space by a probability vector. We focus on the relationship between her data base and her beliefs. We show that, if beliefs given a union of two databases are a convex combination of beliefs given each of the data bases, the belief formation process follows a simple formula: Beliefs are normalized similarity-weighted aggregation of the beliefs induced by each past case. This formula coincides with the projection defined by perspective. We also provide a behavioral derivation of this formula, and discuss its applications to game theory, as well as its limitations.

PD March 2004. TI Axiomatization of an Exponential Similarity Function. AU Billot, Antoine; Gilboa, Itzhak; Schmeidler, David. AA Billot: University de Paris II, IUF and CERAS-ENPC. Gilboa: Tel Aviv University and Yale University. Schmeidler: Tel Aviv University and Ohio State University. SR Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/16; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. PG 10.

PR no charge. JE C10, D80. KW Similarity. Kernel. Case-Based Decision Theory. AB Abstract not available.

Black, Sandra E.

PD October 2002. TI Who Goes to College? Differential Enrollment by Race and Family Background. AU Black, Sandra E.; Sufi, Amir. AA Black: UCLA and NBER. Sufi: MIT. SR National Bureau of Economic Research Working Paper: 9310; 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 I21, I22, J15. KW Racial Differences. College Enrollment. Socioeconomic Status.

AB While trends in college enrollment for blacks and whites have been the subject of study for a number of years, little attention has been paid to the variation in college enrollment by socioeconomic status (SES). It is well documented that, controlling for family background, blacks are more likely to enroll in college than whites. However, we find that this relationship only holds among low-SES individuals. Among high SES individuals, this pattern is reversed. We also find that this relationship is strongest in the 1970s and appears to have dissipated over time; by the 1990s, blacks were no more likely to attend college than whites at any end of the SES distribution. This paper first documents this phenomenon and then attempts to understand what is driving these differences across the distribution of family background characteristics and why the relationship is changing over time. Although they have a significant impact on college enrollment behavior, tuition costs and local labor markets explain very little of racial differences in college entry. We do uncover different responses to tuition and labor markets by individuals from different ends of the SES distribution, an important consideration for policies targeted at improving college enrollment for low-SES individuals.

PD December 2003. TI Why the Apple Doesn't Fall: Understanding Intergenerational Transmission of Human Capital. AU Black, Sandra E.; Devereux, Paul; Salvanes, Kjell G. AA Black and Devereux: UCLA. Salvanes: Norwegian School of Economics and Business Administration. SR CEPR Discussion Paper: 4150; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4150.asp. PG 28. PR 5 pounds, \$5 or 8 euros + postage and handling. JE I21, J13, J24. KW Intergenerational Mobility. Education. Educational Reform.

AB Parents with higher education levels have children with higher education levels. Is this because parental education actually changes the outcomes of children, suggesting an important spillover of education policies, or is it merely that more able individuals who have higher education also have more able children? This paper proposes to answer this question by using a unique dataset from Norway. Using the reform of the education system that was implemented in different municipalities at different times in the 1960s as an instrument for parental education, we find little evidence of a causal relationship between parents' education and children's education, despite significant OLS relationships. We find 2SLS estimates that are consistently lower than the OLS estimates with the only statistically significant effect being a positive relationship between mother's education and son's education.

These findings suggest that the high correlations between parents' and children's education are due primarily to family characteristics and inherited ability and not education spillovers.

Blau, Francine D.

PD November 2002. **TI** The Impact of Welfare Benefits on Single Motherhood and Headship of Young Women: Evidence from the Census. **AU** Blau, Francine D.; Kahn, Lawrence M.; Waldfogel, Jane. **AA** Blau: Cornell University, NBER and CESifo. Kahn: Cornell University and CESifo. Waldfogel: Columbia University. **SR** National Bureau of Economic Research Working Paper: 9338; 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** I38, J12. **KW** Welfare Benefits. Family Structure.

AB This paper uses data from the 1970, 1980 and 1990 Censuses to investigate the impact of welfare benefits across Metropolitan Statistical Areas (MSAs) on the incidence of single motherhood and headship for young women. A contribution of the paper is the inclusion of both MSA fixed effects and MSA-specific time trends to account for fixed and trending unmeasured factors that could influence both welfare benefit levels and family formation. In such a model, we find no effect of welfare benefits on single motherhood for whites or blacks, and a positive effect of welfare benefits on single headship only for blacks.

Bloom, Nicholas

TI Competition and Innovation: An Inverted U Relationship. **AU** Aghion, Philippe; Bloom, Nicholas; Blundell, Richard; Griffith, Rachel; Howitt, Peter.

Blumkin, Tomer

PD April 2003. **TI** Income Taxation with Intergenerational Mobility: Can Higher Inequality Lead to Less Progression? **AU** Blumkin, Tomer; Sadka, Efraim. **AA** Blumkin: Ben Gurion University. Sadka: Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/08; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 24. **PR** no charge. **JE** D60, H21, J24. **KW** Mobility. Optimal Taxation. Redistribution. Education. Inequality.

AB We extend the optimal tax literature by assuming that earnings abilities are no longer purely innate abilities, but rather partly acquired through investments in human capital. This assumption adds endogenous mobility to the primarily static optimal tax models. The implications for the optimal redistribution policy are analyzed.

Blundell, Richard

TI Competition and Innovation: An Inverted U Relationship. **AU** Aghion, Philippe; Bloom, Nicholas; Blundell, Richard; Griffith, Rachel; Howitt, Peter.

Bordo, Michael D.

PD November 2003. **TI** Gold, Fiat Money and Price Stability. **AU** Bordo, Michael D.; Dittmar, Robert; Gavin, William T. **AA** Bordo: Rutgers University. Dittmar and

Gavin: Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2003/014B; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 40. **PR** no charge. **JE** E31, E42, E52. **KW** Gold Standard. Compensated Dollar. Inflation Targeting.

AB Which monetary regime is associated with the most stable price level? A commodity money regime such as the classical gold standard has long been associated with long-run price stability. However, critics of the day argued that the regime was associated with too much short-run price variability and argued for reforms that look much like modern versions of price-level targeting. In this paper, we develop a dynamic stochastic general equilibrium model that we use to examine price dynamics under four alternative regimes: the gold standard, Irving Fisher's compensated dollar proposal, and two regimes with paper money. In the first, the central bank uses an interest rate rule to target the price of gold. In the second, there is no convertibility and the central bank uses an interest rate rule to target an inflation rate. We find that strict inflation targeting, even though it introduces a unit root into the price level, provides more short-run stability than the gold standard and as much long-term price stability as does the gold standard for horizons shorter than 30 years. We find that Fisher's compensated dollar reduces price level and inflation uncertainty by an order of magnitude at all horizons.

Borjas, George J.

PD October 2002. **TI** Food Insecurity and Public Assistance. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 9236; 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** I38, J61. **KW** Welfare Programs. Immigrants. Food Insecurity.

AB This paper examines if welfare programs reduce the probability that vulnerable household experience food deprivation because of financial constraints. Although the 1996 welfare reform legislation specifically limited the eligibility of immigrant households to receive assistance, many states chose to protect their immigrant populations by offering state-funded aid to these groups. This paper exploits these changes in eligibility rules to examine the link between food insecurity and public assistance. The evidence indicates that a 10 percentage point cut in the fraction of the population that receives public assistance increases the fraction of food-insecure households by about 5 percentage points.

PD October 2002. **TI** The Wage Structure and the Sorting of Workers into the Public Sector. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 9313; 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, J45. **KW** Public Sector Wages. Wage Compression. Wage Distribution.

AB This paper uses data from the U.S. Decennial Census and the Current Population Surveys to document the differential shifts that occurred in the wage structures of the public and private sectors between 1960 and 2000. The wage gap between the typical public sector worker and a comparable private

sector worker was relatively constant for men during this period, but declined substantially for women. Equally important, wage dispersion in the public sector was increasing relative to wage dispersion in the private sector prior to 1970, at a time when public sector employment was rising rapidly. Since 1970, however, there has been a significant relative compression of the wage distribution in the public sector. The different evolutions of the wage structures in the two sectors are an important determinant of the sorting of workers across sectors. As a result of the relative wage compression, the public sector found it increasingly more difficult to attract and retain high-skill workers.

Bortolotti, Bernardo

PD June 2003. **TI** The Political Economy of Privatization. **AU** Bortolotti, Bernardo; Pinotti, Paolo. **AA** Bortolotti: University of Torino and FEEM. Pinotti: Universitat Pompeu Fabra. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/45; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 34. **PR** no charge; available only on website. **JE** D72, D78, L33, P16. **KW** Political Institutions. Partisan Politics. Privatization.

AB This paper provides an empirical analysis of the role of political institutions in privatization. The empirical testing relies on a new political database with continuous and time-varying measures of the politico-institutional setting, and of the partisan orientation of the executive. Using panel data for 21 industrialized countries in the 1977-1999 period, first we show the likelihood and the extent of privatization to be strongly and positively associated with majoritarian political systems. On the contrary, in consensual democracies privatization seems delayed by a "war of attrition" among different political actors. Second, we identify a partisan determinant of the choice of the privatization method. As theory predicts, right wing executives with re-election concerns design privatization to spread share ownership among domestic voters.

Botticini, Maristella

PD June 2004. **TI** Jewish Occupational Selection: Education, Restrictions, or Minorities? **AU** Botticini, Maristella; Eckstein, Zvi. **AA** Botticini: Boston University. Eckstein: Tel Aviv University, University of Minnesota and Federal Reserve Bank of Minneapolis. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/10; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 32. **PR** no charge. **JE** J10, J24, N35, O10. **KW** First Millennium. Human Capital. Jewish Economic History. Occupational Choice. Religion.

AB This paper documents the major features of Jewish economic history in the first millennium to explain the distinctive occupational selection of the Jewish people into urban, skilled occupations. We show that many Jews entered urban occupations in the eighth-ninth centuries in the Muslim Empire when there were no restrictions on their economic activities, most of them were farmers, and they were a minority in all locations. Therefore, arguments based on restrictions or minority status cannot explain the occupational transition of the Jews at that time. Our thesis is that the occupational selection

of the Jews was the outcome of the widespread literacy prompted by a religious and educational reform in the first century CE, which was implemented in the third to the eighth century. We present detailed information on the implementation of this religious and educational reform in Judaism based on the Talmud, archeological evidence on synagogues, the Cairo Geniza documents, and the Responsa literature. We also provide evidence of the economic returns to Jewish religious literacy.

PD June 2004. **TI** From Farmers to Merchants: A Human Capital Interpretation of Jewish Economic History. **AU** Botticini, Maristella; Eckstein, Zvi. **AA** Botticini: Boston University. Eckstein: Tel Aviv University, University of Minnesota and Federal Reserve Bank of Minneapolis. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/11; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 32. **PR** no charge. **JE** J10, J24, N35, O10. **KW** First Millennium. Human Capital. Jewish Economic History. Occupational Choice. Religion.

AB Since the early Middle Ages almost all the Jews have been engaged primarily in urban, skilled occupations. The transition from farmers to merchants occurred between the eighth and the ninth centuries in the Muslim Empire where the Jews moved from villages to the newly developed urban centers. They continued to be engaged in urban occupations throughout their history. We explain this occupational selection as the outcome of (i) the Jews' investment in education prompted by a change in religious norms during the first and second centuries, and (ii) the increased urbanization in the Muslim Empire. Our theory also predicts that the change in religious norms would lead some Jews to voluntarily convert to other religions. A substantial reduction in Jewish population between the second and the sixth centuries confirms this prediction.

Boubakri, Narjess

PD April 2003. **TI** Postprivatization Corporate Governance: The Role of Ownership Structure and Investor Protection. **AU** Boubakri, Narjess; Cosset, Jean-Claude; Guedhami, Omrane. **AA** Boubakri: HEC Montreal. Cosset and Guedhami: Université Laval. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/37; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 30. **PR** no charge; available only online. **JE** G32, G38. **KW** Corporate Governance. Privatization. Performance. **AB** We investigate the role of ownership structure and investor protection in post-privatization corporate governance. We find that the government relinquishes control over time, mainly to the benefit of local institutions and foreign investors. We also show that private ownership tends to concentrate over time. In addition to firm-level variables, investor protection, political and social stability explain the cross-firm differences in ownership concentration. We find that the positive effect of ownership concentration on firm performance matters more in countries with weak investor protection and that private domestic ownership leads to higher performance.

Brewer, Mike

PD October 2002. **TI** Eradicating Child Poverty in Britain: Welfare Reform and Children Since 1997. **AU** Brewer, Mike; Gregg, Paul. **AA** Brewer: Institute for Fiscal Studies. Gregg: University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 02/052; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. **PG** 28. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** H53, I38. **KW** Welfare Reform. Poverty. Children. **UK**.

AB In 1997 the new Labor government in the UK inherited a situation where nearly one in 5 children lived in a household where no adult worked and around one in 3 lived in relative poverty. Children had replaced pensioners as the poorest group in society. The incoming government set about an ambitious set of reforms designed to reduce poverty and worklessness amongst families with children. This policy reform agenda contained some features akin to the welfare reform process being undertaken in the US since 1996. But with one fundamental difference, that welfare payments to jobless families rose rapidly and there is no time restriction in access to these payments. This paper describes the key features of the welfare reform process, documents the reforms to welfare payments and in particular contrasts them with the US system. The results show that the reformed UK welfare support system, taxes and benefits, for children is more generous to low-income families with children but less for better off families. So the UK system is more progressive among families with children. The paper goes on to look at the emerging evidence of the impact of the UK policy reform process on poverty and welfare dependence.

Brown, Donald

PD February 2003. **TI** The Strong Law of Demand. **AU** Brown, Donald; Calsamiglia, Caterina. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1399; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 12. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** D11, D12, D51. **KW** Afriat's Theorem. Law of Demand. Consumer's Surplus. Testable Restrictions.

AB We show that a demand function is derived from maximizing a quasilinear utility function subject to a budget constraint if and only if the demand function is cyclically monotone. On finite data sets consisting of pairs of market prices and consumption vectors, this result is equivalent to a solution of the Afriat inequalities where all the marginal utilities of income are equal. We explore the implications of these results for maximization of a random quasilinear utility function subject to a budget constraint and for representative agent general equilibrium models. The duality theory for cyclically monotone demand is developed using the Legendre-Fenchel transform. In this setting, a consumer's surplus is measured by the conjugate of her utility function.

PD June 2003. **TI** Indeterminacy, Nonparametric Calibration and Counterfactual Equilibria. **AU** Brown, Donald; Kannan, Ravi. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1426; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT

06520-8281. Website: cowles.econ.yale.edu/. **PG** 15. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C62, C63, D51, D58. **KW** Walrasian Inequalities. O-Minimal Structures. Monte Carlo Algorithms.

AB We propose a nonparametric approach to multiple calibration of numerical general equilibrium models, where counterfactual equilibria are solutions to the Walrasian inequalities. We present efficient approximation schemes for deciding the solvability of Walrasian inequalities.

PD May 2004. **TI** The Computation of Counterfactual Equilibria in Homothetic Walrasian Economies. **AU** Brown, Donald; Kannan, Ravi. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1426; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 13. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C63, C68, D51, D58. **KW** Walrasian Inequalities. Calibration.

AB We propose a nonparametric test for multiple calibration of numerical general equilibrium models, and we present an effective algorithm for computing counterfactual equilibria in homothetic Walrasian economies, where counterfactual equilibria are solutions to the Walrasian inequalities.

Brown, Jeffrey R.

PD October 2002. **TI** Redistribution and Insurance: Mandatory Annuitization with Mortality Heterogeneity. **AA** University of Illinois at Urbana-Champaign and NBER. **SR** National Bureau of Economic Research Working Paper: 9256; 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** D91, H55, J14. **KW** Life Insurance. Annuitization. Mortality Heterogeneity.

AB This paper examines the distributional implications of mandatory longevity insurance when there is mortality heterogeneity in the population. Previous research has demonstrated the significant financial redistribution that occurs under alternative annuity programs in the presence of differential mortality across groups. This paper embeds that analysis into a life cycle framework that allows for an examination of distributional effects on a utility-adjusted basis. It finds that the degree of redistribution that occurs from the introduction of a mandatory annuity program is substantially lower on a utility-adjusted basis than when evaluated on a purely financial basis. In a simple life-cycle model with no bequests, complete annuitization is welfare enhancing even for those individuals with much higher-than-average expected mortality rates, so long as administrative costs are sufficiently low. These findings have implications for policy toward annuitization, particularly as part of a reformed Social Security system.

PD October 2002. **TI** Federal Terrorism Risk Insurance. **AU** Brown, Jeffrey R.; Kroszner, Randall S.; Jenn, Brian. **AA** Brown: University of Illinois at Urbana-Champaign. Kroszner: Council of Economic Advisers and NBER. Jenn: Council of Economic Advisers. **SR** National Bureau of Economic Research Working Paper: 9271; 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** G18, G22, G28, H89. **KW** Costs of Terrorism.

September 11, Insurance Markets.

AB The terrorist attacks of September 11, 2001 represented a loss for commercial property & casualty insurers that was both unprecedented and unanticipated. After sustaining this record capital loss, the availability of adequate private insurance coverage against future terrorist attacks came into question. Concern over the potential adverse consequences of the lack of availability of insurance against terrorist incidents led to calls for federal intervention in insurance markets. This paper discusses the economic rationales for and against federal intervention in the market, and concludes that the benefits from establishing a temporary transition program, during which the private sector can build capacity and adapt to a dramatically changed environment for terrorism risk, may provide benefits to the economy that exceed the direct and indirect costs.

Brown, Sarah

PD May 2003. **TI** Who Are the Self-Employed? A New Approach. **AU** Brown, Sarah; Farrell, Lisa; Harris, Mark N. **AA** Brown: University of Leicester. Farrell: University of Melbourne. Harris: Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/11; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 36. **PR** no charge. **JE** C10, C25, J23, J33. **KW** Self-Employment. Captivity.

AB Modeling the incidence of self-employment has traditionally proved problematic. Whilst the individual supply side characteristics of the self-employed are well documented, the literature has largely neglected (or misspecified) demand side aspects. In this paper we present results from an econometric framework that allows us to separately, and simultaneously, model the supply and demand side characteristics that determine employment outcomes. We show that whilst individual characteristics are important determinants of the type of employment contract that individuals hold, there are also important contract specific factors that influence the nature of the contract an individual is employed under. Our results suggest that workers may be "captive" to a particular type of employment because of the sector in which they work, the number of hours they prefer to work and their ethnicity. The results are based on a new estimator, the parameterized DOGEV model, which allows for ordering and correlation in the observed alternatives, and for captivity within an observed alternative.

Browning, Martin

PD April 2001. **TI** Caring and Sharing: Tests Between Alternative Models of Intra- Household Allocation. **AU** Browning, Martin; Lechene, Valerie. **AA** Browning: University of Copenhagen. Lechene: University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 70; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 19. **PR** only available electronically through website. **JE** D12, J13. **KW** Intra-Household Allocation. Altruism. Cooperative Behavior. Non-Cooperative Behavior.

AB Several models of intra-household decision making have been suggested in the literature. One important dichotomy is between non-cooperative and cooperative models (including

specific models of bargaining). The other important distinction is between models that allow for caring and those that do not. We present a framework that includes all suggested models and variants as special cases. We derive the theoretical predictions of these models for the relationship between expenditures on goods and the intra-household distribution of income. We estimate and test between these relationships using Canadian household expenditure data. We conclude that there is evidence that both husbands and wives care for each other in the sense that with an unequal distribution of incomes the high income partner behaves as a "Becker dictator" and there is local income pooling. We further find that for about half of the households in our sample (those with more equal incomes) a redistribution of income would lead to changes in budget allocations. We conclude that the data are consistent with a collective model with caring partners.

Buchmueller, Thomas C.

PD October 2002. **TI** Access to Physician Services: Does Supplemental Insurance Matter? Evidence from France. **AU** Buchmueller, Thomas C.; Couffinhal, Agnes; Grignon, Michel; Perronin, Marc. **AA** Buchmueller: University of California, Irvine and NBER. Couffinhal, Grignon, and Perronin: CREDES. **SR** National Bureau of Economic Research Working Paper: 9238; 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** G22, I11, I18. **KW** Health. Insurance. France.

AB In France, public health insurance is universal but incomplete, with private payments accounting for roughly 25 percent of all spending. As a result, most people have supplemental private health insurance. We investigate the effects of such insurance on the utilization of physician services using data from the 1998 Enquete Sante Protection Sociale, a nationally representative survey of the French population. Our results indicate that insurance has a strong and significant effect on the utilization of physician services. Individuals with supplemental coverage have substantially more physician visits than those without. In a context where patients are free to choose their provider, we find no evidence that adults with supplemental insurance are more likely to visit a specialist than a general practitioner.

Buira, Ariel

PD July 2001. **TI** The Governance of the International Monetary Fund. **AA** University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 73; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 14. **PR** only available electronically through website. **JE** F02, F33. **KW** International Monetary Fund. Governance of the IMF. Decision Making in the IMF. Political Control of the IMF. IMF Quotas and Voting Power.

AB Since 1997, following the approval of the Guidance Note on Governance by the Executive Board, the IMF has given increased attention to governance issues in its member countries. In view of its influence, it is of interest to consider to what extent the Fund's own governance meets the standards of transparency and accountability required for the good use of public resources. The paper reviews the power structure of the Fund, i.e. the distribution of quotas and the role of the

Executive Board and of the staff and management in decision making. It finds that the concentration of power in a few countries impairs the transparency and political accountability of the Fund. It argues that as the changes in the world economy since the Bretton Woods Conference in 1944 have not been appropriately reflected in the quota structure some aspects of the system have become dysfunctional.

PD July 2001. **TI** A Critique of the Cooper Report on the Adequacy of the IMF Quota Formulas. **AA** University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 74; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 14. **PR** only available electronically through website. **JE** F02, F33. **KW** International Monetary Fund. Governance of the IMF. Decision Making in the IMF. Political Control of the IMF. IMF Quotas and Voting Power.

AB At the request of the Managing Director of the IMF, a group of experts, chaired by Professor Richard Cooper of Harvard University prepared a report on the adequacy of quota formulas, including proposals for changes. The paper reviews the recommendations of the Quota Formula Review Group and finds that the Report failed to address such key issues as the size of the Fund or overall adequacy of quotas, and the question of basic votes and the distribution of voting power. It questions the reasons for the rejection of PPP-based GDP in the proposed formula for quota determination and considers that this introduces a bias against developing countries; the exclusion of short-term capital movements in the measurement of countries external vulnerability also appears questionable.

Buiter, Willem H.

PD January 2004. **TI** Cross-Border Tax Externalities: Are Budget Deficits too Small? **AU** Buiter, Willem H.; Sibert, Anne. **AA** Buiter: European Bank for Reconstruction and Development (EBRD). Sibert: Birkbeck College and CEPR. **SR** CEPR Discussion Paper: 4164; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4164.asp. **PG** 28. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E62, F42, H21. **KW** Fiscal Policy. Policy Coordination. Optimal Taxation.

AB In a dynamic optimizing model with costly tax collection, a tax cut by one nation creates positive externalities for the rest of the world if initial public debt stocks are positive. By reducing tax collection costs, current tax cuts boost the resources available for current private consumption, lowering the global interest rate. This pecuniary externality benefits other countries because it reduces the tax collection costs for foreign governments of current and future debt service. In the non-cooperative equilibrium, nationalistic governments do not allow for the effect of lower domestic taxes on debt service costs abroad. Taxes are too high and government budget deficits too low compared to the global cooperative equilibrium. Even in the cooperative equilibrium complete tax smoothing is not optimal: current taxes will be lower than future taxes.

Bullard, James

PD June 2003. **TI** Did the Great Inflation Occur Despite Policymaker Commitment to a Taylor Rule? **AU** Bullard, James; Eusepi, Stefano. **AA** Bullard: Federal Reserve Bank

of St. Louis. Eusepi: University of Rome. **SR** Federal Reserve Bank of St. Louis Working Paper: 2003/013A; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 25. **PR** no charge. **JE** E31, E52. **KW** Monetary Policy Rules. Productivity Slowdown. Learning.

AB We study the hypothesis that misperceptions of trend productivity growth during the onset of the productivity slowdown in the U.S. caused much of the great inflation of the 1970s. We use the general equilibrium, sticky price framework of Woodford (2002), augmented with learning using the techniques of Evans and Honkapohja (2001). We allow for endogenous investment as well as explicit, exogenous growth in productivity and the labor input. We assume the monetary policymaker is committed to using a Taylor-type policy rule. We study how this economy reacts to an unexpected change in the trend productivity growth rate under learning. We find that a substantial portion of the observed increase in inflation during the 1970s can be attributed to this source.

PD October 2003. **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: 2002/002B; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 31. **PR** no charge. **JE** E31, E52. **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 (2002). We explore the prospects for the use of "large deviation" theory in this context, as employed by Sargent (1999) and Cho, Williams, and Sargent (2002). 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.

Bundorf, M. Kate

PD October 2002. **TI** Is Health Insurance Affordable for the Uninsured? **AU** Bundorf, M. Kate; Pauly, Mark V. **AA** Bundorf: Stanford University and NBER. Pauly: University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 9281; Working Papers, NBER, 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 U.S.). **JE** G22, I10. **KW** Health. Insurance.

AB In this paper, we investigate the meaning of "affordability" in the context of health insurance. Assessing the relationship between the affordability of coverage and the large number of uninsured in the U.S. is important for understanding the barriers to purchasing coverage for the uninsured and evaluating the role of policy in reducing this number. We propose several definitions of affordability and examine the implications of alternative definitions on estimates of the proportion of currently uninsured who are unable to afford

coverage. We find that, depending on the definition, health insurance was affordable to between one-quarter and three-quarters of the uninsured in 2000.

Burdekin, Richard C. K.

TI Suppressing Asset Price Inflation: The Confederate Experience, 1861- 1865. **AU** Weidenmier, Marc D.; Burdekin, Richard C. K.

Burgess, Robin

PD January 2004. **TI** Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment. **AU** Burgess, Robin; Pande, Rohini. **AA** Burgess: London School of Economics and CEPR. Pande: Yale University. **SR** CEPR Discussion Paper: 4211; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4211.asp. **PG** 23. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G21, H10, I30, N25, O16. **KW** Finance and Development. Rural Banking. Bank Licensing. Credit Constraints. Poverty.

AB Lack of access to finance is often cited as a key reason for why poor people remain poor. This paper uses data on the Indian rural branch expansion program to provide empirical evidence on this issue. Between 1977 and 1990, the Indian central bank mandated that a commercial bank could open a branch in a location with one or more bank branches only if it opens four in locations with no bank branches. We show that, between 1977 and 1990, this rule caused banks to open relatively more rural branches in Indian states with lower initial financial development. The reverse was true outside this period. We exploit this fact to identify the impact of opening a rural bank on poverty and output. Our estimates suggest that the Indian rural branch expansion program significantly lowered rural poverty, and increased non-agricultural output.

Burgess, Simon

PD July 2002. **TI** Does Performance Monitoring Work? A Review of the Evidence From the UK Public Sector, Excluding Health Care. **AU** Burgess, Simon; Propper, Carol; Wilson, Deborah. **AA** Burgess: CEP, CASE, LSE, CEPR, and University of Bristol. Propper: CEP, CASE, LSE, and University of Bristol. Wilson: University of Bath and University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 02/049; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. **PG** 22. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** D23, J33, J45. **KW** Performance Monitoring. Public Sector. UK.

AB This paper reviews the use of performance monitoring in the UK public sector, excluding its use in health care. Our focus is on finding robust evidence that evaluates the success of the introduction of performance monitoring in terms of its impact both on behavior and on final outcomes. We begin with a general discussion of performance monitoring (hereafter PM), before considering the nature of the public sector and the implications of this for the implementation of such schemes within it. We then review the evidence and find a general lack of quantitative evidence on the impact of PM schemes on outcomes. This is partly due to the problem of attributing changes in outcome to the introduction of a specific PM

scheme. One of our recommendations, therefore, is to consider piloting of PM schemes more widely in order to provide such evidence prior to national implementation.

PD July 2002. **TI** Maternity Rights and Mother's Return to Work. **AU** Burgess, Simon; Gregg, Paul; Propper, Carol; Washbrook, Elizabeth; ALSPAC Study Team. **AA** University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 02/055; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. **PG** 36. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** I38, J13, J22. **KW** Female Labor Supply. Children and Labor Supply. Maternity Rights.

AB In this paper we examine the effect of maternity rights on mothers' post-birth return to employment decisions. We aim to disentangle the effects of the terms of maternity rights entitlements from the effects of other factors (such as household wealth, personal preferences and labor market opportunities) that influence the timing of a mother's return to work. Mothers with rights have an underlying (but unobserved) stronger attachment to the labor market which prompts earlier return than on average. Nevertheless, even when we take this into account we find a substantial impact of maternity rights on behavior. Having rights induces around 20 per cent more women to return to their previous job before 7 months than would otherwise be the case. Women from lower skilled groups return disproportionately at the date at which maternity pay expires, while managerial and professional women tend to return at the expiry of unpaid leave.

Burguet, Roberto

PD January 2004. **TI** Does the Market Provide Sufficient Employment Protection? **AU** Burguet, Roberto; Caminal, Ramon. **AA** Burguet: Institut d'Anàlisi Econòmica (CSIC). Caminal: Institut d'Anàlisi Econòmica (CSIC) and CEPR. **SR** CEPR Discussion Paper: 4198; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4198.asp. **PG** 21. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J41, J65. **KW** Severance Payments. Lay-Offs. Experimentation. Employment Protection.

AB This paper examines the role of employment protection when firms learn over time about the value of the match. When parties can commit to future wages, equilibrium contracts stipulate positive severance payments as an instrument to induce efficient lay-off decisions and there is no room for public intervention. When parties cannot commit to future wages, ex-post bargaining leads to excessive dismissals, and therefore the market provides insufficient employment protection. In this case, a Pigouvian tax/subsidy scheme will correct the inefficiency by enhancing employment protection.

Busetti, Giorgio

PD April 2003. **TI** STAR-GARCH Models for Stock Markets Interactions in the Pacific Basin Region, Japan and US. **AU** Busetti, Giorgio; Manera, Matteo. **AA** Busetti: Monte Paschi Alternative Investment. Manera: University of Milano-Bicocca and FEEM. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/43; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website:

www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.

PG 16. **PR** no charge; available only on website. **JE** C22, C51, C52, F36. **KW** STAR-GARCH Models. Stock Market Integration. Pacific-Basin. Outliers.

AB We investigate the financial interactions between countries in the Pacific Basin region (Korea, Singapore, Malaysia, Hong Kong, and Taiwan), Japan, and the US. The contribution of the paper is the use of STAR-GARCH models, instead of standard correlation-cointegration techniques. For each country in the Pacific Basin region, we find statistically adequate STAR-GARCH models for the series of stock market daily returns, using Nikkei225 and S&P500 as alternative threshold variables. We provide evidence for the leading role of Japan in the period 1988-1990 (pre-Japanese crisis years), whereas our results suggest that the Pacific Basin region countries are more closely linked with the US during the period 1995-1999 (post-Japanese crisis years).

Butler, Matthew J.

TI Credibility and Policy Convergence: Evidence from U.S. House Roll Call Voting Records. **AU** Lee, David S.; Moretti, Enrico; Butler, Matthew J.

Caballero, Ricardo J.

PD July 2003. **TI** Adjustment is Much Slower than You Think. **AU** Caballero, Ricardo J.; Engel, Eduardo M.R.A.. **AA** Caballero: MIT and NBER. Engel: Yale University and NBER. **SR** Yale Cowles Foundation Discussion Paper: 1430; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 30. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C22, C43, E22, E24, E52. **KW** Speed of Adjustment. Discrete Adjustment. Lumpy Adjustment. Aggregation. Calvo Model. ARMA Process. Partial Adjustment. Expected Response Time. Monetary Policy. Investment. Labor Demand. Sticky Prices. Idiosyncratic Shocks. Time-To-Build.

AB In most instances, the dynamic response of monetary and other policies to shocks is infrequent and lumpy. The same holds for the microeconomic response of some of the most important economic variables, such as investment, labor demand, and prices. We show that the standard practice of estimating the speed of adjustment of such variables with partial-adjustment ARMA procedures substantially overestimates this speed. While aggregating across microeconomic units reduces the bias (the limit of which is illustrated by Rotemberg's widely used linear aggregate characterization of Calvo's model of sticky prices), in some instances convergence is extremely slow. Because the bias rises with disaggregation, findings of microeconomic adjustment that is substantially faster than aggregate adjustment are generally suspect.

PD March 2004. **TI** Three Strikes and You're Out: Reply to Cooper and Willis Computer and Internet Penetration. **AU** Caballero, Ricardo J.; Engel, Eduardo M.R.A.. **AA** Caballero: MIT. Engel: Yale University. **SR** Yale Economic Growth Center Discussion Paper: 883; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. **PG** 12. **PR** \$2.00 plus postage. **JE** E23, J24, J63. **KW** Adjustment Hazard. Aggregate Nonlinearities. Lumpy Adjustment. Quadratic Adjustment.

AB Cooper and Willis (2003) is the latest in a sequence of criticisms of our methodology for estimating aggregate nonlinearities when microeconomic adjustment is lumpy. Their case is based on "reproducing" our main findings using artificial data generated by a model where microeconomic agents face quadratic adjustment costs. That is, they supposedly find our results where they should not be found. The three claims on which they base their case are incorrect. Their mistakes range from misinterpreting their own simulation results to failing to understand the context in which our procedures should be applied. They also claim that our approach assumes that employment decisions depend on the gap between the target and current level of unemployment. This is incorrect as well, since the "gap approach" has been derived formally from at least as sophisticated microeconomic models as the one they present. On a more positive note, the correct interpretation of Cooper and Willis's results shows that our procedures are surprisingly robust to significant departures from the assumptions made in our original derivations.

PD March 2004. **TI** Microeconomic Flexibility in Latin America. **AU** Caballero, Ricardo J.; Engel, Eduardo M.R.A.; Micco, Alejandro. **AA** Caballero: MIT. Engel: Yale University. Micco: Inter-American Development Bank. **SR** Yale Economic Growth Center Discussion Paper: 884; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. **PG** 33. **PR** \$2.00 plus postage. **JE** E23, E24, O47. **KW** Microeconomic Rigidities. Creative-Destruction. Job Flows. Productivity Growth.

AB We characterize the degree of microeconomic inflexibility in several Latin American economies and find that Brazil, Chile and Colombia are more flexible than Mexico and Venezuela. The difference in flexibility among these economies is mainly explained by the behavior of large establishments, which adjust more promptly in the more flexible economies, especially when accumulated shocks are substantial. We also study the path of flexibility in Chile and show that it declined in the aftermath of the Asian crisis. This decline can account for a substantial fraction of the large decline in TFP-growth in Chile since 1997 (from 3.1 percent per year for the preceding decade, to about 0.3 percent after that). Moreover, if it were to persist, it could permanently shave off almost half of a percent from Chile's growth rate.

Cadot, Olivier

TI Rules of Origin in North-South Preferential Trading Arrangements with an Application to NAFTA. **AU** Anson, Jose; Cadot, Olivier; de Melo, Jaime; Estevadeordal, Antoni; Suwa-Eisenmann, Akiko; Tumurchudur, Bolorma.

TI Tariff Evasion and Customs Corruption: Does PSI Help? **AU** Anson, Jose; Cadot, Olivier; Olarreaga, Marcelo.

PD December 2003. **TI** India's Trade Policy For Sale: How Much? Who Buys? **AU** Cadot, Olivier; Grether, Jean-Marie; Olarreaga, Marcelo. **AA** Cadot: Universite de Lausanne and CEPR. Grether: Universite de Neuchatel. Olarreaga: World Bank and CEPR. **SR** CEPR Discussion Paper: 4168; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4168.asp. **PG** 26. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F10, F11, F13. **KW** India. Political

Economy. Protection.

AB This paper proposes a new method to test the Grossman-Helpman model of endogenous protection and lobby formation. This method, which does not require outside data on lobbies or contributions, identifies politically organized industries for trade protection purposes and calculates equilibrium contributions directly from the model using structural parameter estimates. Its emphasis on vertical inter-industry linkages also makes it possible to trace the effects of duty drawbacks and counter-lobbying from downstream users on endogenous protection. Applied to India, it yields results that are qualitatively consistent with the model's predictions and that seem quantitatively more plausible than estimates given for the US by alternative methods. The weight on social welfare in the government's objective function is 5, and the average contribution per ISIC sector is \$33 million.

Cahuc, Pierre

PD December 2003. **TI** Wage Bargaining with On-The-Job Search: Theory and Evidence. **AU** Cahuc, Pierre; Postel-Vinay, Fabien; Robin, Jean-Marc. **AA** Cahuc: Universite de Paris I and CEPR. Postel-Vinay and Robin: INRA and CEPR. **SR** CEPR Discussion Paper: 4154; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org/pubs/dps/DP4154.asp. **PG** 39. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J31, J41, J64. **KW** Search Frictions. Structural Estimation. Wage Bargaining. Labor Market Competition.

AB The Nash wage bargaining model is ubiquitous in modern labor economics. Yet most applications of this model ignore inter-employer competition for labor services and attribute all of the workers' rent to their bargaining power. In this paper, we write and estimate an equilibrium model with strategic wage bargaining and on-the-job search and use it to take another look at the determinants of wages in France. There are three essential determinants of wages in our model: productivity, competition between employers resulting from on-the-job search, and the workers' bargaining power. We find that between-firm competition matters a lot in the determination of wages, as it is quantitatively more important than wage bargaining a la Nash in raising wages above the workers' "reservation wages", defined as out-of-work income. In particular, we detect no significant bargaining power for intermediate- and low-skilled workers, and a modestly positive bargaining power for high-skilled workers. In addition, the paper provides some empirical information on the nature of sorting of workers by firms.

Calsamiglia, Caterina

TI The Strong Law of Demand. **AU** Brown, Donald; Calsamiglia, Caterina.

Camera, Gabriele

PD November 2003. **TI** Currency Competition in a Fundamental Model of Money. **AU** Camera, Gabriele; Craig, Ben R.; Waller, Christopher J. **AA** Camera: Purdue University. Craig: Federal Reserve Bank of Cleveland. Waller: University of Notre Dame. **SR** Federal Reserve Bank of Cleveland Working Paper: 03/11; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. **Website:** www.clevelandfed.org/research/workpaper/index.htm. **PG** 28. **PR** no charge. **JE** E41,

E42. **KW** Money. Currency Substitution. Search.

AB We study how two fiat monies, one safe and one risky, compete in a decentralized trading environment. The equilibrium value of the two currencies, their transaction velocities and agents' spending patterns are endogenously determined. We derive conditions under which agents holding diversified currency portfolios spend the safe currency first and hold the risky one for later purchases. We also examine when the reverse spending pattern is optimal. Traders generally favor dealing in the safe currency, unless trade frictions and the currency risk are low. As risk increases or trading becomes more difficult, the transaction velocity and value of the safe money increases.

Caminal, Ramon

TI Does the Market Provide Sufficient Employment Protection? **AU** Burguet, Roberto; Caminal, Ramon.

Campbell, John Y.

PD December 2003. **TI** Strategic Asset Allocation in a Continuous Time VAR Model. **AU** Campbell, John Y.; Chacko, George; Rodriguez, Jorge; Viceira, Luis M. **AA** Campbell and Chacko: Harvard University. Rodriguez: MIT. Viceira: Harvard University and CEPR. **SR** CEPR Discussion Paper: 4160; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org/pubs/dps/DP4160.asp. **PG** 22. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G12. **KW** Portfolio Choice. Time Aggregation. Intertemporal Hedging. Long-Term Investing. Recursive Utility.

AB This paper derives an approximate solution to a continuous-time intertemporal portfolio and consumption choice problem. The problem is the continuous-time equivalent of the discrete-time problem studied by Campbell and Viceira (1999), in which the expected excess return on a risky asset follows an AR(1) process, while the riskless interest rate is constant. The paper also shows how to obtain continuous-time parameters that are consistent with discrete-time econometric estimates. The continuous-time solution is the limit of that of Campbell and Viceira and has the property that conservative long-term investors have a large positive intertemporal hedging demand for stocks.

Campbell, Rachel

PD November 2003. **TI** Diversification Meltdown or the Impact of Fat Tails on Conditional Correlation? **AU** Campbell, Rachel; Forbes, Catherine S.; Koedijk, Kees; Kofman, Paul. **AA** Campbell: Maastricht University. Forbes: Monash University. Koedijk: Erasmus University. Kofman: Melbourne University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/18; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. **Website:** www.buseco.monash.edu.au/depts/ebs/. **PG** 33. **PR** no charge. **JE** G11, G14. **KW** Conditional Correlation. Truncated Correlation. Bivariate Student-t Correlation.

AB A perceived increase in correlation during turbulent market conditions implies a reduction in the benefits arising from portfolio diversification. Unfortunately, it is exactly then that these benefits are most needed. To determine whether diversification truly breaks down, we investigate the robustness of a popular conditional correlation estimator against

alternative distributional assumptions. Analytical results show that the apparent meltdown in the benefits from diversification could be a consequence of assuming normally distributed returns. A more realistic assumption -- the bivariate Student-t distribution -- suggests that constant correlation may be sustained over the full support of the multivariate return distribution.

Campello, Murillo

TI Corporate Demand for Liquidity. **AU** Almeida, Heitor; Campello, Murillo; Weisbach, Michael S.

Campos, Nauro F.

PD February 2004. **TI** After, Before and During: Returns to Education in Hungary (1986-1998). **AU** Campos, Nauro F.; Joliffe, Dean. **AA** Campos: University of Newcastle and CEPR. Joliffe: University of Michigan. **SR** CEPR Discussion Paper: 4215; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4215.asp. **PG** 16. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** I20, J24, J31, O15, P20. **KW** Human Capital. Transition Economics. Hungary.

AB How valuable are the skills acquired under socialism in a market economy? This paper throws light on this question using unique data covering the years before and during transition (1986-98) for about 3 million Hungarian wage earners. We find that returns to a year of schooling increased by 75% from 6.4% in 1986 to 11.2% in 1998. We also find that the private sector rewards formal education more than the public and, in terms of gender, although in 1986 women had greater returns to schooling than men, by 1998 this difference had been eliminated.

Cannon, Edmund

PD September 2002. **TI** Annuity Prices, Money's Worth and Replacement Ratios: UK Experience 1972-2002. **AU** Cannon, Edmund; Tonks, Ian. **AA** University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 02/051; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmipo/publications.html. **PG** 21. **PR** no charge; hardcopies can be obtained from cmipo-office@bristol.ac.uk. **JE** G23, J32. **KW** Annuities. Money's Worth. Replacement Ratios. UK.

AB We construct a time series of annuity prices from 1972-2002, and examine whether annuity rates are unfairly priced, and assess the extent to which annuitization risks are hedged by stock market returns. We find no evidence that the average annuity rate is unfairly low. Depending on the assumptions about future longevity, the present value of an annuity (it's money's worth) is between 90 per cent and 100 per cent of the purchase price. Compared with the typical costs of buying financial services, this figure looks suspiciously good. In addition, we find no reason to suggest that individuals are worse off by annuity rates being low, since this has been offset by increases in the value of pension funds over the last thirty years. Even apart from the fact that people retiring today expect to live longer, their pension income (compared to their final salary) looks as good as ever.

Capozza, Dennis R.

PD October 2002. **TI** Determinants of Real House Price Dynamics. **AU** Capozza, Dennis R.; Hendershott, Patric H.; Mack, Charlotte; Mayer, Christopher J. **AA** Capozza and Mack: University of Michigan. Hendershott: University of Aberdeen and NBER. Mayer: University of Pennsylvania. **SR** National Bureau of Economic Research Working Paper: 9262; 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** G12, R31. **KW** Housing Prices. Construction Costs. Overshooting.

AB We explore the dynamics of real house prices by estimating serial correlation and mean reversion coefficients from a panel data set of 62 metro areas from 1979-1995. The serial correlation and reversion parameters are then shown to vary cross-sectionally with city size, real income growth, population growth, and real construction costs. Serial correlation is higher in metro areas with higher real income, population growth and real construction costs. Mean reversion is greater in large metro areas and faster-growing cities with lower construction costs. Empirically, substantial overshooting of prices can occur in high real construction cost areas, which have high serial correlation and low mean reversion, such as the coastal cities of Boston, New York, San Francisco, Los Angeles, and San Diego.

Caprio, Gerard, Jr.

TI Bank Regulation and Supervision: What Works Best? **AU** Barth, James R.; Caprio, Gerard, Jr.; Levine, Ross.

Carlstrom, Charles T.

PD April 2002. **TI** Does It Matter (for Equilibrium Determinacy) What Price Index the Central Bank Targets? **AU** Carlstrom, Charles T.; Fuerst, Timothy S.; Ghironi, Fabio. **AA** Carlstrom: Federal Reserve Bank of Cleveland. Fuerst: Bowling Green State University. Ghironi: Boston College. **SR** Federal Reserve Bank of Cleveland Working Paper: 02/02; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. **PG** 29. **PR** no charge. **JE** E31, E52. **KW** Determinacy. Sectoral Taylor Rule. Taylor Principle.

AB What inflation rate should the central bank target? We address determinacy issues related to this question in a two-sector model in which prices can differ in equilibrium. We assume that the degree of nominal price stickiness can vary across sectors and that labor is immobile. The contribution of this paper is to demonstrate that a modified Taylor Principle holds in this environment. If the central bank elects to target sector one, and if it responds with a coefficient greater than unity to price movements in this sector, then this policy rule will ensure determinacy across all sectors. The results of this paper have at least two implications. First, the equilibrium-determinacy criterion does not imply a preference to any particular measure of inflation. Second, since the Taylor Principle applies at the sectoral level, there is no need for a Taylor Principle at the aggregate level.

PD June 2002. **TI** Imperfect Capital Markets and Nominal Wage Rigidities. **AU** Carlstrom, Charles T.; Fuerst, Timothy S. **AA** Carlstrom: Federal Reserve Bank of Cleveland. Fuerst: Bowling Green State University. **SR** Federal Reserve Bank of Cleveland Working Paper:

02/05; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. PG 23. PR no charge. JE E31, E52.

KW Monetary Policy. Agency Costs.

AB Should monetary policy respond to asset prices? This paper analyzes a general equilibrium model with imperfect capital markets and rigid nominal wages. Within the context of this model, there is a natural role for the benevolent central bank to dampen the real effects of asset price movements.

PD December 2003. **TI** Comments on Backward-Looking Interest-Rate Rules, Interest-Rate Smoothing, and Macroeconomic Instability. **AU** Carlstrom, Charles T.; Fuerst, Timothy S. **AA** Carlstrom: Federal Reserve Bank of Cleveland. Fuerst: Bowling Green State University. **SR** Federal Reserve Bank of Cleveland Working Paper: 03/19; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website:

www.clevelandfed.org/research/workpaper/index.htm.

PG 22. PR no charge. JE E31, E32, E43, E52.

KW Interest Rates. Monetary Policy. Central Banking.

AB Benhabib, Schmitt-Grohe, and Uribe (2003) argue that if you relied solely on local analysis you would be led to believe that aggressive, backward-looking interest rate rules are sufficient for determinacy. But from the perspective of global analysis, backward-looking rules do not guarantee uniqueness of equilibrium and indeed may lead to cyclic and even chaotic equilibria. This comment argues that this result is premature. We utilize a discrete time model and make two observations. First, compared to their continuous time model, the cyclic equilibria under a backward-looking rule are much less likely to arise in a discrete time model. Second, pure backward-looking rules are less likely to suffer from these global indeterminacy problems than rules that also include current or future inflation.

PD December 2003. **TI** Investment and Interest Rate Policy: A Discrete Time Analysis. **AU** Carlstrom, Charles T.; Fuerst, Timothy S. **AA** Carlstrom: Federal Reserve Bank of Cleveland. Fuerst: Bowling Green State University. **SR** Federal Reserve Bank of Cleveland Working Paper: 03/20; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website:

www.clevelandfed.org/research/workpaper/index.htm. PG 28. PR no charge. JE E43, E52.

KW Interest Rates. Monetary Policy. Central Banking.

AB This paper analyzes the restrictions necessary to ensure that the interest rate policy rule used by the central bank does not introduce local real indeterminacy into the economy. It conducts the analysis in a Calvo-style sticky price model. A key innovation is to add investment spending to the analysis. In this environment, local real indeterminacy is much more likely. In particular, all forward-looking interest rate rules are subject to real indeterminacy.

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.

Carraro, Carlo

PD April 2003. **TI** Endogenous Strategic Issue Linkage in International Negotiations. **AU** Carraro, Carlo; Marchiori, Carmen. **AA** Carraro: University of Venice, CEPS, CEPR, CESifo, and FEEM. Marchiori: University College of London and FEEM. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/40; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.

PG 21. PR no charge; available only on website.

JE C72, Q58. **KW** IEAs. Coalition Formation Games. Issue Linkage.

AB This paper analyses issue linkage as a way to increase co-operation on issues where incentives to free-ride are strong. The goal is to determine under what conditions players prefer to link negotiations on two different issues rather than to negotiate on the two issues separately. Suppose that players are asked to vote on issue linkage before starting negotiations. Under what conditions would they vote in favor of issue linkage? The answer to this question is not trivial. Issue linkage may indeed increase the number of cooperators on the provision of a public good (a typical issue characterized by strong incentives to free-ride). However, at the same time, issue linkage may reduce the number of cooperating players on the other economic issue which is linked to the provision of a public good. Players therefore face a trade-off. This paper analyses this trade-off within a game-theoretic framework and shows under what conditions issue linkage is players' equilibrium strategy.

Cavaglia, Stefano

PD November 2002. **TI** Pricing the Global Industry Portfolios. **AU** Cavaglia, Stefano; Hodrick, Robert J.; Vadim, Moroz; Zhang, Xiaoyan. **AA** Cavaglia and Vadim: Brinson Partners. Hodrick: Columbia University and NBER. Zhang: Cornell University. **SR** National Bureau of Economic Research Working Paper: 9344; Working Papers, NBER, 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 U.S.). JE F30, G12.

KW International Asset Pricing. Global Industry Portfolios.

AB We investigate the ability of several international asset pricing models to price the returns on 36 FTSE global industry portfolios. The models are the international capital asset pricing model (ICAPM) the ICAPM with exchange risks, and global two-factor and three-factor Fama-French (1996, 1998) models. We apply the methodology of Hansen and Jagannathan (1997). While all of the models can correctly price the basic assets, exchange risks are unimportant and only the global three-factor Fama-French model passes a robustness check which requires the models to also price portfolios sorted by book-to-market ratio.

Cespedes, Luis Felipe

PD November 2002. **TI** IS-LM-BP in the Pampas. **AU** Cespedes, Luis Felipe; Chang, Roberto; Velasco, Andres. **AA** Cespedes: International Monetary Fund. Chang: Rutgers University. Velasco: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 9337; 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 E50, F20, F30. **KW** Emerging

Markets. Monetary Policy. Exchange Rate Policy.

AB Emerging markets (sometimes endowed with fertile pampas) have limited access to world capital markets and suffer from original sin: they cannot borrow in their own currency. Does this mean that monetary and exchange rate policy has non-standard effects in such countries? We develop a simple IS-LM-BP model with balance sheet effects to study that question. Our answer: it all depends.

Chacko, George

TI Strategic Asset Allocation in a Continuous Time VAR Model. **AU** Campbell, John Y.; Chacko, George; Rodriguez, Jorge; Viceira, Luis M.

Chalkley, Martin

PD April 2001. **TI** Cost Sharing in Health Service Provision: An Empirical Assessment of Cost Savings. **AU** Chalkley, Martin; Malcomson, James. **AA** Chalkley: University of Dundee. Malcomson: University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 69; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 30. **PR** only available electronically through website. **JE** I11. **KW** Health Services. Medicare. Cost Sharing. Fixed Prices.

AB Fixed price payments for treatment of patients with a specified diagnosis are widespread in both US Medicare and the British NHS even though there are substantial variations in the cost of treatment. Theory suggests that, when there is asymmetric information about those costs, total payment can be reduced by cost sharing. This paper uses data from Medicare to assess the cost savings that might be feasible in practice from cost sharing. For diagnosis related groups with low cost variation, the calculated cost savings are approximately 7%. For those with high cost variation, the calculated cost savings are more than 60%.

Champ, Bruce

PD December 2003. **TI** Resolving the National Banking System Note-Issue Puzzle. **AU** Champ, Bruce; Wallace, Neil. **AA** Champ: Federal Reserve Bank of Cleveland. Wallace: Pennsylvania State University. **SR** Federal Reserve Bank of Cleveland Working Paper: 03/16; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. **PG** 17. **PR** no charge. **JE** E42, N11. **KW** Bank Notes. National Banking System. Interest Rates. Random Matching Model.

AB Under the National Banking System of 1863-1914, national banks that deposited sufficient collateral could issue notes provided they paid a tax on notes in circulation: 1% per year before 1900 and 0.5% thereafter. Because note issue was far below the allowed maximum, an arbitrage argument predicts that short-term nominal interest rates should have been bounded above by the tax rate. They were not. That is the note-issue puzzle. Our resolution takes the form of a model in which notes play a role, but in which the profitability of note issue is not tied to anything that resembles a market rate of interest.

Chang, Roberto

TI IS-LM-BP in the Pampas. **AU** Cespedes, Luis Felipe; Chang, Roberto; Velasco, Andres.

Chang, Sheng-Wen

PD October 2002. **TI** Optimal Drug Policy in Low-Income Neighborhoods. **AU** Chang, Sheng-Wen; Coulson, N. Edward; Wang, Ping. **AA** Chang: National Chengchi University. Coulson: Penn State University. Wang: Vanderbilt University and NBER. **SR** National Bureau of Economic Research Working Paper: 9248; 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** D60, H70, J60, K42. **KW** Drug Policies. Illegal Behavior.

AB Part of the debate over the control of drug activity in cities is concerned with the effectiveness of implementing demand- versus supply- side drug policies. This paper is motivated by the relative lack of research providing formal economic underpinning for the implementation of either policy. We construct a simple model of drug activity, in which the drug price and the distribution of population in a community are determined according to a career choice rule and a predetermined drug demand. Three potential government objectives are considered. We find that both demand- and supply-side policies have theoretical support under different community conditions. While the demand-side policy discourages active drug sellers, the supply-side policy has an additional drug-dealing replacement effect on inducing potential entry of drug dealers. In low-income neighborhoods, demand-side policy is more effective if the drug problem is more severe or if the government objective is to deter dealer entry or to promote community's aggregate income rather than minimizing active drug selling.

Chao, John C.

PD May 2003. **TI** Consistent Estimation with a Large Number of Weak Instruments. **AU** Chao, John C.; Swanson, Norman R. **AA** Chao: University of Maryland. Swanson: Rutgers University. **SR** Yale Cowles Foundation Discussion Paper: 1417; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 32. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C13, C31. **KW** Instrumental Variables. K-Class Estimator. Local-to-Zero Framework. Pathwise Asymptotics. Weak Instruments.

AB This paper analyzes the conditions under which consistent estimation can be achieved in instrumental variables regression when the available instruments are weak in the local-to-zero sense. We consider a general local-to-zero framework which allows for an arbitrary degree of instrument weakness by modeling the first-stage coefficients as shrinking toward zero at an unspecified rate. In addition, we examine a broad class of single-equation estimators which extends the well-known k-class to include, amongst others, the Jackknife Instrumental Variables Estimator (JIVE) of Angrist, Imbens, and Krueger (1999). Analysis of estimators within this extended class based on a pathwise asymptotic scheme, where the number of instruments K_n is allowed to grow as a function of the sample size, reveals that consistent estimation depends importantly on the relative magnitudes of m , the growth rate of the concentration parameter, and K_n . The two-stage least squares (2SLS) estimator is shown not to satisfy the needed conditions and is found to be consistent only if $K_n/m \rightarrow 0$, as $n \rightarrow \infty$. A main point of our paper is that the use of many instruments may be beneficial from a point estimation

standpoint in empirical applications where the available instruments are weak but abundant.

PD May 2003. **TI** Alternative Approximations of the Bias and MSE of the IV Estimator Under Weak Identification with an Application to Bias Correction. **AU** Chao, John C.; Swanson, Norman R. **AA** Chao: University of Maryland. Swanson: Rutgers University. **SR** Yale Cowles Foundation Discussion Paper: 1418; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 22. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C13, C31. **KW** Laplace Approximation. Local-to-Zero Asymptotics. Weak Instruments.

AB We provide analytical formulae for the asymptotic bias (ABIAS) and mean squared error (AMSE) of the IV estimator, and obtain approximations thereof based on an asymptotic scheme which essentially requires the expectation of the first stage F-statistic to converge to a finite (possibly small) positive limit as the number of instruments approaches infinity. The approximations so obtained are shown, via regression analysis, to yield good approximations for ABIAS and AMSE functions, and the AMSE approximation is shown to perform well relative to the approximation of Donald and Newey (2001). One consequence of the asymptotic framework adopted here is that consistent estimators for the "ABIAS" and "AMSE" can be obtained. As a result, we are able to construct a number of bias corrected OLS and IV estimators, which we show to be consistent under a sequential asymptotic scheme. These bias-corrected estimators are also robust. A small Monte Carlo experiment documents the relative performance of our bias adjusted estimators versus standard IV, OLS, LIML estimators, and it is shown that our estimators have lower bias than LIML for various levels of endogeneity and instrument relevance.

Chari, Anusha

PD January 2004. **TI** Is the Invisible Hand Discerning or Indiscriminate? Investment and Stock Prices in the Aftermath of Capital Account Liberalizations. **AU** Chari, Anusha; Henry, Peter Blair. **AA** Chari: University of Michigan. Henry: Stanford University. **SR** Stanford Graduate School of Business Research Paper: 1839; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 49. **PR** no charge. **JE** F15, F41, F43. **KW** Economic Development. Economic Policy. International Finance. Macroeconomics. Asset Pricing.

AB We confront the two opposing views of capital account liberalization in developing countries with a new firm-level dataset on investment, stock prices, and sales. In the three-year period following liberalizations, the growth rate of the typical firm's capital stock exceeds its pre-liberalization mean by an average of 5.4 percentage points. The return to capital rises in the post-liberalization period, suggesting that the investment boom does not constitute a wasteful binge. In the cross section, changes in investment are significantly correlated with the signals about fundamentals embedded in the stock price changes that occur upon liberalization. Panel data estimations show that a 1-percentage point increase in a firm's expected future cash flow predicts a 4.1-percentage point increase in its investment; the country-specific shock to the cost of capital predicts a 2.3-percentage point increase in investment; firm-specific changes in risk premia do not affect investment.

Charles, Kerwin Kofi

PD October 2002. **TI** The Correlation of Wealth Across Generations. **AU** Charles, Kerwin Kofi; Hurst, Erik. **AA** Charles: University of Michigan and NBER. Hurst: University of Chicago. **SR** National Bureau of Economic Research Working Paper: 9314; 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** E21, G12, J12, J62. **KW** Risk Tolerance. Intergenerational Wealth.

AB This paper examines the similarity in wealth between parents and their children, and explores alternative explanations for this relationship. We find that the age-adjusted elasticity of child wealth with respect to parental wealth is 0.37, before the transfer of bequests. Lifetime income and ownership of particular assets, both of which exhibit strong intergenerational similarity, jointly explain nearly two-thirds of the wealth elasticity. Education, past parental transfers, and expected future bequests account for little of the remaining elasticity. Using new experimental evidence, we assess the importance of risk tolerance. The risk tolerance measures vary with the ownership of risky assets, as theory would predict, and are highly correlated between parents and children. However, they explain little of the intergenerational correlation in the propensity to own different assets, suggesting that children's savings propensities are determined by mimicking their parents' behavior, or the inheritance of preferences not related to risk tolerance. Additionally, these risk tolerance measures explain only a small part of the remaining intergenerational wealth elasticity.

Charlot, Sylvie

PD February 2003. **TI** Agglomeration and Welfare: The Core-Periphery Model in the Light of Bentham, Kaldor, and Rawls. **AU** Charlot, Sylvie; Gaigne, Carl; Robert-Nicoud, Frederic; Thisse, Jacques-Francois. **AA** Charlot and Gaigne: INRA-CESAER. Robert-Nicoud: Universite de Geneve. Thisse: Universite Catholique de Louvain, CERAS, INRA-CESAER, and CEPR. **SR** CORE Discussion Paper: 2003/39; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 23. **PR** \$5 per paper; \$100 per year. **JE** F12, R13. **KW** Agglomeration. Welfare. Economic Geography. Compensation Mechanism.

AB The objective of this paper is to apply different welfare approaches to the canonical model developed by Krugman, with the aim of comparing the only two possible market outcomes, i.e. agglomeration and dispersion. More precisely, we use the Pareto criterion, the compensation criteria put forward by Kaldor, as well as the utilitarian and Rawlsian welfare functions. No clear answer emerges for the following two reasons: (i) except for small range of transport cost values, there is indetermination when compensation schemes are used and (ii) the best outcome heavily depends on societal values regarding inequalities across individuals. In particular, our analysis cautions against the use of utilitarian welfare functions as a foundation for regional policy recommendations.

Chemla, Gilles

PD December 2003. **TI** Corporate Venture Capital: The Upside of Failure and Competition for Talent. **AU** Chemla, Gilles; de Bettignies, Jean-Etienne. **AA** University of British

Columbia. **SR** CEPR Discussion Paper: 4139; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4139.asp. **PG** 22. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G24, G32, M12, M13. **KW** Corporate Venture Capitalist. Venture Capitalist. Entrepreneur. Competition. Failure.

AB We consider the motives for a firm to engage in corporate venturing. We argue that in case of failure of a new venture, corporate venture capitalists (CVC) have a strategic advantage relative to traditional venture capitalists (VC) in creating rents after rehiring or refinancing the entrepreneurs. Hence, corporate venturing induces the would-be entrepreneur to exert an effort that is higher than within the corporation, but lower than under traditional venture capital financing. *Ceteris paribus*, the entrepreneur ends up with fewer shares and less control under CVC financing than under traditional VC financing. Competition from venture capitalists increases corporate venturing activity, the salaries of potential entrepreneurs, and total economic output. Our results are consistent with the observed pro-cyclicality of corporate venture capital activity with venture capital activity.

Cheng, I-Hui

TI Controlling for Heterogeneity in Gravity Models of Trade and Integration. **AU** Wall, Howard J.; Cheng, I-Hui.

Chinn, Menzie D.

PD March 2004. **TI** The Determinants of the Global Digital Divide: A Cross-Country Analysis of Computer and Internet Penetration. **AU** Chinn, Menzie D.; Fairlie, Robert W. **AA** Chinn: University of Wisconsin, Madison. Fairlie: University of California, Santa Cruz. **SR** Yale Economic Growth Center Discussion Paper: 881; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. **PG** 38.

PR \$2.00 plus postage. **JE** L96, O30. **KW** Computers. Internet. Digital Divide. Infrastructure. Pricing. Regulation.

AB To identify the determinants of cross-country disparities in personal computer and Internet penetration, we examine a panel of 161 countries over the 1999-2001 period. Our candidate variables include economic variables (income per capita, years of schooling, illiteracy, trade openness), demographic variables (youth and aged dependency ratios, urbanization rate), infrastructure indicators (telephone density, electricity consumption), telecommunications pricing measures, and regulatory quality. With the exception of trade openness and the telecom pricing measures, these variables enter in as statistically significant in most specifications for computer use. A similar pattern holds true for Internet use, except that telephone density and aged dependency matter less. The global digital divide is mainly -- but by no means entirely -- accounted for by income differentials. For computers, telephone density and regulatory quality are of second and third importance, while for the Internet, this ordering is reversed. The region-specific explanations for large disparities in computer and Internet penetration are generally very similar. Our results suggest that public investment in human capital, telecommunications infrastructure, and the regulatory infrastructure can mitigate the gap in PC and Internet use.

Chiodo, Abigail J.

PD October 2002. **TI** Duration Dependence in Monetary Policy: International Evidence. **AU** Chiodo, Abigail J.; Owyang, Michael T. **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/021A; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 14. **PR** no charge. **JE** C32, E52, E58. **KW** Monetary Policy. Duration Dependence. Regime Switching.

AB We study the duration of monetary regimes in a simple neo-classical Phillips curve model. The model is an extension of Owyang (2001) and Owyang and Ramey (2001). In this paper, we consider the role of the duration of inflationary regimes on the average inflation rate in an international cross-section. We find that inflationary regimes in certain countries are duration dependent but anti-inflationary regimes are not. In addition, we find that countries with high central banker turnover switch from inflationary to anti-inflationary regimes with lower probability.

PD June 2003. **TI** Subjective Probabilities: Psychological Evidence and Economic Applications. **AU** Chiodo, Abigail J.; Guidolin, Massimo; Owyang, Michael T.; Shimoji, Makoto. **AA** Chiodo and Owyang: Federal Reserve Bank of St. Louis. Guidolin: University of Virginia. Shimoji: Yokohama National University. **SR** Federal Reserve Bank of St. Louis Working Paper: 2003/009B; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 27. **PR** no charge. **JE** D84, G12. **KW** Behavioral Finance. Asset Pricing. Heuristics. Availability. Representativeness. Psychology.

AB Real-life decision makers are often forced to estimate the likelihood of uncertain future events. Usually, economists assume that agents behave as though they are fully rational, employing statistical rules to assess probabilities, and that they maximize expected utility. Psychological studies, however, have shown that people tend not to adhere to these rationality postulates. We review three rules of thumb taken from the psychology literature that people have been shown to rely on when assessing the likelihood of uncertain events. We construct a simple model of belief formation that incorporates these rules and present one formal and two illustrative applications in which these psychological phenomena cause deviations from anticipated economic outcomes.

Chiquiar, Daniel

PD October 2002. **TI** International Migration, Self-Selection, and the Distribution of Wages: Evidence from Mexico and the United States. **AU** Chiquiar, Daniel; Hanson, Gordon H. **AA** Chiquiar: UCSD. Hanson: UCSD and NBER. **SR** National Bureau of Economic Research Working Paper: 9242; 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** F22, J30, J61. **KW** International Migration. Wages. Negative-Selection Hypothesis.

AB In this paper, we use data from the Mexico and U.S. population censuses to examine who migrates from Mexico to the United States and how the skills and economic performance of these individuals compare to those who remain in Mexico. We test Borjas' negative-selection hypothesis that in poor countries the individuals with the strongest incentive to migrate

to rich countries are those with relatively low skill levels. We find that: 1) Mexican immigrants, while much less educated than U.S. natives, are on average more educated than residents of Mexico, and 2) were Mexican immigrants in the United States to be paid according to current skill prices in Mexico, they would tend to occupy the middle and upper portions of Mexico's wage distribution. These results are inconsistent with the negative-selection hypothesis and suggest, instead, that in terms of observable skills there is intermediate or positive selection of immigrants from Mexico. The results also suggest that migration abroad may raise wage inequality in Mexico.

Chirinko, Robert S.

PD July 2003. **TI** A Revealed Preference Approach To Understanding Corporate Governance Problems: Evidence From Canada. **AU** Chirinko, Robert S.; Schaller, Huntley. **AA** Chirinko: Emory University. Schaller: Carleton University. **SR** Institute for Advanced Studies (IHS), Economics Series: 135; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. **Website:** www.ihs.ac.at. **PG** 35. **PR** EUR 6.00 individuals; EUR 20.00 institutions; prices subject to change without notice. **JE** E22, G31. **KW** Corporate Governance. Business Investment. Discount Rates.

AB Empire-building by managers implies that they use a lower effective discount rate in making investment decisions. We use actual investment decisions to measure the gap between the manager's effective discount rate and the market rate. Our empirical work is based on panel data for 193 Canadian firms. Distinctive institutional features, such as interrelated groups of Canadian firms and concentrated share ownership, allow us to quantify the sensitivity of effective discount rates and governance problems to these institutional control mechanisms. For the firms most likely to be affected by the agency problems highlighted by Jensen (1986), estimated discount rates are 350-400 basis points less than the market rate, supporting the Free Cash Flow view that unresolved corporate governance problems distort firm behavior. Firms in our sample that face Free Cash Flow problems have a stock of fixed capital approximately 7% to 22% higher than would prevail under value maximizing behavior.

Cho, In-Koo

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

Chotikapanich, Duangkamon

PD December 2003. **TI** Averaging Lorenz Curves. **AU** Chotikapanich, Duangkamon; Griffiths, William. **AA** Chotikapanich: Monash University. Griffiths: Melbourne University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/22; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. **Website:** www.buseco.monash.edu.au/depts/ebs/. **PG** 22. **PR** no charge. **JE** C11, D31, D63. **KW** Gini Coefficient. Bayesian Inference. Dirichlet Distribution.

AB A large number of functional forms have been suggested in the literature for estimating Lorenz curves that describe the relationship between income and population shares. One way of choosing a particular functional form is to pick the one that best fits the data in some sense. Another approach, and the one followed here, is to use Bayesian model averaging to average

the alternative functional forms. In this averaging process, the different Lorenz curves are weighted by their posterior probabilities of being correct. Unlike a strategy of picking the best-fitting function, Bayesian model averaging gives posterior standard deviations that reflect the functional form uncertainty. Building on our earlier work (Chotikapanich and Griffiths 2002), we construct likelihood functions using the Dirichlet distribution and estimate a number of Lorenz functions for Australian income units. Prior information is formulated in terms of the Gini coefficient and the income shares of the poorest 10% and poorest 90% of the population. Posterior density functions for these quantities are derived for each Lorenz function and are averaged over all the Lorenz functions.

Chou, Shin-Yi

PD October 2002. **TI** An Economic Analysis of Adult Obesity: Results from the Behavioral Risk Factor Surveillance System. **AU** Chou, Shin-Yi; Grossman, Michael; Saffer, Henry. **AA** Chou: New Jersey Institute of Technology and NBER. Grossman: NBER and CUNY. Saffer: NBER and Kean University. **SR** National Bureau of Economic Research Working Paper: 9247; 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** I12, I18. **KW** Obesity.

AB Since the late 1970s, the number of obese adults in the United States has grown by over 50 percent. This paper examines the factors that may be responsible for this rapidly increasing prevalence rate. To study the determinants of adult obesity and related outcomes, we employ micro-level data from the 1984-1999 Behavioral Risk Factor Surveillance System. These repeated cross sections are augmented with state level measures pertaining to the per capita number of fast-food restaurants, the per capita number of full-service restaurants, the price of a meal in each type of restaurant, the price of food consumed at home, the price of cigarettes, clean indoor air laws, and hours of work per week and hourly wage rates by age, gender, race, years of formal schooling completed, and marital status. Our main results are that these variables have the expected effects on obesity and explain a substantial amount of its trend. These findings control for individual-level measures of household income, years of formal schooling completed, and marital status.

Christiano, Lawrence J.

PD June 2002. **TI** Monetary Policy in a Financial Crisis. **AU** Christiano, Lawrence J.; Gust, Christopher; Roldos, Jorge. **AA** Christiano: Northwestern University and Federal Reserve Bank of Cleveland. Gust: Federal Reserve Board of Governors. Roldos: International Monetary Fund. **SR** Federal Reserve Bank of Cleveland Working Paper: 02/04; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. **Website:** www.clevelandfed.org/research/workpaper/index.htm. **PG** 71. **PR** no charge. **JE** E52, F37, F42. **KW** Financial Crisis. Exchange Rates. Collateral Constraint.

AB What are the economic effects of an interest rate cut when an economy is in the midst of a financial crisis? Under what conditions will a cut stimulate output and employment, and raise welfare? Under what conditions will a cut have the opposite effects? We answer these questions in a general class of open economy models, where a financial crisis is modeled as

a time when collateral constraints are suddenly binding. We find that when there are frictions in adjusting the level of output in the traded good sector and in adjusting the rate at which that output can be used in other parts of the economy, then a cut in the interest rate is most likely to result in a welfare-reducing fall in output and employment. When these frictions are absent, a cut in the interest rate improves asset positions and promotes a welfare-increasing economic expansion.

PD January 2004. **TI** The Great Depression and the Friedman-Schwartz Hypothesis. **AU** Christiano, Lawrence J.; Motto, Roberto; Rostagno, Massimo. **AA** Christiano: Northwestern University, NBER, and Federal Reserve Bank of Cleveland. Motto and Rostagno: European Central Bank. **SR** Federal Reserve Bank of Cleveland Working Paper: 03/18; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. **Website:** www.clevelandfed.org/research/workpaper/index.htm. **PG** 92. **PR** no charge. **JE** C52, C68, E32, E52, E65. **KW** Friedman-Schwartz Theory. Dynamic GEM. Great Depression.

AB We evaluate the Friedman-Schwartz hypothesis that a more accommodating monetary policy could have greatly reduced the severity of the Great Depression. We first estimate a dynamic, general equilibrium model using data from the 1920s and 1930s which includes eight shocks. The contraction phase was primarily a consequence of a shock that induced a shift away from privately intermediated liabilities and towards currency. The slowness of recovery from the Depression was due to a shock that increased the market power of workers. We identify a monetary base rule which responds only to the money demand shocks in the model. We solve the model with this counterfactual monetary policy rule. We then simulate the dynamic response of this model to all the estimated shocks. Based on the analysis, we conclude that if the counterfactual policy rule had been in place in the 1930s, the Great Depression would have been relatively mild.

Chun, Hyunbae

PD October 2002. **TI** Decomposing Productivity Growth in the U.S. Computer Industry. **AU** Chun, Hyunbae; Nadiri, M. Ishaq. **AA** Chun: Queens College. Nadiri: New York University and NBER. **SR** National Bureau of Economic Research Working Paper: 9267; 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** D24, O33, O47. **KW** Total Factor Productivity. Computer Industry. Information Technology.

AB In this paper, we examine the sources of the productivity growth in the U.S. computer industry from 1978 to 1999. We estimate a joint production model of output quantity and quality that distinguishes two types of technological changes: process and product innovations. Based on the estimation results, we decompose the total factor productivity (TFP) growth rate into the contributions of process and product innovations and scale economies. The results show that product innovation associated with better quality accounts for about 30 percent of the TFP growth in the computer industry. Furthermore, we find that the TFP acceleration in the computer industry in the late 1990s is mainly derived from a rapid increase in product innovation.

Ciccone, Antonio

TI Trade and Productivity. **AU** Alcalá, Francisco; Ciccone, Antonio.

Cincera, Michele

PD January 2004. **TI** Monopoly Practices and Competitive Behaviour in the French Satellite Pay-TV Market. **AU** Cincera, Michele; Noury, Abdul. **AA** Cincera: Université Libre de Bruxelles and CEPR. Noury: ECARES and Université Libre de Bruxelles. **SR** CEPR Discussion Paper: 4174; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org/pubs/dps/DP4174.asp. **PG** 19. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** L22, L82. **KW** Pay-TV. Media. Competition. Structural Models.

AB This paper uses monthly data from a differentiated market dominated by a duopoly to analyze the nature of interactions between competitor firms. The incumbent, Canal Satellite, and the entrant, TPS, have dominated the French satellite pay-TV market, characterized by a monopoly until the end of 1997. This paper investigates the effects of the entry and tests for collusive behavior by means of non-nested methods in this duopoly with differentiated products. The main findings reject collusive behaviors in favor of Stackelberg competition with the incumbent as the leader. A preliminary comparison with the UK Satellite pay-TV market characterized by a monopoly indicates that prices are substantially lower in France. In view of our results, we argue that the difference can be explained by more competition between firms in the French case.

Cleary, Sean

PD January 2004. **TI** The U-Shaped Investment Curve: Theory and Evidence. **AU** Cleary, Sean; Povel, Paul E. M.; Raith, Michael. **AA** Cleary: Saint Mary's University. Povel: University of Minnesota. Raith: University of Rochester and CEPR. **SR** CEPR Discussion Paper: 4206; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org/pubs/dps/DP4206.asp. **PG** 32. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G32, G33, L13. **KW** Financial Constraints. Capital Market Imperfections. Financial Contracts. Investment. Internal Funds.

AB This paper examines how the investment of financially constrained firms varies with their level of internal funds. We develop a theoretical model of optimal investment under financial constraints. Our model endogenizes the costs of external funds and allows for negative levels of internal funds. We show that the resulting relationship between internal funds and investment is U-shaped. In particular, when a firm's internal funds are negative and sufficiently low, a further decrease leads to an increase in investment. This effect is driven by the investor's participation constraint: when part of any loan must be used to close a financing gap, the investor will provide funds only if the firm invests at a scale large enough to generate the revenue that enables the firm to repay. We test our theory using a dataset with close to 100,000 firm-year observations. The data strongly support our predictions. Among other results, we find a negative relationship between measures of internal funds and investment for a substantial share of financially constrained firms. Our results also help to explain some contrasting findings in the empirical investment literature.

Clements, Michael P.

PD October 2001. **TI** Economic Forecasting: Some Lessons From Recent Research. **AU** Clements, Michael P.; Hendry, David. **AA** Clements: University of Warwick; Hendry: University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 78; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 22.

PR only available electronically through website. **JE** C10, C52, C53. **KW** Forecasting. Non-Stationarity. Structural Breaks. Co-Breaking. Model Selection.

AB This paper describes some recent advances and contributions to our understanding of economic forecasting. The framework we develop helps explain the findings of forecasting competitions and the prevalence of forecast failure. It constitutes a general theoretical background against which recent results can be judged. We compare this framework to a previous formulation, which was silent on the very issues of most concern to the forecaster. We describe a number of aspects which it illuminates, and draw out the implications for model selection. Finally, we discuss the areas where research remains needed to clarify empirical findings which lack theoretical explanations.

Cohen, Randolph

PD November 2002. **TI** Judging Fund Managers by the Company They Keep. **AU** Cohen, Randolph; Coval, Joshua; Pastor, Lubos. **AA** Cohen and Coval: Harvard University; Pastor: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 9359; 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** G10. **KW** Fund Management. Equity Funds. Performance Evaluation.

AB We develop a performance evaluation approach in which a fund manager's skill is judged by the extent to which his investment decisions resemble the decisions of managers with distinguished performance records. The proposed performance measures are estimated more precisely than standard measures, because they use historical returns and holdings of many funds to evaluate the performance of a single fund. According to one of our measures, funds with significantly positive ability considerably outnumber funds with significantly negative ability at the end of our sample. Simulations demonstrate that our measures are particularly useful in ranking managers. In an application that relies on such ranking, we find only weak persistence in the performance of U.S. equity funds after accounting for momentum in stock returns.

Cohen-Goldner, Sarit

PD June 2004. **TI** Estimating the Return to Training and Occupational Experience: The Case of Female Immigrants. **AU** Cohen-Goldner, Sarit; Eckstein, Zvi. **AA** Eckstein: Tel Aviv University, University of Minnesota and Federal Reserve Bank of Minneapolis. Cohen-Goldner: Bar-Ilan University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/20; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 42. **PR** no charge.

JE J24, J30, J61. **KW** Immigration. Gender. Training Programs. Unemployment. Welfare.

AB Do government provided training programs benefit the participants and the society? We address this question in the context of female immigrants who choose between working or attending government provided training. Although training may have several outcomes, most evaluations have focused on only one outcome of training: the expected wage. However, training might have no direct effect on wage, but, nevertheless, affect employment probability in higher paid jobs. In order to measure the return to government provided training, and overcome the above reservations, we formulate an estimable stochastic dynamic discrete choice model of training and employment. Given the estimated model, the individual benefit is measured by the change in expected life time utility due to the effect of alternative training policy. The social return from training is measured by the expected increase in actual earnings minus the cost, due to a counterfactual policy. Our estimates imply that training has no significant impact on the mean offered wage in blue-collar occupation, but training increases the mean offered wage in white-collar occupation. Training also substantially increases the job offer rates in both occupations. Furthermore, counterfactual policy simulations show that free access to training programs relative to no training could cause an annual wage growth.

Coleman, Greg

PD October 2002. **TI** The Effect of Cigarette Excise Taxes on Smoking Before, During and After Pregnancy. **AU** Coleman, Greg; Grossman, Michael; Joyce, Ted. **AA** Coleman: Pace University. Grossman: NBER and CUNY. Joyce: NBER and Baruch College. **SR** National Bureau of Economic Research Working Paper: 9245; 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** H23, I18, J13. **KW** Cigarette Excise Taxes. Pregnancy. Reproductive Age.

AB Recent analyses suggest that cigarette excise taxes lower prenatal smoking. It is unclear, however, whether the association between taxes and prenatal smoking represents a decline among women of reproductive age or a particular response by pregnant women. We address this question directly with an analysis of quit and relapse behavior during and after pregnancy. We find that the price elasticity of prenatal quitting and postpartum relapse is close to one in absolute value. We conclude that direct financial incentives to stop smoking during and after pregnancy should be considered.

Collard, Fabrice

TI Decomposing the Twin-Peaks in the World Distribution of Output-Per-Worker. **AU** Beaudry, Paul; Collard, Fabrice; Green, David A.

Conley, Timothy G.

TI Social Networks in Ghana. **AU** Udry, Christopher R.; Conley, Timothy G.

Constant, Amelie

PD January 2004. **TI** What Makes an Entrepreneur and Does it Pay? Native Men, Turks and Other Migrants in Germany. **AU** Constant, Amelie; Shachmurove, Yochanan; Zimmermann, Klaus F. **AA** Constant: University of Bonn

and University of Pennsylvania. Shachmurove: City University of New York and University of Pennsylvania. Zimmermann: German Institute for Economic Research (DIW), University of Bonn and CEPR. **SR** CEPR Discussion Paper: 4207; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4207.asp. **PG** 25. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J23, J24, J31, J61, M13. **KW** Entrepreneurship. Self-Employment. Occupational Choice. Immigrants. Wage Differentials.

AB This paper focuses on the entrepreneurial endeavors of immigrants and natives in Germany. We pay closer attention to Turks, since they are the largest immigrant group with a strong entrepreneurial tradition; self-employed Turks in Germany represent about 70% of all Turkish entrepreneurs in the European Union. We identify the characteristics of self-employed individuals and understand their underlying drive into self-employment. At the same time we investigate how immigrant entrepreneurs fare in the labor market compared to natives. Employing data from the German Socioeconomic Panel 2000 release we find that the probability of self-employment increases significantly with age for all groups albeit at a decreasing rate. Among immigrants, Turks are twice as likely to choose self-employment as any other immigrant group. The age-earnings profiles of self-employed German and immigrant men are concave and surprisingly similarly shaped. While for self-employed German men hours of work and Treiman prestige scale scores increase their earnings, for self-employed immigrant men it is the longevity of the business that makes a difference. Everything else equal, the earnings of self-employed Turks are no different from the earnings of the self-employed Greeks, Italians, Spaniards, ex-Yugoslavs, Polish or other East Europeans, including those immigrants who have become German citizens.

Cornwell, Katy

PD January 2004. **TI** Migration and Unemployment in South Africa: When Motivation Surpasses the Theory. **AU** Cornwell, Katy; Indr, Brett. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2004/02; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 29. **PR** no charge. **JE** J61, J64, O12. **KW** South Africa. Unemployment. Informal Sector. Rural-Urban Migration. Labor Turnover.

AB This paper looks at the connection between internal migration and unemployment in South Africa. We examine whether rural-urban migrants are more likely to be unemployed, in informal sector employment or underemployed than non-migrants. We build on standard economic theory to predict that rates of unemployment and of participation in the informal sector ought to be much higher for migrants than for non-migrants. The empirical evidence we present, based on the 1993 and 1994 October Household Surveys, provides only some support for this theory. Results suggest that compared to job seeking non-migrants, recent migrants do well at finding formal employment, and are much less likely to be unemployed.

Cosset, Jean-Claude

TI Postprivatization Corporate Governance: The Role of

Ownership Structure and Investor Protection. **AU** Boubakri, Narjess; Cosset, Jean-Claude; Guedhami, Omrane.

Couffinal, Agnes

TI Access to Physician Services: Does Supplemental Insurance Matter? Evidence from France. **AU** Buchmueller, Thomas C.; Couffinal, Agnes; Grignon, Michel; Perronin, Marc.

Coughlin, Cletus C.

PD September 2003. **TI** Pass-Through Estimates and the Choice of an Exchange Rate Index. **AU** Coughlin, Cletus C.; Pollard, Patricia S. **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2003/004B; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 20. **PR** no charge. **JE** E39, F14, F31. **KW** Pass-Through. Exchange Rate Index Choice.

AB We examine exchange rate pass-through into U.S. import prices in 29 manufacturing industries using eight exchange rate indices. These indices vary by the number of currencies included; whether the weight on each currency is based on total trade with the United States or solely imports; and whether the weights vary by industry. Our results indicate that pass-through is generally incomplete but varies across industries. Moreover, pass-through is sensitive to the exchange rate index. Using bootstrapped J tests we show that major currency indices perform better than their broad currency counterparts. When using a major currency index, industry specific exchange rate indices are preferred to aggregate indices.

Coulson, N. Edward

TI Optimal Drug Policy in Low-Income Neighborhoods. **AU** Chang, Sheng-Wen; Coulson, N. Edward; Wang, Ping.

Courty, Pascal

PD December 2003. **TI** Does Responsive Pricing Increase Efficiency? Evidence from Pricing Experiments in an Internet Cafe. **AU** Courty, Pascal; Pagliero, Mario. **AA** Courty: European University Institute and CEPR. Pagliero: London Business School. **SR** CEPR Discussion Paper: 4149; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4149.asp. **PG** 18. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** L11. **KW** Responsive Pricing. Efficiency.

AB Responsive pricing proposes to increase efficiency by introducing a direct linkage between market conditions and changes in prices. This link is established by giving selective discounts that vary in real time as a function of the level of unused capacity. Using data from a unique pricing experiment in Internet cafes, we address the question of whether consumers respond to instantaneous price changes, and whether responsive pricing increases welfare. Our results show that the most responsive scheme in our sample increases occupancy by 11% over peak-load pricing. Welfare increases by an amount that corresponds to 12% of total consumer expenditure.

Coury, Tarek

TI Trade Openness, Investment Instability and Terms-of-Trade Volatility. **AU** Razin, Assaf; Sadka, Efraim; Coury, Tarek.

Coval, Joshua

TI Judging Fund Managers by the Company They Keep.
AU Cohen, Randolph; Coval, Joshua; Pastor, Lubos.

Craig, Ben R.

TI Currency Competition in a Fundamental Model of Money.
AU Camera, Gabriele; Craig, Ben R.; Waller, Christopher J.

PD November 2003. **TI** The Forecasting Performance of German Stock Option Densities. **AU** Craig, Ben R.; Glatzer, Ernst; Keller, Joachim G.; Scheiche, Martin. **AA** Craig: Federal Reserve Bank of Cleveland. Glatzer and Scheiche: Oestereiche Nationalbank. Keller: Bundesbank. **SR** Federal Reserve Bank of Cleveland Working Paper: 03/12; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm.

PG 34. **PR** no charge. **JE** C22, C52, G13. **KW** Option Prices. Risk-Neutral Density. Density Evaluation. Overlapping Data.

AB In this paper we will be estimating risk-neutral densities (RND) for the largest euro area stock market (the index of which is the German DAX), reporting their statistical properties, and evaluating their forecasting performance. We have applied an innovative test procedure to a new, rich, and accurate data set. We have two main results. First, we have recorded strong negative skewness in the densities. Second, we find evidence of a significant difference between the actual density and the risk-neutral density, leading to the conclusion that market participants were surprised by the extent of both the rise and the fall of the DAX.

PD November 2003. **TI** The Empirical Performance of Option Based Densities of Foreign Exchange. **AU** Craig, Ben R.; Keller, Joachim G. **AA** Craig: Federal Reserve Bank of Cleveland. Keller: Bundesbank. **SR** Federal Reserve Bank of Cleveland Working Paper: 03/13; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. **PG** 30. **PR** no charge. **JE** G13, G15. **KW** Risk-Neutral Density. Option Prices. Diffusion Process.

AB We calculate risk-neutral densities by estimating the daily diffusion process of the underlying futures contract for foreign exchange. Our quick and accurate method of calculating prices of the American options uses higher-order lattices and smoothing of the option's value function at the boundaries to mitigate the non-differentiability of the payoff boundary at expiration and the early exercise boundary. We estimate the diffusion process by minimizing the squared distance between calculated prices and observed prices in the data. We test whether the densities provided from American options provide a good forecasting tool. We use a nonparametric test of the densities that depends on inverse probabilities. We modify the test to compensate for an inherent problem that arises from the time-series nature of the transformed variables when forecasting windows overlap. We find that the densities based on American option prices for foreign exchange do quite well for the longer time horizons.

Cremer, Helmuth

PD January 2004. **TI** Intergenerational Transfer of Human Capital and Optimal Education Policy. **AU** Cremer,

Helmuth; Pestieau, Pierre. **AA** Cremer: Universite des Sciences Sociales de Toulouse and CEPR. Pestieau: Universite de Liege and CEPR. **SR** CEPR Discussion Paper: 4201; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4201.asp. **PG** 17. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** H21, H23, I20, I28. **KW** Education Policy. Intergenerational Transfers. Human Capital. Redistribution.

AB This paper studies the design of education policies in a setting of successive generations with heterogeneous individuals (high and low earning ability). Parents' investment in education is motivated by warm-glow altruism and determines the probability that a child has high ability. Education policies consist of a subsidy on private educational investments and possibly of public education. We show that when an income tax is available, the subsidy on education should not depend on redistributive considerations. Instead, it is determined by two terms. First, a Pigouvian term that arises because under warm-glow altruism parents' utility does not properly account for the impact of education on future generations. The second term captures a "merit good" effect, which arises when the warm-glow term is not fully included in social welfare (possibility of laundering out). The two terms are of opposite sign and the optimal subsidy may be positive or negative. Finally, we derive conditions under which public education is welfare-improving and show that total crowding out of private expenditure (for one of the types) may be desirable.

Cremer, Jacques

PD June 2003. **TI** Correlation, Independence, and Bayesian Incentives. **AU** Cremer, Jacques; d'Aspremont, Claude; Gerard-Varet, Louis-Andre. **AA** Cremer: Universite de Toulouse. d'Aspremont: Universite Catholique de Louvain. Gerard-Varet: Universites d'Aix-Marseille 2 and 3. **SR** CORE Discussion Paper: 2003/45; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 30. **PR** \$5 per paper; \$100 per year. **JE** C11, D80. **KW** Bayesian Mechanisms. Decision Rules.

AB Our goal is to describe the state of the art on Bayesian mechanisms when utility is transferable and only balanced transfers are admissible. New results will be proved along the way, but they will be integrated to the overall picture. We first study a condition on the information structure of the agents (condition B) which is necessary and sufficient to guarantee implementation of any decision rule. We prove constructively that condition B holds generically. We further analyze another condition (condition C), sufficient to guarantee implementation of any efficient decision rule and provide a simple interpretation. Also, we build a counterexample showing that condition C is not necessary to guarantee implementation of any efficient decision rule and then provide a necessary and sufficient condition. A counterexample is constructed to show that there does not always exist efficient Bayesian mechanisms, with three agents. Finally, we exhibit conditions on the information structures that guarantee unique implementation, and show that they hold generically.

PD January 2004. **TI** Codes in Organizations. **AU** Cremer, Jacques; Garicano, Luis; Prat, Andrea. **AA** Cremer: Universite des Sciences Sociales de Toulouse

and CEPR. Garicano: University of Chicago and CEPR. Prat: London School of Economics and CEPR. SR CEPR Discussion Paper: 4205; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4205.asp. PG 25. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D23. KW Coding. Organization Theory. Communication Cost.

AB A code is a technical language that members of an organization learn in order to communicate among themselves and with members of other organizations. What are the features of an optimal code and how does it interact with the characteristics of the organization? This paper develops a simple communication model and characterizes optimal codes. There exists a fundamental trade-off between choosing a specialized code that simplifies internal communication and a common code that facilitates external communication. We identify the drivers of this trade-off and we study the strategic aspects of code adoption. The results are used to interpret some existing organizational structures.

Curtis, Elisabeth

PD September 2002. TI Price Setting, Price Dispersion, and the Value of Money -- Or -- The Law of Two Prices. AU Curtis, Elisabeth; Wright, Randall. AA Curtis: Drexel University. Wright: University of Pennsylvania and Central Bank Institute of Federal Reserve Bank of Cleveland. SR Federal Reserve Bank of Cleveland Working Paper: 02/09; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. PG 46. PR no charge. JE C78, D83, E31. KW Search. Money. Price Posting. Price Dispersion.

AB We study models that combine search, monetary exchange, price posting by sellers, and buyers with preferences that differ across random meetings -- say, because sellers in different meetings produce different varieties of the same good. We show how these features interact to influence the price level (i.e., the value of money) and price dispersion. First, price-posting equilibria exist with valued fiat currency, which is not true in the standard model. Second, although both are possible, price dispersion is more common than a single price. Third, perhaps surprisingly, we prove generically there cannot be more than two prices in equilibrium.

d'Aspremont, Claude

TI Correlation, Independence, and Bayesian Incentives. AU Cremer, Jacques; d'Aspremont, Claude; Gerard-Varet, Louis-Andre.

David, Paul A.

PD December 2001. TI An Introduction to the Economy of the Knowledge Society. AU David, Paul A.; Foray, Dominique. AA David: University of Oxford. Foray: CNRS and Paris-Dauphine University. SR University of Oxford, Department of Economics Discussion Paper Series: 84; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. PG 19. PR only available electronically through website. JE D80, O31, O34. KW Knowledge. Information. Codification. Intellectual Property.

AB This introductory article reviews the main themes

relating to the development of new knowledge-based economies. After placing their emergence in historical perspective and proposing a theoretical framework which distinguishes knowledge from information, the authors characterize the specific nature of such economies. They go on to deal with some of the major issues concerning the new skills and abilities required for integration into the knowledge-based economy; the new geography that is taking shape (where physical distance ceases to be such an influential constraint); the conditions governing access to both information and knowledge, not least for developing countries; the uneven development of scientific, technological (including organizational) knowledge across different sectors of activity; problems concerning intellectual property rights and the privatization of knowledge; and the issues of trust, memory and the fragmentation of knowledge.

Davis, Steven J.

PD November 2002. TI Borrowing Costs and the Demand for Equity Over the Life Cycle. AU Davis, Steven J.; Kubler, Felix; Willen, Paul. AA Davis: University of Chicago and NBER. Kubler: Stanford University. Willen: University of Chicago. SR National Bureau of Economic Research Working Paper: 9331; 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 D91, G11, G12. KW Borrowing Costs. Life Cycle. Demand for Equity.

AB We analyze consumption and portfolio behavior in a life-cycle model with realistic borrowing costs and income processes. We show that even a small wedge between borrowing costs and the risk-free return dramatically shrinks the demand for equity. When the cost of borrowing equals or exceeds the expected return on equity -- the relevant case according to the data -- households hold little or no equity during much of the life cycle. The model also implies that the correlation between consumption growth and equity returns is low at all ages, and that risk aversion estimates based on the standard excess return formulation of the consumption Euler Equation are greatly upward biased. The demand for equity in the model is non-monotonic in borrowing costs and risk aversion, and the standard deviation of marginal utility growth is an order of magnitude smaller than the Sharpe ratio.

Dawkins, Peter

PD July 2002. TI Employment Polarization in Australia. AU Dawkins, Peter; Gregg, Paul; Scutella, Rosanna. AA Dawkins and Scutella: University of Melbourne. Gregg: University of Bristol, HM Treasury, and London School of Economics. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 02/050; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. PG 42. PR no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. JE J64. KW Polarization. Joblessness. Australia.

AB Whilst employment levels in Australia are healthy when compared to those twenty years ago, the available work has become increasingly polarized into either all-work or no-work households. This paper measures the extent of polarization that has taken place in Australia since 1982 with a measure that accounts for changes in individual based employment and

family structure. We find that employment growth over the period should have largely offset the effects of shifts in household composition towards more single-adult households. However, polarization of employment across households means that there are around 3.3 percent more households with no earned income. We also find that couples with children have faced the bulk of this rising joblessness as a result of this polarization. Exploration of wider shifts in employment away from less-educated men and toward prime-age better educated women explains about 40% of the adverse shift against couples with children.

de Bettignies, Henri-Claude

TI Internet E-ethics in Confrontation with an Activists' Agenda: Yahoo! on Trial. **AU** Le Menestrel, Marc; Hunter, Mark; de Bettignies, Henri-Claude.

de Bettignies, Jean-Etienne

TI Corporate Venture Capital: The Upside of Failure and Competition for Talent. **AU** Chemla, Gilles; de Bettignies, Jean-Etienne.

de Melo, Jaime

TI Rules of Origin in North-South Preferential Trading Arrangements with an Application to NAFTA. **AU** Anson, Jose; Cadot, Olivier; de Melo, Jaime; Estevadeordal, Antoni; Suwa-Eisenmann, Akiko; Tumurchudur, Bolorma.

de Meza, David

PD December 2002. **TI** Do Unprejudiced Societies Need Equal Opportunity Legislation? **AA** University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 02/057; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. **PG** 31. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** D30, D80, H20, J70. **KW** Equal Opportunities. Incentive Contracts. Asymmetric Information. Distribution.

AB To what extent should banks, insurance companies and employers be allowed to use personal information about the people whom they lend to, insure or employ in setting the terms of the contract? Even when different treatment is motivated by profit not prejudice, banning discrimination (when combined with mandatory protection against failure) may well be the best way of effecting redistribution of income. Unlike income taxation this policy achieves its goals without much adverse effect on incentives. Public provision of low-powered incentive contracts issued on generous terms is also a potent instrument of efficient redistribution. This is true even if the government cannot observe type but the private sector can.

PD April 2003. **TI** Please Hold Me Up: Why Firms Grant Exclusive-Dealing Contracts. **AU** de Meza, David; Selvaggi, Mariano. **AA** University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/066; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. **PG** 26. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** C70, D23, L42. **KW** Exclusive

Dealing. Hold Up. Renegotiation.

AB Why do irreplaceable firms with a choice of suppliers or customers deliberately expose themselves to the threat of hold up by contracting ex ante to deal with only one of them? Our explanation revolves around the multiple equilibria intrinsic to situations of unverifiable investment and many traders. Exclusive dealing eliminates inefficient equilibria in which too many firms invest too little. The enhanced ex post bargaining power of the chosen firm is beneficial for incentives whilst the distributional impact is more than offset in the ex ante negotiations over which this firm obtains the access privilege.

PD April 2003. **TI** Appropriability, Investment Incentives and the Property Rights Theory of the Firm. **AU** de Meza, David; Lockwood, Ben. **AA** University of Warwick and CEPR. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/068; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. **PG** 17. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** D23, L22. **KW** Theory of the Firm. Investment. Property Rights. Incentives.

AB This paper examines the property rights theory of the firm when a manager's relationship-specific investment can be partially appropriated by the owner of an asset when cooperation breaks down. For example ownership typically confers the right to continue with a project even should the production team dissolve. The investments of non-owners may then be devalued, but are seldom wholly lost to the owner. With such spillovers, the outside-option principle can be incorporated into the Grossman-Hart-Moore framework without implying that ownership demotivates. Enriched predictions on the determinants of integration emerge.

de Palma, Andre

TI Price Dispersion. **AU** Anderson, Simon P.; de Palma, Andre.

de Vries, Casper G.

PD January 2004. **TI** Generational Accounting, Solidarity and Pension Losses. **AU** de Vries, Casper G.; Teulings, Coen N. **AA** de Vries: Erasmus University Rotterdam. Teulings: Erasmus University Rotterdam, Tinbergen Institute and CEPR. **SR** CEPR Discussion Paper: 4209; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4209.asp. **PG** 13. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E20, G20, G23, H55, J32. **KW** Saving and Investment. Financial Institutions. Pension Funds. Private Pensions. Public Pensions.

AB The creeping stock market collapse eroded the wealth of funded pension systems. This led to political tensions between generations due to the fuzzy definition of property rights on the pension funds wealth. We argue that this problem can best be resolved by the introduction of generational accounts. Using modern portfolio and consumption planning theory we show that the younger generations should have the higher equity exposure due to their human capital. Capital losses should be distributed smoothly over lifetime consumption. When stock markets are depressed equity should be bought, savings and consumption should be scaled down equiproportionally, and

retirement should be postponed. Portfolio investment restrictions are quite costly.

de Wolf, Daniel

PD May 2003. **TI** Using Column Generation to Solve an Industrial Mixing Problem. **AA** Universite de Lille 3. **SR** CORE Discussion Paper: 2003/42; CORE/Stiat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 31. **PR** \$5 per paper; \$100 per year. **JE** C60, L70. **KW** Mathematical Programming: Column Generation Method. Industrial Application: Coal Blending Problem.

AB The problem considered in this paper is a real world problem. It concerns the management of the deliveries of coal to the several plants of a coke industry firm in order to meet the demand of several clients at minimal purchasing, transportation and production cost. The problem is solved using a column generation technique. At the lower level, a mix of one ton satisfying all the client quality requirements is determined for each plant at each period. At the upper level, the deliveries of coal and the level of use of the mixes are determined in order to meet the demands of the clients.

Dekel, Eddie

PD June 2004. **TI** A True Expert Knows which Question Should Be Asked. **AU** Dekel, Eddie; Feinberg, Yossi. **AA** Dekel: Northwestern University and Tel Aviv University. Feinberg: Stanford University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/13; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 15. **PR** no charge. **JE** C11. **KW** Calibration. Learning. Testing Experts. Non-Bayesian Inference.

AB We suggest a test for discovering whether a potential expert is informed of the distribution of a stochastic process. In a non-Bayesian non-parametric setting, the expert is asked to make a prediction which is tested against a single realization of the stochastic process. It is shown that by asking the expert to predict a "small" set of sequences, the test will assure that any informed expert can pass the test with probability one with respect to the actual distribution. Moreover, for the uninformed non-expert it is impossible to pass this test, in the sense that for any choice of a "small" set of sequences, only a "small" set of measures will assign a positive probability to the given set. Hence for "most" measures, the non-expert will surely fail the test. We define small as category 1 sets, described in more detail in the paper.

PD June 2004. **TI** Vote Buying. **AU** Dekel, Eddie; Jackson, Matthew O.; Wolinsky, Asher. **AA** Dekel: Northwestern University and Tel Aviv University. Jackson: California Institute of Technology. Wolinsky: Northwestern University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/17; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 37. **PR** no charge. **JE** C72, P16. **KW** Vote Buying. Political Economy. Campaign Promises.

AB We examine the consequences of vote buying, assuming this practice was allowed and free of stigma. Two parties competing in a binary election may purchase votes in a sequential bidding game via up-front binding payments and/or campaign promises that are contingent upon the outcome of the election. We analyze the role of the parties' budget constraints and voter preferences. For instance, if only campaign promises are allowed, then the winning party depends not only on the relative size of the budgets, but also on the excess support of the party with the a priori majority, where the excess support is measured in terms of the total utility of supporting voters who are in excess of the majority needed to win. If up-front vote buying is permitted, and voters care directly about how they vote, then the determination of the winning party depends on a weighted comparison of the two parties' budgets plus half of the total utility of their supporting voters. These results suggest that vote buying can lead to an inefficient party winning in equilibrium. We find that under some circumstances, if parties budgets are raised through donations, then vote buying can be efficient.

Del Bono, Emilia

PD October 2001. **TI** Estimating Fertility Responses to Expectations: Evidence From the 1958 British Cohort. **AA** University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper, Series: 80; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 29. **PR** only available electronically through website. **JE** C41, J13, J60. **KW** Fertility. Unemployment. Duration Analysis.

AB The aim of this work is to explore the relationship between unemployment and fertility. The hypothesis we investigate is that unemployment affects fertility decisions by influencing individual's expectations of future job opportunities and wage levels. A spell of unemployment may induce women to bring forward or delay the birth of their first child, depending on the relative strength of the income and substitution effects. Our results show that expectations of future wage levels and future job opportunities are relevant in explaining fertility patterns. In particular, higher expected wage levels encourage women to work more and delay childbirth. By contrast, more favorable expected job opportunities raise the hazard of a birth and, everything else equal, induce women to bring forward the event. In the latter case, a dominating income effect seems to be at work.

Della Vigna, Stefano

TI Overestimating Self-Control: Evidence from the Health Club Industry. **AU** Malmendier, Ulrike; Della Vigna, Stefano.

TI Contract Design and Self-Control: Theory and Evidence. **AU** Malmendier, Ulrike; Della Vigna, Stefano.

Dellink, Rob

TI Stability of Climate Coalitions in a Cartel Formation Game. **AU** Finus, Michael; van Ierland, Ekko; Dellink, Rob.

Den Haan, Wouter J.

PD November 2002. **TI** Temporary Shocks and Unavoidable Transitions to a High-Unemployment Regime.

AA University of California, San Diego, NBER and CEPR. **SR** National Bureau of Economic Research Working Paper: 9349; 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** C62, D50, E24, E62, J64. **KW** Temporary Shocks. Tax Policies. Unemployment. Multiple Steady States.

AB This paper develops a model with multiple steady states (low tax and low unemployment versus high tax and high unemployment) in which equilibrium selection is not conditioned on a sunspot variable. Instead, large temporary shocks initiate unavoidable transitions from one steady state to another. Tax policies have huge effects in some cases. In particular, it is possible that the transition to the high-unemployment steady state after a negative shock can be avoided if the government borrows to finance unemployment benefits, and in some cases it is even possible that a credible permanent tax cut would force the economy out of the high-unemployment steady state. The model is used to explain the high European unemployment rates in the 80's and 90's. The paper argues that the increase in unemployment during the 70's played a key role because it led to an increase in the obligation to pay unemployment benefits. The implied tax burden was so big that the transition to the high unemployment regime was the unique equilibrium outcome.

Dercon, Stefan

PD October 2001. **TI** Poverty Orderings When Welfare Comparisons are Uncertain. **AA** University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 79; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 13. **PR** only available electronically through website. **JE** 132. **KW** Poverty Orderings. Welfare Dominance. Equivalence Scales. Price Deflators.

AB In applied welfare economics, equivalence scales for household composition and size corrections, and appropriate price deflators are minimum requirements to perform interhousehold comparisons of welfare, measured via household income or consumption information. In practice, the information available is insufficient and only approximate price or household composition corrections are available. Poverty comparisons between groups or over time are then problematic. In this paper, Atkinson's standard results on first order stochastic (welfare) dominance are extended to allow for pairwise comparisons of poverty of groups with different needs or facing different prices, when there is uncertainty on the true cost-of-living deflators and equivalence scales. The approach is illustrated using household surveys from Ethiopia and Burkina Faso.

DeSimone, Jeff

PD November 2002. **TI** Determinants of Drug Injection Behavior: Economic Factors, HIV Injection Risk and Needle Exchange Programs. **AA** East Carolina University and NBER. **SR** National Bureau of Economic Research Working Paper: 9350; 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** D12, I12, K42. **KW** Substance Abuse.

AB This study examines the effects of local cocaine and heroin prices, AIDS rates, and needle exchange programs on drug injection and needle sharing by adult male arrestees in 24 large U.S. cities. Regressions that control for personal characteristics including income, fixed city and year effects, and city-specific trends indicate that needle exchange programs decrease both injection and sharing. Increases in previous year AIDS prevalence reduce injection by both sharers and non-sharers, leaving the proportion of injectors who share unchanged. Higher cocaine prices lead to less cocaine injection and more sharing, but heroin prices do not effect injection or sharing.

Devereux, Paul

TI Why the Apple Doesn't Fall: Understanding Intergenerational Transmission of Human Capital. **AU** Black, Sandra E.; Devereux, Paul; Salvanes, Kjell G.

Diamantoudi, Effrosyni

TI Merger Performance Under Uncertain Efficiency Gains. **AU** Amir, Rabah; Diamantoudi, Effrosyni; Xue, Licun.

Dijkgraaf, Elbert

PD April 2003. **TI** Burn or Bury? A Social Cost Comparison of Final Waste Disposal Methods. **AU** Dijkgraaf, Elbert; Vollebergh, Herman R. J. **AA** Erasmus University Rotterdam and OCFEB. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/46; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.fcem.it/Fcem/Pub/Publications/Wpapers/default.htm. **PG** 21. **PR** no charge; available only on website. **JE** H43, L99, Q42. **KW** Waste Policy. Project Evaluation. Incineration. Land-filling. Climate Change. **AB** This paper uses private and environmental cost data for the Netherlands to evaluate the social cost of two final waste disposal methods, land-filling versus incineration using waste-to-energy (WTE) plants. The data only provide some support for the widespread policy preference for incineration over land-filling if the analysis is restricted to environmental costs alone. Private costs, however, are so much higher for incineration, that land-filling is the social cost minimizing option at the margin even in a densely populated country such as the Netherlands. Implications for waste policy are discussed as well. Proper treatment of and energy recovery from landfills seem to be the most important targets for waste policy. WTE plants are a very expensive way to save on climate change emissions.

Dimsdale, Nicholas H.

PD October 2001. **TI** The Causes of Unemployment in Interwar Australia. **AU** Dimsdale, Nicholas H.; Horwood, Nicholas. **AA** Dimsdale: University of Oxford. Horwood: University of Birmingham. **SR** University of Oxford, Department of Economics Discussion Paper Series: 81; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 30. **PR** only available electronically through website. **JE** E24, N17, N37. **KW** Unemployment. Great Depression. Wage Indexation. Australia.

AB This paper examines the factors contributing to the rise in unemployment in Australia during the depression of the 1930s and to its decline in the subsequent recovery. While previous

writers have generally argued that demand side variables were predominant, it has also been claimed that excessive real wages created unemployment. The Layard-Nickell model, which has been used to examine the relationship between real wages and unemployment in interwar Britain, is estimated from Australian data. The results of the estimation confirm that demand side variables in the form of changes in government spending and in the terms of trade were important in both the downturn and the recovery. Although real wages affected employment and wage indexation procedures resulted in some real wage rigidity, this was not a major contributor to unemployment. In addition wage indexation resulted in a high degree of flexibility of money wages, so that nominal inertia was not a problem. This is in contrast to a country, such as the UK, where wages are determined by collective bargaining rather than by formal wage regulation. No evidence was found that the much discussed decision of the Commonwealth Court to reduce real wages by 10% was effective.

Dittmar, Robert

TI Gold, Fiat Money and Price Stability. **AU** Bordo, Michael D.; Dittmar, Robert; Gavin, William T.

PD April 2004. **TI** Inflation Persistence and Flexible Prices. **AU** Dittmar, Robert; Gavin, William T.; Kydland, Finn E. **AA** Dittmar and Gavin: Federal Reserve Bank of St. Louis. Kydland: Carnegie Mellon University. **SR** Federal Reserve Bank of St. Louis Working Paper: 2001/010E; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 28. **PR** no charge. **JE** E31, E32, E52. **KW** Inflation Persistence. Flexible Prices. Taylor Rule.

AB If the central bank follows an interest rate rule, then inflation is likely to be persistent, even when prices are fully flexible. Any shock, whether persistent or not, may lead to inflation persistence. In equilibrium, the dynamics of inflation are determined by the evolution of the spread between the real interest rate and the central bank's target. Inflation persistence in U.S. data can be characterized by a vector autocorrelation function relating inflation and deviations of output from trend. This paper shows that a flexible-price general equilibrium business cycle model with money and a central bank using an interest rate target can account for such inflation persistence.

Dolado, Juan Jose

PD January 2004. **TI** Gender Wage Gaps by Education in Spain: Glass Floors versus Glass Ceilings. **AU** Dolado, Juan Jose; Llorens, Vanesa. **AA** Dolado: Universidad Carlos III de Madrid and CEPR. Llorens: NERA Economic Consulting. **SR** CEPR Discussion Paper: 4203; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4203.asp. **PG** 27. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J16, J71. **KW** Gender Wage Gap. Quantile Regressions. Glass Ceilings. Glass Floors.

AB This paper analyses the gender wage gaps by education throughout the wage distribution in Spain. Quantile regressions are used to estimate the wage returns to the different characteristics at the more relevant percentiles. A correction for the selection bias is included for the group of less educated women. The Oaxaca-Blinder decomposition is then implemented at each quantile in order to estimate the

component of the gender gap not explained by differences in characteristics. Our main findings are two-fold. On the one hand, when dealing with the group with tertiary education, we find higher discrimination at the top than at the bottom of the distribution, in accordance with the conventional "glass ceiling" hypothesis. On the other, for the group with primary and secondary education, the converse result holds, pointing out to the existence of lower wages for women at the bottom of the distribution due to their prospects of lower job stability, a phenomenon that we refer to as "glass floors".

Donohue, Jessica Tjornhom

PD October 2002. **TI** The Persistence of Emerging Market Equity Flows. **AU** Donohue, Jessica Tjornhom; Froot, Kenneth A. **AA** Donohue: State Street Associates. Froot: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 9241; 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** F21, G11, G15. **KW** Emerging Markets. Equity Flows. Persistence. Contagion.

AB The portfolio flows of institutional investors have been found to be highly persistent across countries and individual investment funds. This paper investigates the source of this persistence in emerging market equities. We employ the decomposition methodology of Froot and Tjornhom (2002), which decomposes the persistence of flows into four components: (i) own-country, own-fund persistence (which might arise from informed trading within each country by individual funds); (ii) own-country, cross-fund persistence (which might arise from asynchronicities across funds); (iii) cross-country, own-fund persistence (which might arise from asynchronicities within a fund) and (iv) cross-country, cross-fund persistence (which might arise from other reaction lags -- such as contagion -- across both countries and funds). We find evidence that all four components are positive in emerging markets. Our results differ from those in developed countries, in that we attribute approximately 10%-20% of total persistence to cross-country effects (iii) and (iv). These findings are consistent with stories of contagion, which suggest that demand shifts move predictably from one country to another. They cannot easily be explained by informed trading alone or by wealth effects.

Doraszelski, Ulrich

PD November 2003. **TI** Market Segmentation Strategies of Multiproduct Firms. **AU** Doraszelski, Ulrich; Draganska, Michaela. **AA** Stanford University. **SR** Stanford Graduate School of Business Research Paper: 1827; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 30. **PR** no charge. **JE** L11, M30. **KW** Multiproduct Firms. Market Segmentation. Competitive Strategy.

AB We analyze a multiproduct duopoly and ask whether firms should offer general purpose products or tailor their offerings to fit specific consumer needs. There are two effects of offering a targeted product: (i) if a consumer's favorite product is offered, her utility increases because there is a better fit between product and preferences; (ii) if her favorite product is not offered, the consumer's utility decreases because she gets a product that is not tailored to her needs at all. Previous work

has not considered these two effects jointly and has therefore not been able to capture the tradeoff inherent in market segmentation: for some consumers utility increases due to increased "fit" whereas for others utility decreases due to increased "misfit." We show that in addition to the degree of fit and misfit, the intensity of competition and the fixed cost of offering an additional product determine firms' market segmentation strategies.

Dorofeenko, Victor

PD November 2002. **TI** Dynamic Modeling of the Demographic Prisoner's Dilemma. **AU** Dorofeenko, Victor; Shorish, Jamsheed. **AA** Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 124; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 25. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** C61, C73. **KW** Prisoner's Dilemma. Demographic. Active Media. Reaction-Diffusion.

AB Epstein (1998) demonstrates that in the demographic Prisoner's Dilemma game it is possible to sustain cooperation in a repeated game played on a finite grid, where agents are spatially distributed and of fixed strategy type ("cooperate" or "defect"). We introduce a methodology to formalize the dynamic equations for a population of agents distributed in space and in wealth, which form a system similar to the reaction-diffusion type. We determine conditions for stable zones of sustained cooperation in a one-dimensional version of the model. Defectors are forced out of cooperation zones due to a congestion effect, and accumulate on the boundaries.

Draganska, Michaela

TI Market Segmentation Strategies of Multiproduct Firms. **AU** Doraszelski, Ulrich; Draganska, Michaela.

Drazen, Allen

PD June 2003. **TI** Government Gains from Self-Restraint: A Bargaining Theory of Inefficient Redistribution Policies. **AU** Drazen, Allen; Limao, Nuno. **AA** Drazen: Tel Aviv University, University of Maryland, NBER and CEPR. Limao: University of Maryland. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/16; Mrs. Stella Padch, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 32.

PR no charge. **JE** C78, D70, F10, H20. **KW** Inefficient Transfers. Lobbies. Special Interests. Bargaining. Caps.

AB We consider a bargaining model of the interaction between a government and interest groups in which, unlike existing models, neither side is assumed to have all the bargaining power. The government will then find it optimal to constrain itself in the use of transfer policies to improve its bargaining position. In a model of redistribution to lobbies, the government will find it optimal to cap the size of lump-sum transfers it makes below the unconstrained equilibrium level. One implication is that with the optimal cap on efficient subsidies in place, less efficient subsidies will be used for redistribution even when they serve no economic function. We thus offer an alternative theory that explains why governments may optimally choose to restrict efficient lump-sum transfers to

interest groups and partially replace them with relatively less efficient transfers.

Driessen, Joost

PD January 2004. **TI** Confidence Building on Euro Conversion: Theory and Evidence from Currency Options. **AU** Driessen, Joost; Perotti, Enrico C. **AA** Driessen: University of Amsterdam. Perotti: University of Amsterdam and CEPR. **SR** CEPR Discussion Paper: 4180; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4180.asp. **PG** 27. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C22, F31, G13. **KW** Convergence Risk. Confidence Building. Currency Options. Regime-Switching Models.

AB Using a new dataset of currency option prices, we study the evolution of investor confidence in 1992-98 over the chance of individual currencies to converge to the euro. Convergence risk, which may reflect uncertainty over policy commitment as well as exogenous fundamentals, induces a level of implied volatility in excess of actual volatility (volatility wedge). We show formally that confidence grows over time as convergence policy is maintained, and the risk of a reversal is progressively resolved. Empirically, we indeed find a positive volatility wedge that declines over time, only for those currencies involved in convergence. The wedge and other convergence risk measures are correlated with both observable fundamentals and proxies for policy commitment uncertainty. We also find that the wedge responds to policy shocks in an asymmetric fashion, suggesting that policy risk is resolved at different rates after negative and positive shocks, as the confidence-building model suggests. Finally, we estimate a regime-switching model of convergence uncertainty, using data on interest rates, currency rates, and currency option prices. The results confirm the time-varying and asymmetric nature of convergence risk, and indicate that investors demand a risk premium for convergence risk.

Driffill, John

PD January 2004. **TI** On Model Selection and Markov Switching: An Empirical Examination of Term Structure Models with Regime Shifts. **AU** Driffill, John; Kenc, Turalay; Sola, Martin; Spagnolo, Fabio. **AA** Driffill: Birkbeck College and CEPR. Kenc: Imperial College. Sola: Birkbeck College. Spagnolo: Brunel University. **SR** CEPR Discussion Paper: 4165; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4165.asp. **PG** 13. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E43, G12. **KW** Term Structure. Bond Yields. Stochastic Discount Factor. Pricing Kernel. Regime Switching.

AB We examine several continuous-time term-structure models, in which the short rate is subject to discrete shifts. Our empirical analysis suggests that inquiring which parameters of the short-term interest rate equation are allowed to switch is crucial, as failing to do so may result in switching pricing models that produce no improvement (in terms of pricing) with respect to models which do not allow for regime switching, even when there are clear breaks in the data.

Dubey, Pradeep

PD April 2003. **TI** Default and Punishment in General

Equilibrium. AU Dubey, Pradeep; Geanakoplos, John; Shubik, Martin. AA Dubey: SUNY/Stony Brook. Geanakoplos and Shubik: Yale University. SR Yale Cowles Foundation Discussion Paper: 1304RRR; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 33. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE D41, D52, D82. KW Default. Incomplete Markets. Adverse Selection. Moral Hazard. Equilibrium Refinement. Endogenous Assets.

AB We extend the standard model of general equilibrium with incomplete markets to allow for default and punishment by thinking of assets as pools. The equilibrating variables include expected delivery rates, along with the usual prices of assets and commodities. By reinterpreting the variables, our model encompasses a broad range of adverse selection and signaling phenomena (including the Rothschild-Stiglitz insurance model) in a general equilibrium framework. In contrast to game-theoretic models of adverse selection, our perfectly competitive framework eliminates the need for lenders to compute the size of their loan or the price they quote might affect default rates. The equilibrium refinement we propose, in order to rule out irrational pessimism about deliveries of non-traded assets, is also simpler than its game-theoretic counterparts.

PD June 2003. TI Real Determinacy with Nominal Assets. AU Dubey, Pradeep; Geanakoplos, John. AA Dubey: SUNY. Geanakoplos: Yale University. SR Yale Cowles Foundation Discussion Paper: 1427; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 31. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE D50, E40, E52, E58. KW Central Bank. Inside Money. Outside Money. Incomplete Assets. Monetary Equilibrium. Real Determinacy.

AB We build a finite horizon model with inside and outside money, in which interest rates, price levels and commodity allocations are determinate, even though asset markets are incomplete and asset deliveries are purely nominal.

PD November 2003. TI Default and Punishment in General Equilibrium. AU Dubey, Pradeep; Geanakoplos, John; Shubik, Martin. AA Dubey: SUNY/Stony Brook. Geanakoplos and Shubik: Yale University. SR Yale Cowles Foundation Discussion Paper: 1304RRR; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 34. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE D41, D52, D82. KW Default. Incomplete Markets. Adverse Selection. Moral Hazard. Equilibrium Refinement. Endogenous Assets.

AB See the abstract for Dubey, Pradeep; Geanakoplos, John; Shubik, Martin. April 2003, "Default and Punishment in General Equilibrium". Yale Cowles Foundation Discussion Paper: 1304RRR; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/.

Dueker, Michael

PD August 2002. TI Directly Measuring Early Exercise Premiums Using American and European S&P 500 Index Options. AU Dueker, Michael; Miller, Thomas W., Jr. AA Dueker: Federal Reserve Bank of St. Louis. Miller:

Washington University. SR Federal Reserve Bank of St. Louis Working Paper: 2002/016A; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. PG 22. PR no charge. JE G13, G14. KW American Options. Early Exercise Premium. Wildcard Feature.

AB The Chicago Board Options Exchange concurrently listed European-style and American-style options on the Standard and Poor's 500 Index from April 2, 1986 through June 20, 1986. This unique time period allows for a direct measurement of the early-exercise premium in American-style index options. In this study, using ask quotes, we find average early exercise premiums ranging from 5.04% to 5.90% for calls, and from 7.97% to 10.86% for puts. Additionally, we are able to depict a potentially useful functional form of the early exercise premium. As in previous studies, we find some instances of negative early exercise premiums. However, a trading simulation shows that traders must be able to trade within the bid-ask spread to profit from these apparent arbitrage opportunities.

PD October 2003. TI Can Markov Switching Models Predict Excess Foreign Exchange Returns? AU Dueker, Michael; Neely, Christopher J. AA Federal Reserve Bank of St. Louis. SR Federal Reserve Bank of St. Louis Working Paper: 2001/021C; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. PG 33. PR no charge. JE F31, G15. KW Technical Trading Rules. Markov Switching. Exchange Rates. Excess Returns. Predictability.

AB This paper merges the literature on high-frequency technical trading rules with the literature on Markov switching at low frequencies to develop economically useful trading rules. The Markov switching models are very successful, producing out-of-sample excess returns exceeding that of standard technical trading rules. The returns appear to be fairly stable over time; there is little evidence that they have been declining recently. The model provides an intrinsic density forecast that enables a value-at-risk adjustment to minimize the periods of poorest performance. The Markov rules generate excess returns out of sample, despite the fact that they achieve only mixed success with statistical tests of forecast accuracy.

Dueker, Michael J.

PD June 2003. TI Business Cycle Detrending of Macroeconomic Data via a Latent Business Cycle Index. AU Dueker, Michael J.; Nelson, Charles R. AA Dueker: Federal Reserve Bank of St. Louis. Nelson: University of Washington. SR Federal Reserve Bank of St. Louis Working Paper: 2002/25B; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. PG 22. PR no charge. JE C22, C25, E32. KW Business Cycles. Detrending. Counterfactual Analysis.

AB We use Markov Chain Monte Carlo methods to augment a vector autoregressive system with a latent business cycle index that is negative during recessions and positive during expansions. We then sample counterfactual values of the macroeconomic variables in the case where the latent business cycle index is held constant at its median value. These counterfactual values represent posterior beliefs about how the economy would have evolved absent business cycle fluctuations. One advantage is that a VAR framework provides

model-consistent counterfactual values in the same way that VARs provide model-consistent forecasts, so data series are not detrended in isolation from each other. We apply these methods to estimate the business cycle components of industrial production growth, consumer price inflation, the federal funds rate and the spread between long-term and short-term interest rates. These decompositions provide an explicitly counterfactual approach to deriving empirical business cycle facts that complements other approaches.

PD September 2003. **TI** Dynamic Forecasts of Qualitative Variables: A Qual VAR Model of U.S. Recessions. **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2001/012B; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 22. **PR** no charge. **JE** C22, C25. **KW** Vector Autoregressions. Dynamic Forecasts. Recessions. Probit Models.

AB This article presents a new Qual VAR model for incorporating information from qualitative and/or discrete variables in vector autoregressions. With a Qual VAR, it is possible to create dynamic forecasts of the qualitative variable using standard VAR projections. Previous forecasting methods for qualitative variables, in contrast, only produce static forecasts. I apply the Qual VAR to forecasting the 2001 business recession out of sample and to analyzing the Romer and Romer (1989) narrative measure of monetary policy contractions as an endogenous variable in a VAR. Out of sample, the model predicts the timing of the 2001 recession quite well relative to the recession probabilities put forth at the time by professional forecasters. Qual VARs -- which include information about the qualitative variable -- can also enhance the quality of density forecasts of the other variables in the system.

Dulleck, Uwe

PD November 2003. **TI** Reducing Start-Up Costs for New Firms: The Double Dividend on the Labor Market. **AU** Dulleck, Uwe; Frijters, Paul; Winter-Ebmer, Rudolf. **AA** Dulleck: University of Vienna. Frijters: Australian National University. Winter-Ebmer: University of Linz and Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 146; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 13. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** D73, J24, J41. **KW** Matching. Education. Start-Up Costs. Venture Capital. Bureaucratic Hurdles.

AB Starting a firm with expansive potential is an option for educated and high-skilled workers. This option serves as an insurance against unemployment caused by labor market frictions and hence increases the incentives for education. We show within a matching model that reducing the start-up costs for new firms results in higher take-up rates of education. It also leads, through a thick-market externality, to higher rates of job creation for high-skilled labor as well as average match productivity. We provide empirical evidence to support our argument.

PD December 2003. **TI** Price Discrimination in Markets for Experts' Services. **AU** Dulleck, Uwe; Kerschbamer, Rudolf. **AA** Dulleck: Universitat Wien. Kerschbamer:

Universitat Innsbruck and CEPR. **SR** CEPR Discussion Paper: 4155; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4155.asp. **PG** 32. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D40, D82, L15. **KW** Price Discrimination. Credence Goods. Experts. Fraud.

AB This paper studies the consequences of price discrimination in a market for experts' services. In the case of experts markets, where the expert observes the intervention that a consumer needs to fix his problem and also provides a treatment, price discrimination proceeds along the dimension of quality of advice offered. High quality advice and appropriate treatment is provided to the most profitable market segment only. Less profitable consumers are induced to demand either unnecessary or insufficient procedures. The welfare consequences of price discrimination are ambiguous: On the one hand, price discrimination increases the number of consumers that get an intervention. On the other hand, some consumers that are efficiently served under non-discrimination get the wrong procedure if the expert can discriminate among customers.

PD January 2004. **TI** Reducing Start-Up Costs for New Firms: The Double Dividend on the Labour Market. **AU** Dulleck, Uwe; Frijters, Paul; Winter-Ebmer, Rudolf. **AA** Dulleck: Universitat Wien. Frijters: Australian National University. Winter-Ebmer: University of Linz and CEPR. **SR** CEPR Discussion Paper: 4172; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4172.asp. **PG** 14. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J24, J68.

KW Matching. Education. Start-Up Costs. Venture Capital. **AB** See the abstract for Dulleck, Uwe; Frijters, Paul; Winter-Ebmer, Rudolf. November 2003, "Reducing Start-Up Costs for New Firms: The Double Dividend on the Labor Market". Institute for Advanced Studies (IHS), Economics Series: 146; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at.

Dupont, Dominique Y.

PD May 2003. **TI** Effects of Securities Transaction Taxes on Depth and Bid-Ask Spread. **AU** Dupont, Dominique Y.; Lee, Gabriel S. **AA** Dupont: University of Twente. Lee: Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 132; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 17. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** D82, G14. **KW** Asymmetric Information. Securities. Transaction Taxes. Liquidity.

AB This paper investigates the effects of transaction taxes on depth and bid-ask spread under asymmetric information. The paper uses a static model where a monopolistic market maker faces liquidity and informed traders. Introducing transaction taxes could, surprisingly, lead to an increase in depth. Under some distributional assumptions, when market conditions are favorable to the dealer, the spread responds less than proportionately to an increase in the transaction tax while the depth actually increases. In contrast, when market conditions are unfavorable to the dealer, the spread widens more than proportionally and the depth decreases, potentially to zero, in response to an increase in the transaction tax. Our model sheds

light on the disagreement in the empirical literature on the effect of transaction costs on trading volume.

Dusheiko, Mark

PD March 2003. **TI** The Effects of Budgets on Doctor Behavior: Evidence From a Natural Experiment. **AU** Dusheiko, Mark; Gravelle, Hugh; Jacobs, Rowena; Smith, Peter. **AA** Dusheiko, Jacobs and Smith: University of York. Gravelle: University of York and University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/064; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. **PG** 30. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** 111, 118. **KW** Budgets. Health Care. Fundholding. Admission Rates.

AB In many health care systems primary care physicians act as "gatekeepers" to secondary care. We investigate the impact of the UK fundholding scheme under which general practices could elect to hold a budget to meet the costs of elective surgery for their patients. We use a differences in differences methodology on a large four year panel of English general practices before and after the abolition of fundholding. Fundholding incentives reduced fundholder elective admission rates by 3.3% and accounted for 57% of the difference between fundholder and nonfundholder elective admissions, with 43% a selection effect due to unobservable differences in practice characteristics. Fundholding had no effect on emergency admissions.

Dutt, Pushan

PD October 2002. **TI** Political Ideology and Endogenous Trade Policy: An Empirical Investigation. **AU** Dutt, Pushan; Mitra, Devashish. **AA** Dutt: University of Alberta. Mitra: Syracuse University and NBER. **SR** National Bureau of Economic Research Working Paper: 9239; 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** F10, F11, F13. **KW** Government Ideology. Trade Policy. Protectionism.

AB In this paper, we empirically investigate how government ideology affects trade policy. The prediction of a partisan, ideology-based model (within a two-sector, two-factor Heckscher-Ohlin framework) is that left-wing governments will adopt more protectionist trade policies in capital rich countries, but adopt more pro-trade policies in labor rich economies than right-wing ones. The data strongly support this prediction in a very robust fashion. There is some evidence, that this relationship may hold better in democracies than in dictatorships though the magnitude of the partisan effect seems stronger in dictatorships.

Duttgupta, Rupa

PD December 2003. **TI** What Happened to Asian Exports During the Crisis? **AU** Duttgupta, Rupa; Spilimbergo, Antonio. **AA** Duttgupta: International Monetary Fund. Spilimbergo: International Monetary Fund, William Davidson Institute and CEPR. **SR** CEPR Discussion Paper: 4158; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4158.asp.

PG 24. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F10, F14. **KW** Competitive Depreciation. Export Demand. Export Supply. East Asia.

AB After the large exchange rate depreciations following the 1997 East Asian crisis, export volumes from East Asian countries responded with a notable lag. Two main explanations for this lag have been proposed: that contraction in domestic credit affected supply of exports; and that "competitive depreciation" by other countries neutralized the effects on demand for exports. This paper considers the plausibility of these two mechanisms using a new monthly database on exports of selected industries. The results indicate that "competitive depreciation" played an important role in the propagation of the East Asian crisis through the trade channel, even at a monthly frequency.

Dyck, Alexander

PD October 2002. **TI** The Corporate Governance Role of the Media. **AU** Dyck, Alexander; Zingales, Luigi. **AA** Dyck: Harvard University. Zingales: University of Chicago. **SR** National Bureau of Economic Research Working Paper: 9309; 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** G30, Q59. **KW** Corporate Governance. Role of the Media. Environment.

AB In this paper we discuss the role of the media in pressuring corporate managers and directors to behave in ways that are "socially acceptable". Sometimes this coincides with shareholders' value maximization. We provide both anecdotal and systematic evidence that media affect companies' policy toward the environment and the amount of corporate resources that are diverted to the sole advantage of controlling shareholders. Our results have important consequences for the focus of the corporate governance debate and for the feasibility of reforms aimed at improving corporate governance around the world.

Eckstein, Zvi

PD December 2003. **TI** On the Wage Growth of Immigrants: Israel, 1990-2000. **AU** Eckstein, Zvi; Weiss, Yoram. **AA** Eckstein: Tel Aviv University and Boston University. Weiss: Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/01; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 33. **PR** no charge. **JE** J24, J31, J61. **KW** Absorption. Convergence. Immigrants. Occupations. Wages.

AB This paper develops a descriptive methodology for the analysis of wage growth of immigrants, based on human capital theory. The sources of the wage growth are: (i) the rise of the return to imported human capital; (ii) the impact of accumulated experience in the host country; and, (iii) the mobility up the occupational ladder in the host country. Using human capital theory, we derive a non-linear model that imposes restrictions across the earning equations of natives and immigrants. The two earning functions are estimated jointly, using repeated cross section data. Using data on immigrants from the former Soviet Union to Israel, we find: Upon arrival, immigrants receive no return for imported skills. In the ten years following arrival, wages of highly skilled immigrants

grow at 8% a year. Rising prices of skills, occupational transitions, accumulated experience in Israel and economy-wide rise in wages account for 3.4, 1.1, 1.5 and 1.4 percent each. In the long run, the return for schooling converges to .028, substantially below the .069 for natives. We do not reject the hypothesis that the return for experience converges to that of natives. Moreover, the average wages of immigrants approach but do not converge to the wages of comparable natives.

PD January 2004. **TI** Empirical Labor Search: A Survey. **AU** Eckstein, Zvi; van den Berg, Gerard J. **AA** Eckstein: Tel Aviv University, University of Minnesota and CEPR, van den Berg: Vrije Universiteit Amsterdam and CEPR. **SR** CEPR Discussion Paper: 4199; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4199.asp. **PG** 36. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C40, D80, J21, J31, J41. **KW** Search Theory. Labor Market. Wages.

AB This paper surveys the existing empirical research that uses search theory to analyze empirically labor supply questions in a structural framework, using data on individual labor market transitions and durations, wages, and individual characteristics. The starting points of the literature are the Mincerian earnings function, Heckman's classic selection model, and dynamic optimization theory. We develop a general framework for the labor market where the search for a job involves dynamic decision-making under uncertainty. It can be specialized to be in agreement with most published research using labor search models. We discuss estimation, policy evaluation with the estimated model, equilibrium model versions, and the decomposition of wage variation into factors due to heterogeneity of various model determinants as well as search frictions themselves. We summarize the main empirical conclusions.

PD March 2004. **TI** Macroeconomic Consequences of Terror: Theory and the Case of Israel. **AU** Eckstein, Zvi; Tsiddon, Daniel. **AA** Eckstein: Tel Aviv University, University of Minnesota and Federal Reserve Bank of Minneapolis. Tsiddon: Tel Aviv University and CEPR. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/07; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 50. **PR** no charge. **JE** E21, E27, H11, H56. **KW** Consumption. Investment. Security. Terror. Israel.

AB This paper analyzes the effect of terror on the economy. Terror endangers life such that the value of the future relative to the present is reduced. Hence, due to a rise in terror activity, investment goes down, and in the long run income and consumption go down as well. Governments can offset terror by putting tax revenues into the production of security. Facing a tide in terror, a government that acts optimally increases the proportion of output spent on defense, but does not fully offset the tide. Thus, when terror peaks the long run equilibrium with an optimizing government is of lower output and welfare. Next, we show that this theory of terror and the economy helps to understand changes in trend and business cycle of the Israeli Economy. The estimates show that terror has a large impact on the aggregate economy. Continued terror, at the level of the death toll by about the same size as due to car accidents, is

expected to decrease annual consumption per capita by about 5 percent in 2004. Had Israel not suffered from terror during the last three years, we estimate that output per capita would have been 15 percent higher than it is today.

TI Jewish Occupational Selection: Education, Restrictions, or Minorities? **AU** Botticini, Maristella; Eckstein, Zvi.

TI From Farmers to Merchants: A Human Capital Interpretation of Jewish Economic History. **AU** Botticini, Maristella; Eckstein, Zvi.

TI Estimating the Return to Training and Occupational Experience: The Case of Female Immigrants. **AU** Cohen-Goldner, Sarit; Eckstein, Zvi.

Eckwert, Bernhard

PD January 2003. **TI** The Effect of Better Information in Income Inequality. **AU** Eckwert, Bernhard; Zilcha, Yitzhak. **AA** Eckwert: University of Bielefeld. Zilcha: Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/02; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 30. **PR** no charge. **JE** D31, D82, D91, E13. **KW** Human Capital. Income Inequality. Information.

AB We consider an OLG economy with endogenous investment in human capital. Heterogeneity in individual human capital levels is generated by random innate ability. The production of human capital depends on each individual's investment in education. This investment decision is taken only after observing a signal which is correlated to his/her true ability, and which is used for updating beliefs. Thus, a better information system affects the distribution of human capital in each generation. Assuming separable and identical preferences for all individuals, we derive the following results in equilibrium: (a) If the relative measure of risk aversion is less (more) than 1 then more information raises (reduces) income inequality; (b) When a risk sharing market is available better information results in higher inequality regardless of the measure of risk aversion.

PD September 2003. **TI** Improvement in Information, Income Inequality and Growth. **AU** Eckwert, Bernhard; Zilcha, Yitzhak. **AA** Eckwert: University of Bielefeld. Zilcha: Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/20; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 22. **PR** no charge. **JE** D80, J24, J31. **KW** Information System. Human Capital Accumulation. Income Inequality.

AB We analyze the importance of information about individual skills for understanding economic growth and income inequality. The paper uses the framework of an OLG economy with endogenous investment in human capital. Agents in each generation differ by random individual ability, or talent, which realizes in the second period of life. The human capital of an agent depends on both his talent and his investment in education. The investment decision is based on a public signal (test outcome) which screens all agents for their talents. We analyze how a better information system, which allows more

efficient screening, affects the co-movements of indicators for income inequality and human capital accumulation.

Edwards, Sebastian

PD October 2002. TI The Great Exchange Rate Debate After Argentina. AA UCLA and NBER. SR National Bureau of Economic Research Working Paper: 9257; 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 F31, F34, F41. KW Currency Board. Dollarization. Argentina.

AB In this paper I discuss in what way, if any, the collapse of Argentina's experience with a currency board has affected the policy debate on the appropriate exchange rate regime in emerging and transition countries. More specifically, I deal with three issues: (1) I discuss some important aspects of the Argentine experience. (2) I provide a comparative evaluation of economic performance under strict dollarization. And (3), I analyze emerging countries' experiences with flexible exchange rates, including the issue of "fear of floating."

Edwards, T. Huw

TI Short and Long Run Decompositions of OECD Wage Inequality Changes. AU Whalley, John; Edwards, T. Huw.

Egger, Peter

PD November 2003. TI Sectoral Adjustment of Employment: The Impact of Outsourcing and Trade at the Micro Level. AU Egger, Peter; Pfaffermayr, Michael; Weber, Andrea. AA Egger and Pfaffermayr: University of Innsbruck. Weber: Institute for Advanced Studies. SR Institute for Advanced Studies (IHS), Economics Series: 145; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. PG 14. PR EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. JE C23, C25, F16, J63. KW Labor Market Turnover. Outsourcing. Dynamic Discrete Choice. Fixed Effects.

AB This paper analyzes the effects of trade and outsourcing on the transition probabilities of employment between sectors, using a dynamic multinomial logit framework with fixed effects. The data contain individual Austrian male workers over the period 1988-2001. Our results strongly support the view that international economic forces are important determinants of labor market turnover. Increases in imports, terms of trade and, especially, in the outsourcing share negatively affect the probability of staying in or changing into the manufacturing sector, even more so for industries with a comparative disadvantage.

Eichengreen, Barry

PD October 2002. TI Still Fettered After All These Years. AA University of California, Berkeley and NBER. SR National Bureau of Economic Research Working Paper: 9276; Working Papers, NBER, 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 U.S.). JE E32, F02, N12. KW Great Depression. Monetary Policy Mistakes. International. United States.

AB The last decade has seen an outpouring of scholarship on the economics of the Great Depression. If there is anything

approaching a consensus, it is a synthetic view which admits a role both for monetary policy mistakes and for the international monetary and financial system in transmitting those destabilizing impulses to the rest of the world. It explains the speed and extent of the subsequent decline in terms of both banking crises and the collapse of the gold standard, which conspired to exert deflationary pressure to different degrees on different countries. Furthermore, it explains the eventual recovery in terms of the abandonment of the gold standard, which facilitated the pursuit of stabilizing monetary policies, but also in terms of the restoration of stability to banking and financial systems, something that occurred at different times in different countries. One way of understanding the veneer of disputation on this consensus is that different elements dominated in different countries. For the United States, there is no denying the role of monetary policy mistakes in the onset of the Depression, whereas for other countries international monetary instability played the most important part.

Elder, Todd E.

TI An Evaluation of Instrumental Variable Strategies for Estimating the Effects of Catholic Schools. AU Altonji, Joseph G.; Elder, Todd E.; Taber, Christopher R.

Emmons, William R.

PD November 2002. TI Cracks in the Facade: American Economic and Financial Structures After the Boom. AU Emmons, William R.; Schmid, Frank A. AA Federal Reserve Bank of St. Louis. SR Federal Reserve Bank of St. Louis Working Paper: 2002/026A; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. PG 28. PR no charge. JE E32, E44, G32. KW US Financial Systems. Financial Markets. 1990s Boom.

AB The United States experienced a historic boom during the late 1990s and briefly into the new millennium, highlighted by rapid economic and productivity growth, surging corporate profitability, sustained business investment in many areas, including high technology and telecommunications, and a soaring stock market. Many observers concluded that a "new era" had arrived. Meanwhile, the prestige of the Federal Reserve rose along with faith in the U.S. economy and its stock market. Deflation of the great boom brings with it many unanswered questions. Was there ever really a "new era" in the U.S. economy and stock market? Will the future be more like the boom years or the lackluster decades that preceded it? How important were the uniquely American economic and financial structures so admired around the world while the boom lasted? Can the Federal Reserve's prestige survive the collapse? This chapter explores cracks in the facade of the great American boom of the late 1990s.

Engel, Eduardo M.R.A.

TI Adjustment is Much Slower than You Think. AU Caballero, Ricardo J.; Engel, Eduardo M.R.A..

TI Three Strikes and You're Out: Reply to Cooper and Willis Computer and Internet Penetration. AU Caballero, Ricardo J.; Engel, Eduardo M.R.A..

TI Microeconomic Flexibility in Latin America. AU Caballero, Ricardo J.; Engel, Eduardo M.R.A.; Micco, Alejandro.

Engellandt, Axel

PD January 2004. **TI** Temporary Contracts and Employee Effort. **AU** Engellandt, Axel; Riphahn, Regina. **AA** Engellandt: Universitat Basel. Riphahn: Universitat Basel and CEPR. **SR** CEPR Discussion Paper: 4178; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4178.asp. **PG** 20. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C25, J24, J41. **KW** Temporary Work. Contract-Based Incentives. Absenteeism. Overtime. Moral Hazard. Career Concerns.

AB Temporary contracts provide employers with a tool to screen potential new employees and have been shown to provide "stepping stones" into permanent employment for workers. For both reasons, workers on temporary contracts have an incentive to provide more effort than permanent employees. Using indicators for unpaid overtime work and absences taken from the Swiss Labor Force Survey, we present evidence that temporary workers indeed provide higher effort than permanent employees: their probability of working unpaid overtime exceeds that of permanently employed workers by 60%. We show the heterogeneity of this effect across different types of temporary contracts, investigate differences between men and women, and discuss the relevance of endogenous selection into temporary employment.

Engerman, Stanley L.

PD October 2002. **TI** Factor Endowments, Inequality, and Paths of Development Among New World Economies. **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: 9259; 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, D39, N10. **KW** Inequality. Institutions. Development.

AB Whereas traditional explanations of differences in long-run paths of development across the Americas generally point to the significance of differences in national heritage or religion, we highlight the relevance of stark contrasts in the degree of inequality in wealth, human capital, and political power in accounting for how fundamental economic institutions evolved over time. We argue, moreover, that the roots of these disparities lay in differences in the initial factor endowments (dating back to the era of European colonization). We document patterns by which societies in the Americas that began with more extreme inequality or heterogeneity in the population were more likely to develop institutional structures that greatly advantaged members of elite classes. The clear implication is that institutions should not be presumed to be exogenous; economists need to learn more about where they come from to understand their relation to economic development. Our findings not only contribute to our knowledge of why extreme differences in the extent of inequality across New World economies have persisted for centuries, but also to the study of processes of long-run economic growth past and present.

Epple, Dennis

PD November 2002. **TI** Educational Vouchers and Cream Skimming. **AU** Epple, Dennis; Romano, Richard. **AA** Epple: Carnegie Mellon University and NBER. Romano:

University of Florida. **SR** National Bureau of Economic Research Working Paper: 9354; 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** H42, I20. **KW** Private Schools. Educational Vouchers.

AB Epple and Romano (1998) show equilibrium provision of education by public and private schools has the latter skim off the wealthiest and most-able students, and flat-rate vouchers lead to further cream skimming. Here we study voucher design that would inject private-school competition and increase technical efficiencies without cream skimming. Conditioning vouchers on student ability without restriction on participating schools' policies fails to effect significantly cream skimming. However, by adding conditions like tuition constraints such as vouchers can reap the benefits of school competition without increased stratification. This can be accomplished while allowing voluntary participation in the voucher system and without tax increases.

Ergunor, O. Emre

PD May 2002. **TI** Community Banks as Small Business Lenders: The Tough Road Ahead. **AA** Federal Reserve Bank of Cleveland. **SR** Federal Reserve Bank of Cleveland Working Paper: 02/03; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. **PG** 59. **PR** no charge. **JE** D82, G21, G28. **KW** Small Business Lending. Relationship Lending. Community Banks.

AB This paper investigates the performance of community banks as small business (relationship) lenders. Theory suggests that competition reduces the benefits of bank-borrower relationships, making small business loans more risky and less profitable. In support of this theory, the evidence indicates that community banks' performance deteriorates with increasing small business lending. Policies that encourage community banks to engage in more aggressive small business lending may lessen the soundness of these institutions.

Estevadeordal, Antoni

PD November 2002. **TI** The Rise and Fall of World Trade, 1870-1939. **AU** Estevadeordal, Antoni; Frantz, Brian; Taylor, Alan M. **AA** Estevadeordal: Inter-American Development Bank. Frantz: United States Agency for International Development. Taylor: University of California, Davis and NBER. **SR** National Bureau of Economic Research Working Paper: 9318; 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, F10, F33, N70. **KW** Gold Standard. Transport Costs. Trade.

AB Measured by the ratio of trade to output, the 1870-1913 period marked the birth of the first era of trade globalization and the period 1914-39 its death. What caused the boom and bust? We use an augmented gravity model to examine the gold standard, tariffs, and transport costs as determinants of trade. Until 1913, the ascension of the gold standard and the fall in transport costs were the main trade-creating forces. The reversal was driven by higher transport costs. In the 1930s, the final collapse of the gold standard drove trade volumes still lower.

TI Rules of Origin in North-South Preferential Trading

Arrangements with an Application to NAFTA. AU Anson, Jose; Cadot, Olivier; de Melo, Jaime; Estevadeordal, Antoni; Suwa-Eisenmann, Akiko; Tumurchudur, Bolorma.

TI Rules of Origin in North-South Preferential Trading Arrangements with an Application to NAFTA. AU Anson, Jose; Cadot, Olivier; de Melo, Jaime; Estevadeordal, Antoni; Suwa-Eisenmann, Akiko; Tumurchudur, Bolorma.

Eusepi, Stefano

TI Did the Great Inflation Occur Despite Policymaker Commitment to a Taylor Rule? AU Bullard, James; Eusepi, Stefano.

Evenson, Robert E.

PD December 2003. TI GMOs: Prospects for Increased Crop Productivity in Developing Countries. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 878; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 21. PR \$2.00 plus postage. JE O13, Q13, Q16. KW Genetically Modified Foods. Genetic Engineering.

AB Genetically Modified Crops (GMO foods) have been widely available to farmers since 1996. The Gene Revolution, based on recombinant DNA (rDNA) genetic engineering techniques, is seen by proponents as both supplanting Green Revolution varieties, based on conventional plant breeding techniques, and potentially enabling "disadvantaged" production environments that Green Revolution varieties have not reached to achieve productivity improvements. This paper argues that the private firms supplying GM crop products have generally had little interest in selling products in disadvantaged production environments. The paper also argues that present rDNA techniques allow only static gains from specific "trait" improvements. However, these GM products can be installed on Green Revolution varieties where continued dynamic varietal improvement is possible. As a consequence, the Gene Revolution complements the Green Revolution, and because trait incorporation expands area planted to Green Revolution varieties, there is potential for productivity improvement in disadvantaged environments.

Faig, Miquel

PD September 2001. TI A Search Theory of Money and Commerce with Neoclassical Production. AA Universitat Pompeu Fabra. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 567; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.cs/eng/research/research2.php. PG 42. PR papers only available on web page; no hard copies. JE E13, E40, E52. KW Search Theory. Money. Commerce. Inflation. Neoclassical Growth.

AB This paper advances a highly tractable model with search theoretic foundations for money and neoclassical growth. In the model, manufacturing and commerce are distinct and separate activities. In manufacturing, goods are efficiently produced combining capital and labor. In commerce, goods are exchanged in bilateral meetings. The model is applied to study the effects of inflation on capital accumulation and welfare. With realistic parameters, inflation has large negative effects on welfare even though it raises capital and output. In contrast,

with cash-in-advance, a device informally motivated with bilateral trading, inflation depresses capital and output and has a negligible effect on welfare.

Fairlie, Robert W.

TI The Determinants of the Global Digital Divide: A Cross-Country Analysis of Computer and Internet Penetration. AU Chinn, Menzie D.; Fairlie, Robert W.

Falk, Armin

PD January 2004. TI Charitable Giving as a Gift Exchange: Evidence From a Field Experiment. AA University of Bonn. SR CEPR Discussion Paper: 4189; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4189.asp. PG 12. PR 5 pounds, \$5 or 8 euros + postage and handling. JE C93, D63, H41. KW Warm-Glow. Reciprocity. Charitable Giving. Field Experiments.

AB This study reports data from a field experiment that was conducted to investigate the relevance of gift-exchange for charitable giving. Roughly 10,000 solicitation letters were sent to potential donors in the experiment. One third of the letters contained no gift, one third contained a small gift and one third contained a large gift. Whether a potential donor received a letter with or without a gift was randomly determined. We observe strong and systematic effects from including gifts. Compared to the no gift condition, the relative frequency of donations increased by 17% if a small gift was included and by 75% for a large gift. Consequently, including gifts was highly profitable for the charitable organization. The contribution of this paper is twofold: first, it shows that reciprocity is an important motive for charitable giving, in addition to the warm-glow motive. Second, the paper confirms the economic relevance of reciprocity by using field data. This extends the current body of research on reciprocity, which is almost exclusively confined to laboratory studies.

Fan, Rong

PD November 2002. TI Getting the Most Out of a Mandatory Subordinated Debt Requirement. AU Fan, Rong; Haubrich, Joseph G.; Ritchken, Peter H.; Thomson, James B. AA Fan and Ritchken: Case Western Reserve University. Haubrich and Thomson: Federal Reserve Bank of Cleveland. SR Federal Reserve Bank of Cleveland Working Paper: 02/14; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. PG 37. PR no charge. JE G12, G18, G28. KW Subordinated Debt. Banks. Asset Pricing.

AB Recent advances in asset pricing -- the reduced-form approach to pricing risky debt and derivatives -- are used to quantitatively evaluate several proposals for mandatory bank issue of subordinated debt. We find that credit spreads on both fixed and floating rate subordinated debt provide relatively clean signals of bank risk and are not unduly influenced by non-risk factors. Fixed rate debt with a put is unacceptable, but making the puttable debt floating resolves most problems. Our approach also helps to clarify several different notions of "bank risk".

Fan, Wei

PD November 2002. TI Personal Bankruptcy and the

Level of Entrepreneurial Activity. AU Fan, Wei; White, Michelle J. AA Fan; J. D. Powers, Inc. White: University of California, San Diego and NBER. SR National Bureau of Economic Research Working Paper: 9340; 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 E60, K20, L50, M13. KW Bankruptcy. Entrepreneurship.

AB U.S. personal bankruptcy system functions as a bankruptcy system for small businesses as well as consumers, because debts of non-corporate firms are personal liabilities of the firms' owners. If the firm fails, the owner has an incentive to file for bankruptcy, since both business debts and the owner's personal debts will be discharged. In bankruptcy, the owner must give up assets above a fixed exemption level. Because exemption levels are set by the states, they vary widely. We show that higher bankruptcy exemption levels benefit potential entrepreneurs who are risk averse by providing partial wealth insurance and therefore the probability of owning a business increases as the exemption level rises. We test this prediction and find that the probability of households owning businesses is 35% higher if they live in states with unlimited rather than low exemptions. We also find that the probability of starting a business and the probability of owning a corporate rather than non-corporate business are higher for households that live in high exemption states.

Fan, Yanan

TI Nonparametric Confidence Intervals for Receiver Operating Characteristic Curves. AU Hall, Peter G.; Hyndman, Rob J.; Fan, Yanan.

Fang, Hanming

PD May 2003. TI Morale Hazard. AU Fang, Hanming; Giuseppe, Moscarini. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1422; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 36. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE D82, J31. KW Overconfidence. Worker Morale. Wage-Setting Policies.

AB We interpret workers' confidence in their own skills as their morale, and investigate the implication of worker overconfidence on the firm's optimal wage-setting policies. In our model, wage contracts both provide incentives and affect worker morale, by revealing private information of the firm about worker skills. We provide conditions for the non-differentiation wage policy to be profit-maximizing. In numerical examples, worker overconfidence is a necessary condition for the firm to prefer no wage differentiation, so as to preserve some workers' morale; the non-differentiation wage policy itself breeds more work overconfidence; finally, wage compression is more likely when aggregation productivity is low.

PD June 2003. TI Multidimensional Private Value Auctions. AU Fang, Hanming; Morris, Stephen. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1423; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 40. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C72, D44, D82. KW Multidimensional Auctions.

Revenue Equivalence. Allocative Efficiency. Information Acquisition.

AB We consider parametric examples of two-bidder private value auctions in which each bidder observes her own private valuation as well as noisy signals about her opponent's private valuation. In such multidimensional private value auction environments, we show that the revenue equivalence between the first and second price auctions breaks down and there is no definite revenue ranking; while the second price auction is always efficient allocatively, the first price auction may be inefficient and the inefficiency may increase as the signal becomes more informative; equilibria may fail to exist for the first price auction. We also show that auction mechanisms provide different incentives for bidders to acquire costly information about opponents' valuation.

Farrell, Lisa

TI Who Are the Self-Employed? A New Approach. AU Brown, Sarah; Farrell, Lisa; Harris, Mark N.

Feenstra, Robert C.

PD November 2002. TI The Value of Information in International Trade: Gains to Outsourcing through Hong Kong. AU Feenstra, Robert C.; Hanson, Gordon H.; Lin, Songhua. AA Feenstra: University of California, Davis and NBER. Hanson: University of California, San Diego and NBER. Lin: Denison University. SR National Bureau of Economic Research Working Paper: 9328; 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 F13, F14. KW Intermediary Services. Hong Kong. Trade with China.

AB In this paper, we estimate of having access to intermediary services provided by Hong Kong for countries that purchase goods from China. Traders in Hong Kong supply information on markets and producers in China, which provides welfare gains to foreign firms using these services. During the 1990s, Hong Kong intermediated about half of the goods that China exported to the rest of the world. Our results suggests that gains from the intermediary services provided by Hong Kong equal 16% of the value of goods that China exports to other countries through Hong Kong, and range between 10% and 21% of this export value for various manufacturing goods and across different years.

Feinberg, Susan

PD October 2002. TI Firm-Specific Resources, Financial-Market Development and the Growth of U.S. Multinationals. AU Feinberg, Susan; Phillips, Gordon. AA Feinberg: University of Maryland. Phillips: University of Maryland and NBER. SR National Bureau of Economic Research Working Paper: 9252; 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 F10, F23, G10, G30. KW Financial Markets. Multinationals. Growth.

AB We study the resource allocation decisions of U.S. multinational corporations (MNCs). We examine how established MNCs grow across countries and how firm-specific resources and host country financial-market development influence MNC growth. We find evidence of intra-firm trade-offs to growth in MNCs that have limited organizational capital and high R&D, and MNCs with low external and internal

financing. In countries with less developed capital markets, we find significant within-MNC trade-offs to growth between affiliates and their U.S. parents. These trade-offs diminish over time as local capital markets develop. Our evidence indicates that access to financing and organizational capital is important resource for MNC affiliate growth.

Feinberg, Yossi

TI A True Expert Knows which Question Should Be Asked.
AU Dekel, Eddie; Feinberg, Yossi.

Felli, Leonardo

TI Should Courts Always Enforce What Contracting Parties Write? **AU** Anderlini, Luca; Felli, Leonardo; Postlewaite, Andrew.

Fernandez, Raquel

PD October 2002. **TI** Marrying Your Mom: Preference Transmission and Women's Labor and Education Choices. **AU** Fernandez, Raquel; Fogli, Alessandra; Olivetti, Claudia. **AA** Fernandez: New York University and NBER. Fogli: New York University. Olivetti: Boston University. **SR** National Bureau of Economic Research Working Paper: 9234; 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** D19, I20, J12, Z10. **KW** Preference Transmission. Education. Economics of Gender.

AB This paper argues that the evolution of male preferences contributed to the dramatic increase in the proportion of working and educated women in the population over time. Male preferences evolved because some men experienced a different family model one in which their mother was skilled and/or worked. These men, we hypothesize, were more inclined to marry women who themselves were skilled or worked. Our model endogenizes the evolution of preferences in a dynamic setting and examines how it affected women's education and labor choices. We present empirical evidence based on GSS data that favors our transmission mechanism. We show that men whose mothers were more educated or worked are more likely to marry similar women themselves.

Fershtman, Chaim

TI Law and Preferences. **AU** Bar-Gill, Oren; Fershtman, Chaim.

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

Figlio, David N.

PD October 2002. **TI** Accountability, Ability and Disability: Gaming the System. **AU** Figlio, David N.; Getzler, Lawrence S. **AA** Figlio: University of Florida and NBER. Getzler: Virginia Department of Planning and Budget. **SR** National Bureau of Economic Research Working Paper: 9307; Working Papers, NBER, 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 U.S.). **JE** I21, I22. **KW** Educational Testing. Student Testing. School Financing.

AB The past several years have been marked by a general trend towards increased high-stakes testing for students and

schools and test-based school accountability systems. There are many potential school responses to testing programs. This paper investigates the potential that schools respond by "gaming the system" through reshaping the test pool. Using student-level panel data from six large counties in Florida, we study whether the introduction of the Florida Comprehensive Assessment Test in 1996 led schools to reclassify students as disabled and therefore ineligible to contribute to the school's aggregate test scores. Employing student-level fixed effect models and a series of secular trends as controls, we find that schools tend to reclassify low income and previously low performing students as disabled at significantly higher rates following the introduction of the testing regime. Moreover, these behaviors are concentrated among the low income schools most likely to be on the margin of failing the state's accountability system.

PD November 2002. **TI** Food for Thought: The Effects of School Accountability Plans on School Nutrition. **AU** Figlio, David N.; Winicki, Joshua. **AA** Figlio: University of Florida and NBER. Winicki: American Institutes for Research. **SR** National Bureau of Economic Research Working Paper: 9319; Working Papers, NBER, 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 U.S.). **JE** I21, I22. **KW** Nutrition. School Accountability. School Testing. Educational Testing.

AB School accountability systems based on high-stakes testing of students have become ubiquitous in the United States, and are now federal policy as well. This paper identifies a previously-unexamined method through which schools faced with potential sanctions may "game the system" in order to have higher aggregate student test scores than might otherwise be warranted. There exists a well-established link between nutrition and short-term cognitive functioning. Hence, we investigate whether school districts exploit this relationship by strategically altering school nutrition menus during testing periods in an apparent attempt to artificially increase student test scores. Using detailed daily school nutrition data from a random sample of Virginia school districts, we find that school districts having schools faced with potential sanctions under Virginia's Standards of Learning (SOL) accountability system apparently respond by substantially increasing calories in their menus on testing days, while those without such immediate pressure do not change their menus. Suggestive evidence indicates that the school districts that do this the most experience the largest increases in pass rates.

Finger, Markus

PD November 2001. **TI** Exploiting Fitness Distance Correlation of Set Covering Problems. **AU** Finger, Markus; Stuetzle, Thomas; Lourenco, Helena R. **AA** Finger and Stuetzle: Darmstadt University of Technology. R. Lourenco: Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 582; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. **PG** 11. **PR** papers only available on web page; no hard copies. **JE** C61, C63, D83. **KW** Set Covering. Iterated Local Search.

AB The set covering problem is an NP-hard combinatorial optimization problem that arises in applications ranging from crew scheduling in airlines to driver scheduling in public mass

transport. In this paper we analyze search space characteristics of a widely used set of benchmark instances through an analysis of the fitness-distance correlation. This analysis shows that there exist several classes of set covering instances that have a largely different behavior. For instances with high fitness distance correlation, we propose new ways of generating core problems and analyze the performance of algorithms exploiting these core problems.

Finus, Michael

PD June 2003. **TI** Stability of Climate Coalitions in a Cartel Formation Game. **AU** Finus, Michael; van Ierland, Ekko; Dellink, Rob. **AA** Finus: Hagen University. Van Ierland and Dellink: Wageningen University. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/61; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 23. **PR** no charge; available only on website. **JE** C72, H41, Q54, Q58. **KW** IEAs. Kyoto-Protocol. Cartel Formation Game.

AB We empirically test stability of climate change coalitions with the Stability of Coalitions model (STACO). The model comprises twelve world regions and captures important dynamic aspects of the climate change problem. We apply the stability concept of internal and external stability to a cartel formation game. It is shown that only if benefits from global abatement are sufficiently high do stable coalitions emerge, though they only marginally improve upon the Nash equilibrium. We explain this phenomenon by analyzing the individual incentive structure of all regions and relate our results to the predictions of theory.

Fischer, Stanley

PD October 2002. **TI** Financial Crises and Reform of the International Financial System. **AA** Citigroup and NBER. **SR** National Bureau of Economic Research Working Paper: 9297; Working Papers, NBER, 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 U.S.). **JE** E50, E60, F30, F40, G10. **KW** Financial Crises. IMF. Reforms.

AB Between December 1994 and March 1999, Mexico, Thailand, Indonesia, Korea, Malaysia, Russia and Brazil experienced major financial crises which were associated with massive recessions and extreme movements of exchange rates. Similar crises have threatened Turkey and Argentina (2000 and 2001) and most recently Brazil (again). This article discusses the reform of the international financial system with a focus on the role of the IMF -- reforms directed at crisis prevention, and those intended to improve the responses to crises. The article concludes with an appraisal of what has been achieved, and what remains to be done to make the international financial system safer.

Flynn, David B.

PD February 2003. **TI** Pricing Australian S&P200 Options: A Bayesian Approach Based on Generalized Distributional Forms. **AU** Flynn, David B.; Grose, Simone D.; Martin, Gael M.; Martin, Vance L. **AA** Flynn, Grose and Martin, G.: Monash University. Martin, V.: Melbourne University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/06; Department of Econometrics and Business Statistics, Monash University,

Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 28. **PR** no charge. **JE** C11, C16, G13. **KW** Bayesian Option Pricing. Leptokurtosis. Skewness. Time-Varying Volatility. Option Price Prediction.

AB A new class of option price models is developed and applied to options on the Australian S&P200 Index. The class of models generalizes the traditional Black-Scholes framework by accommodating time-varying conditional volatility, skewness and excess kurtosis in the underlying returns process. An important property of the more general pricing models is that the computational requirements are practically the same as those associated with the Black-Scholes model, with both methods being based on one-dimensional integrals. Bayesian inferential methods are used to evaluate a range of models nested in the general framework, using observed market option prices. The evaluation is based on posterior distributions estimated for the parameters of the alternative models, as well as posterior model probabilities, out-of-sample predictive performance and implied volatility smiles. The empirical results provide strong evidence that time-varying volatility, leptokurtosis and skewness are priced in Australian stock market options.

Fogli, Alessandra

TI Marrying Your Mom: Preference Transmission and Women's Labor and Education Choices. **AU** Fernandez, Raquel; Fogli, Alessandra; Olivetti, Claudia.

Foray, Dominique

TI An Introduction to the Economy of the Knowledge Society. **AU** David, Paul A.; Foray, Dominique.

Forbes, Catherine S.

TI Implicit Bayesian Inference Using Option Prices. **AU** Martin, Gael M.; Forbes, Catherine S.; Martin, Vance L.

TI Bayesian Analysis of the Stochastic Conditional Duration Model. **AU** Strickland, Chris M.; Forbes, Catherine S.; Martin, Gael M.

PD October 2003. **TI** Bayesian Estimation of a Stochastic Volatility Model Using Option and Spot Prices: Application of a Bivariate Kalman Filter. **AU** Forbes, Catherine S.; Martin, Gael M.; Wright, Jill. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/17; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 48. **PR** no charge. **JE** C11, G13. **KW** Option Pricing. Volatility Risk. Markov Chain Monte Carlo. Nonlinear State Space Model. Kalman Filter and Smoother.

AB In this paper Bayesian methods are applied to a stochastic volatility model using both the prices of the asset and the prices of options written on the asset. Posterior densities for all model parameters, latent volatilities and the market price of volatility risk are produced via a hybrid Markov Chain Monte Carlo sampling algorithm. Candidate draws for the unobserved volatilities are obtained by applying the Kalman filter and smoother to a linearization of a state-space representation of the model. The method is illustrated using the Heston (1993) stochastic volatility model applied to Australian News Corporation spot and option price data. Alternative models nested in the Heston framework are ranked via Bayes Factors

and via fit, predictive and hedging performance.

TI Diversification Meltdown or the Impact of Fat Tails on Conditional Correlation? **AU** Campbell, Rachel; Forbes, Catherine S.; Koedijk, Kees; Kofman, Paul.

Forman, Chris

PD October 2002. **TI** Digital Dispersion: An Industrial and Geographic Census of Commercial Internet Use. **AU** Forman, Chris; Goldfarb, Avi; Greenstein, Shane. **AA** Forman: Carnegie Mellon University. Goldfarb: University of Toronto. Greenstein: Northwestern University and NBER. **SR** National Bureau of Economic Research Working Paper: 9287; Working Papers, NBER, 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 U.S.). **JE** L63, L86, O33. **KW** Internet. Competition. Dispersion.

AB Our study provides the first census of the dispersion of Internet technology to commercial establishments in the United States. We distinguish between participation, that is, use of the Internet because it is necessary for all business and enhancement, that is, adoption of Internet technology to enhance computing processes for competitive advantage. Using routine statistical methods, we focus on answering questions about economy-wide outcomes: Which industries had the highest and lowest rates of participation and enhancement? Which cities, states and industries had a typical experience and which did not? We arrive at three conclusions. First, participation and enhancement display contrasting patterns of dispersion. In a majority of industries participation has approached saturation levels, while enhancement occurs at lower rates and with dispersion reflecting long standing industrial differences in use of computing. Second, the creation and use of the Internet does not eliminate the importance of geography. Leading areas are widespread, whereas laggards are more common in smaller urban areas and some rural areas. However, the distribution of industries across geographic regions explains much of the difference in rates of adoption of the Internet in different areas. Third, commercial Internet use is quite dispersed, more so than previous studies show.

Fortin, Ines

PD November 2002. **TI** Tail-Dependence in Stock-Return Pairs. **AU** Fortin, Ines; Kuzmics, Christoph. **AA** Fortin: Institute for Advanced Studies. Kuzmics: University of Cambridge. **SR** Institute for Advanced Studies (IHS), Economics Series: 126; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 31. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** C12, C32, C51, C52, G15. **KW** Value-at-Risk. Copula. Non-normal Bivariate GARCH. Asymmetric Dependence.

AB The empirical joint distribution of return-pairs on stock indices displays high tail-dependence in the lower tail and low tail-dependence in the upper tail. The presence of tail-dependence is not compatible with the assumption of (conditional) joint normality. The presence of asymmetric-tail dependence is not compatible with the assumption of a joint student-t distribution. A general test for one dependence structure versus another via the profile-likelihood is described and employed in a bivariate GARCH model, where the joint distribution of the disturbances is split into its marginals and its copula. The copula used is such that it allows for the presence

of lower tail-dependence and for asymmetric tail-dependence, and that it encompasses the normal or t-copula. The model is estimated using bivariate data on a set of European stock indices. We find that the assumption of normal or student-t dependence is easily rejected in favor of an asymmetrically tail-dependent distribution.

TI The Day-of-the-Week Effect Revisited: An Alternative Testing Approach. **AU** Alt, Raimund; Fortin, Ines; Weinberger, Simon.

Fostel, A.

PD May 2003. **TI** Two New Proofs of Afriat's Theorem. **AU** Fostel, A.; Scarf, Herbert E.; Todd, Michael J. **AA** Fostel and Scarf: Yale University. Todd: Cornell University. **SR** Yale Cowles Foundation Discussion Paper: 1415; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 10. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C60, D11. **KW** Afriat's Theorem. SARP. GARP.

AB We provide two new, simple proofs of Afriat's celebrated theorem stating that a finite set of price-quantity observations is consistent with utility maximization if, and only if, the observations satisfy a variation of the Strong Axiom of Revealed Preference known as the Generalized Axiom of Revealed Preference.

Francis, Neville R.

PD September 2003. **TI** The Use of Long-Run Restrictions for the Identification of Technology Shocks. **AU** Francis, Neville R.; Owyang, Michael T.; Theodorou, Athena T. **AA** Francis: Lehigh University. Owyang and Theodorou: Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2003/010E; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 18. **PR** no charge. **JE** C32, E32. **KW** Technology Shocks. Long-Run Restrictions. VAR.

AB The authors survey the recent empirical literature using long-run restrictions to identify technology shocks and provide an illustrative walk-through of the long-run restricted vector autoregression (VAR) methodology in a bivariate framework. Additionally, they offer an alternative identification of technology shocks that can be imposed by restrictions on the long-run impulse responses to evaluate the robustness of the conclusions drawn by the structural VAR literature. Their results from this methodology compare favorably with the empirical literature that uses structural VARs to identify technology shocks.

PD June 2004. **TI** Monetary Policy in a Markov-Switching VECM: Implications for the Cost of Disinflation and the Price Puzzle. **AU** Francis, Neville R.; Owyang, Michael T. **AA** Francis: Lehigh University. Owyang: Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2003/001D; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 19. **PR** no charge. **JE** C32, E31, E52. **KW** Monetary Policy. Markov Switching. Cointegration. Price Puzzle. Sacrifice Ratio.

AB Monetary policy VARs typically presume stability of the

long-run outcomes. We introduce the possibility of switches in the long-run equilibrium in a cointegrated VAR by allowing both the covariance matrix and weighting matrix in the error-correction term to switch. We find that monetary policy alternates between sustaining long-run growth and disinflationary regimes. Allowing state changes can also help explain the price puzzle and justify the use of commodity prices as a corrective measure. Finally, we show that regime-switching has implications for disinflationary monetary policy and can explain the variety of sacrifice ratio estimates that exist in the literature.

Franch, Bernard

PD May 2003. TI Fundamental R&D Spillovers and the Internalization of a Firm's Research Activities. AU Franch, Bernard; Owen, Robert F. AA Franch: University of Caen. Owen: University of Nantes. SR Yale Cowles Foundation Discussion Paper: 1425; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 53. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE F15, F23, O31. KW Fundamental R&D. Spillovers. International Location. Economic Integration.

AB A conceptual framework is proposed for analyzing how differences in national R&D stocks can impact a firm's decision to internationalize its R&D activities. A central finding is that the integration of product markets can generate an added incentive to undertake R&D abroad. A three-stage analysis of a non-cooperative game is proposed, which entails cost-reducing process innovation in an international model of duopoly. Each firm's technological efficiency depends not only on its investment in applied R&D, but also on its absorption of domestic and foreign fundamental R&D, as well as the extent to which the latter are substitutes or complements. In a first stage, a firm's absorption of foreign fundamental R&D can be impacted by a decision to localize R&D activities abroad. The interaction between this decision and initial production costs is also explored.

Francois, Patrick

PD September 2002. TI Not-For-Profit Provision of Public Services. AA Tilburg University, University of British Columbia, and University of Bristol. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/060; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. PG 8. PR no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. JE D64, H11, H42, L30. KW Non-Profit Firms. Public Goods. Privatization. Public Service Motivation.

AB Not-for-profit firms are greatly over-represented in the childcare, medical care, education and care for the aged sectors where service providing workers, as well as purchasers, seem to care about the level or quality of service being provided. Since all individuals who care about service levels receive non-excludable benefits, these services have a public good element. Such care can be used to motivate employees to perform tasks beyond their strict job description. But such care only motivates effort if workers believe it affects the final level of provision. Since nonprofit status ensures management is not directly concerned with profit, or not answerable to owners

with such concerns, it ensures workers' efforts "matter" by committing the firm to not expropriating extra worker effort to lower costs or raise profits. Nonprofit firms can thus motivate their work force in a way that for-profit firms cannot match.

TI Commons as Insurance and the Welfare Impact of Privatization. AU Baland, Jean-Marie; Francois, Patrick.

Frantz, Brian

TI The Rise and Fall of World Trade, 1870-1939. AU Estevadeordal, Antoni; Frantz, Brian; Taylor, Alan M.

Freeman, Richard B.

PD October 2002. TI The Labor Market in the New Information Economy. AA NBER. SR National Bureau of Economic Research Working Paper: 9254; 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 J22, J24, J31, J51. KW Technology. Labor Market. Trade Unions.

AB The extension of information and communication technologies to economic activity is changing the labor market in important ways. This article shows that computerization and use of the Internet are associated with greater hours worked as well as higher wages; that IT occupations are rapidly increasing their share of employment; that job search and recruitment are moving rapidly to the Web, with consequences for matching employers and employees; and possibly most important of all, that trade unions have begun to use the Internet as a tool for servicing members and carrying their message to the public, raising the possibility of a major change in the nature of the union movement.

Freixas, Xavier

PD March 2001. TI Interbank Market Integration under Asymmetric Information. AU Freixas, Xavier; Holthausen, Cornelia. AA Freixas: Universitat Pompeu Fabra. Holthausen: European Central Bank. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 579; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. PG 32. PR papers only available on web page; no hard copies. JE F36, G15, G20. KW Banking Theory. Asymmetric Information. Financial Integration. Interbank Markets. Diamond-Dybvig.

AB We study the equilibrium of an interbank market when cross-country information is noisy. We find not only that an equilibrium with integrated markets need not always exist, but also that when it does, the integrated equilibrium may coexist with where the interbank market is segmented. Therefore, market deregulation, per se, does not guarantee the emergence of an integrated interbank market. The effect of a repo market which, a priori, was supposed to improve efficiency happens to be more complex: it reduces interest rate spreads and improves upon the segmentation equilibrium, but it may destroy the unsecured integrated equilibrium. Finally, we study the effect of the introduction of other transnational institutional arrangements, such as multinational banking, correspondent banking and the existence of "too-big-to-fail" banks that may reduce cross country interest spreads and provide more insurance against country wide liquidity shocks.

Friberg, Richard

PD December 2003. TI Bottled Water -- A Case of Pointless Trade? AU Friberg, Richard; Ganslandt, Matias. AA Friberg: Stockholm School of Economics. Ganslandt: Industrial Institute for Economics and Social Research. SR CEPR Discussion Paper: 4145; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4145.asp. PG 14. PR 5 pounds, \$5 or 8 euros + postage and handling. JE F12, F14, L13, L66. KW Reciprocal Dumping. Intra-Industry Trade. Nested Logit Models.

AB Two-way trade in (almost) homogenous products has ambiguous welfare effects if entry is restricted. We examine Swedish imports of bottled water to investigate whether transport cost losses from trade outweigh the partial equilibrium gains from trade (stronger competition and more brands to choose from). Using monthly data for all brands sold in stores during 1998-2001 we estimate a structural model of demand. Assuming one-shot Bertrand competition by multi-brand firms, we can use the estimated model to uncover marginal costs. We simulate the effect on consumer and producer surplus of banning imports, finding that banning imports would decrease overall welfare. Expanded choice is the main benefit of trade and disregarding this the net welfare effect of imports in this market are approximately zero -- the pro-competitive effect is of the same size as the cost savings associated with replacing foreign, higher cost, suppliers with domestic. Given our choice of market this suggests we should not be overly concerned with the welfare effects of two-way trade in consumer goods that are close to homogenous.

Friedberg, Leora

PD July 2004. TI Explaining the Evolution of Pension Structure and Job Tenure. AU Friedberg, Leora; Owyang, Michael T. AA Friedberg: University of Virginia. Owyang: Federal Reserve Bank of St. Louis. SR Federal Reserve Bank of St. Louis Working Paper: 2002/022C; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. PG 36. PR no charge. JE J32, J63, J65. KW Pension. Defined Benefit. Defined Contribution. Contracts. Job Tenure.

AB Average and expected job tenure of workers has fallen significantly over the last two decades. Workers have also experienced a major shift in pension coverage. Traditional defined benefit pensions, designed to reward long tenure, have become steadily less common, while defined contribution pensions, which are largely portable, have spread. The link between job tenure and pension trends has not been closely examined, but it offers insights about both phenomena. This paper uses a contract-theoretic matching model with moral hazard to explain changes in both pension structure and job tenure; we discuss how a richer model with job-specific human capital subject to technology shocks would yield similar results. In our model, a decline in the value of existing jobs relative to new jobs reduces expected match duration and thus the appeal of DB pensions. We argue that these trends are linked to changes in the nature of new technologies. This explanation is consistent with observed trends in technological change, tenure, and pension structure. Our results suggest an additional consequence of technological progress that has not been closely studied.

Frijters, Paul

TI Reducing Start-Up Costs for New Firms: The Double Dividend on the Labor Market. AU Dulleck, Uwe; Frijters, Paul; Winter-Ebmer, Rudolf.

TI Reducing Start-Up Costs for New Firms: The Double Dividend on the Labour Market. AU Dulleck, Uwe; Frijters, Paul; Winter-Ebmer, Rudolf.

Froot, Kenneth A.

TI The Persistence of Emerging Market Equity Flows. AU Donohue, Jessica Tjornhom; Froot, Kenneth A.

Fuerst, Timothy S.

TI Does It Matter (for Equilibrium Determinacy) What Price Index the Central Bank Targets? AU Carlstrom, Charles T.; Fuerst, Timothy S.; Ghironi, Fabio.

TI Imperfect Capital Markets and Nominal Wage Rigidities. AU Carlstrom, Charles T.; Fuerst, Timothy S.

TI Comments on Backward-Looking Interest-Rate Rules, Interest-Rate Smoothing, and Macroeconomic Instability. AU Carlstrom, Charles T.; Fuerst, Timothy S.

TI Investment and Interest Rate Policy: A Discrete Time Analysis. AU Carlstrom, Charles T.; Fuerst, Timothy S.

Fujita, Masahisa

PD December 2003. TI Globalization and the Evolution of the Supply Chain: Who Gains and Who Loses? AU Fujita, Masahisa; Thisse, Jacques-Francois. AA Fujita: Kyoto University. Thisse: CERAS, CEPR and Universite Catholique de Louvain. SR CEPR Discussion Paper: 4152; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4152.asp. PG 27. PR 5 pounds, \$5 or 8 euros + postage and handling. JE F02, F12, L13, R13. KW Information Technologies. Communication Costs. Agglomeration. Supply Chain. Relocation.

AB This paper focuses on two distinct facets of globalization: the decrease in the trade costs of goods and the decline of communication costs between headquarters and production facilities within firms. When the unskilled have about the same wage in the two regions, the decrease of these costs fosters the gradual agglomeration of plants in the core region accommodating the headquarters. By contrast, when the wage gap is significant, the process of integration eventually triggers the relocation of plants into the periphery. In particular, when falling communication costs drives the process of relocation, the welfare of all workers living in the core goes down whereas the welfare of those who reside in the periphery rises.

Furusawa, Taiji

PD June 2003. TI Free Trade Networks. AU Furusawa, Taiji; Konishi, Hideo. AA Furusawa: Yokohama National University. Konishi: Boston College. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/55; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 24. PR no charge; available only on website.

JE C71, C78, F12, F13, F15. KW Free Trade Agreement. Customs Union. Global Free Trade. Network Theory. Pair-wise Stability.

AB The paper examines the formation of free trade agreements (FTAs) as a network formation game. We consider a general n -country model in which countries trade differentiated industrial commodities as well as a numeraire good. Countries may be different in the size of the industrial good industry (measure of firms) and the market size (population size). Their incentives to sign an FTA depend on these characteristics of their own countries and those of their partner countries. We show that if all countries are symmetric, a complete global free trade network is pair-wise stable and it is the unique stable network if industrial commodities are not highly substitutable. We also compare FTAs and customs unions (CUs) as to which of these two regimes facilitate global trade liberalization, emphasizing the fact that unlike in the case of a CU, each country signing an FTA can have a new FTA with an outside country without consent of other member countries.

Gabszewicz, Jean J.

PD May 2003. **TI** Increasing Returns, Entrepreneurship and Imperfect Competition. **AU** Gabszewicz, Jean J.; Laussel, Didier. **AA** Gabszewicz: Universite Catholique de Louvain. Laussel: Universite de la Mediterranee. **SR** CORE Discussion Paper: 2003/44; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. **Website:** www.core.ucl.ac.be/services/DP.html. **PG** 22. **PR** \$5 per paper; \$100 per year. **JE** D43, M13. **KW** Oligopoly. Entrepreneurship. Rentiers.

AB We study a simple bilateral oligopoly model in which individual agents, who are initially endowed with capital, decide sequentially (i) whether they want to act as producers (entrepreneurs) or as capital lenders (rentiers) and, then (ii) which quantity of capital they would like to borrow or lend, through exchange of capital units against units of the produced good. Production takes place under increasing returns to scale. We show the existence of "natural equilibria", at which wealthier capital owners become entrepreneurs while the remaining ones decide to be rentiers. We also study the efficiency of equilibria which is shown to increase by replication of the economy, but sometimes to decrease as a consequence of wealth redistribution.

Gaigne, Carl

TI Agglomeration and Welfare: The Core-Periphery Model in the Light of Bentham, Kaldor, and Rawls. **AU** Charlot, Sylvie; Gaigne, Carl; Robert-Nicoud, Frederic; Thisse, Jacques-Francois.

Galagedera, Don U. A.

PD November 2003. **TI** Association Between Markov Regime-Switching Market Volatility and Beta Risk: Evidence from Dow Jones Industrial Securities. **AU** Galagedera, Don U. A.; Shami, Roland. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/20; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. **Website:** www.buseco.monash.edu.au/depts/ebs/. **PG** 27. **PR** no charge. **JE** C22, G12. **KW** Asset Pricing. Markov Regime Switching. Market Volatility. Beta Risk.

AB In this paper, the volatility of the return generating process of the market portfolio and the slope coefficient of the

market model is assumed to follow a Markov switching process of order one. The results indicate very strong evidence of volatility switching behavior in a sample of returns in the S&P500 index. In three of the thirty securities in the Dow Jones index, the estimated slope in the market model show strong switching behavior. In these three securities the low risk state is more persistent than the high-risk state. For each security we estimate the conditional probabilities that the security is in the high (low) risk state given the market is in the high (low) volatility regime and show that this information can be used to classify securities into three distinct groups. There is no association between these groups and the securities' constant beta estimated in the market model and the Sharpe index. Some directions for further research are discussed.

Galindo, Arturo

PD June 2004. **TI** Living with Dollarization and the Route to De-Dollarization. **AU** Galindo, Arturo; Leiderman, Leo. **AA** Galindo: Inter-American Development Bank. Leiderman: Tel Aviv University and Inter-American Development Bank. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/12; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. **Website:** econ.tau.ac.il/research/search_workingPapers.asp. **PG** 52. **PR** no charge. **JE** E52. **KW** Dollarization. De-Dollarization. Emerging Markets.

AB Financial dollarization in Latin America has been growing over time in spite of a major reduction in inflation and a shift toward central bank independence. After discussing the key stylized facts of dollarization and de-dollarization in the region, we discuss the risks that this process poses to the region. In particular, we explore the validity of concerns about the effectiveness of monetary policy in a dollarized economy and about a loss of seigniorage revenue in such an economy. After concluding that to a large extent these concerns lack empirical support, we focus on the main reason for concern: increased vulnerability due to the dollarization of public and private debt. We emphasize the importance of precautionary/regulatory measures attempting to limit the scope of mismatches originating from liability dollarization, and of developing financial instruments designed to hedge against currency risk. Moreover, we deal with the experience of policies directly aimed at deepening domestic financial markets in local currency assets and in gradually lengthening the maturity of these assets. We find particular interest in drawing some important lessons from the experience of de-dollarization in Israel for Latin America.

Gandelman, Nestor

PD August 2002. **TI** Tax Competition and Tax Harmonization With Evasion. **AU** Gandelman, Nestor; Hernandez-Murillo, Ruben. **AA** Gandelman: Universidad ORT Uruguay. Hernandez-Murillo: Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/015A; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. **Website:** research.stlouisfed.org/wp/. **PG** 21. **PR** no charge. **JE** H26, H30, H77. **KW** Tax Competition. Tax Evasion. Tax Harmonization. Risk-Aversion.

AB We examine a two-jurisdiction tax competition environment where local governments can only imperfectly

monitor where agents pay taxes and risk-averse individuals may choose to cross borders to pay lower taxes in a neighboring location. In the game between local authorities, when communities differ in size, in equilibrium the smaller community sets lower taxes and attracts agents from the larger jurisdiction. With identical communities, tax rates must be equal. Whenever the smaller community benefits from tax harmonization, the larger one will also. If the high-tax community chooses a monitoring policy, the local population splits into groups of tax avoidance and compliance.

Ganslandt, Mattias

TI Bottled Water -- A Case of Pointless Trade?
AU Friberg, Richard; Ganslandt, Mattias.

Garcia-Blandon, Josep

PD November 2001. **TI** New Findings Regarding Return Autocorrelation Anomalies and the Importance of Non-Trading Periods. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 585; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. **PG** 16. **PR** papers only available on web page; no hard copies. **JE** G12. **KW** Return Autocorrelation. Stock Market Anomalies. Non-Trading Periods.

AB In this paper, differences in return autocorrelation across weekdays have been investigated. Our research provides strong evidence of the importance on non-trading periods, not only weekends and holidays but also overnight closings, to explain return autocorrelation anomalies. While stock returns are highly autocorrelated, especially on Mondays, when daily returns are computed on an open-to-close basis, they do not exhibit any significant level of autocorrelation. Our results are compatible with the information processing hypotheses as an explanation of the weekend effect.

Garicano, Luis

TI Codes in Organizations. **AU** Cremer, Jacques; Garicano, Luis; Prat, Andrea.

Garrett, Thomas A.

PD October 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: 2002/012B; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 36. **PR** no charge. **JE** D72, D73, H59. **KW** Disaster Relief. Politics. Congressional Dominance.

AB We find that presidential and congressional influences affect the rate of disaster declaration and the allocation of FEMA (Federal Emergency Management Agency) disaster expenditures across states. States politically important to the president have a higher rate of disaster declaration by the president, and disaster expenditures are higher in states having congressional representation on FEMA oversight committees. Election year impacts are also found. 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.

PD November 2002. **TI** Aggregated vs. Disaggregated Data in Regression Analysis: Implications for Inference. **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/24B; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 6. **PR** no charge. **JE** C52, C53. **KW** Applied Econometrics. Data Aggregation.

AB This note demonstrates why regression coefficients and their statistical significance differ across degrees of data aggregation. Given the frequent use of aggregated data to explain individual behavior, data aggregation can result in misleading conclusions regarding the economic behavior of individuals.

PD September 2003. **TI** Does Consumer Sentiment Predict Regional Consumption? **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/003B; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** C53, E21, E27. **PR** no charge. **JE** E21, R11. **KW** Consumer Confidence Index. Economic Growth. Forecasting. Aggregated Data.

AB This note tests the ability of consumer sentiment to forecast state-level economic growth, measured by retail sales. While consumer sentiment is frequently found to predict national economic growth, the results here suggest that, on average, contemporaneous and lagged sentiment predict retail sales growth in only 8 percent of states. Further analysis reveals that previous models that forecast national measures of growth may be capturing a significant sentiment and spending relationship in several states rather than a general relationship. Evidence also shows that aggregation to the national level mitigates variations in state-level retail sales growth, thus leaving a common "national" component.

PD November 2003. **TI** Political Allocation of Agriculture Disaster Payments in the 1990s. **AU** Garrett, Thomas A.; Marsh, Thomas L.; Marshall, Maria I. **AA** Garrett: Federal Reserve Bank of St. Louis. Marsh: Kansas State University. Marshall: Purdue University. **SR** Federal Reserve Bank of St. Louis Working Paper: 2003/005B; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 34. **PR** no charge. **JE** D72, D73, Q13. **KW** Agriculture. Disaster Relief. Markets. Congress.

AB Legislation passed during the 1990s attempted to move U.S. agriculture disaster relief to a more market oriented process. The failure of this legislation has been attributed to the political system behind agricultural disaster relief. This paper explores the impact of political influence on the allocation of U.S. direct agriculture disaster payments. The results reveal that disaster payments are not based solely on need, but are higher in those states represented by public officials key to the allocation of relief. The effectiveness of legislation aimed at promoting more efficient disaster payments systems, such as crop insurance, over direct cash payments is also examined.

Gautier, Axel

PD May 2003. **TI** Financing Infrastructure Under Budget Constraints. **AU** Gautier, Axel; Mitra, Manipushpak. **AA** Gautier: Universite Catholique de Louvain and FUSL. Mitra: Indian Statistical Institute. **SR** CORE Discussion

Paper: 2003/37; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 10. PR \$5 per paper; \$100 per year. JE D82, H42, L51. KW Regulation. Asymmetric Information. Budget Constraint. AB In this paper we consider the problem of financing infrastructure when the regulator faces a budget constraint. The optimal budget-constrained mechanism satisfies four properties. The first property is bunching at the top that is the more efficient firms produce the same quantity irrespective of their costs. The second property is separability of less efficient firms. The third property is that the mechanism is a third best one, that is, the optimal budget constrained output is strictly lower than the second best output for any given type. Finally, if the budget constraint is too strong, then we have full bunching.

Gavin, William T.

PD February 2003. TI FOMC Forecasts: Is all the Information in the Central Tendency? AA Federal Reserve Bank of St. Louis. SR Federal Reserve Bank of St. Louis Working Paper: 2003/002A; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. PG 15. PR no charge. JE E37, E52. KW Monetary Policy. Consensus Forecasts. Predictive Uncertainty.

AB Federal Reserve policymakers began reporting their economic forecasts to Congress in 1979. These forecasts are important because they indicate what the Federal Open Market Committee (FOMC) members think will be the likely consequence of their policies. The Fed reports both the range (high and low) of the individual policymaker's forecasts and a truncated central tendency. The central tendency range omits outliers from both the top and the bottom of the full range. Generally, I find that the forecasts derived from the full range are at least as good as those derived from the central tendency and in a few cases, significantly better.

TI Gold, Fiat Money and Price Stability. AU Bordo, Michael D.; Dittmar, Robert; Gavin, William T.

TI Inflation Persistence and Flexible Prices. AU Dittmar, Robert; Gavin, William T.; Kydland, Finn E.

Gay, Roger

PD December 2003. TI General Insurance Premiums When Tail Fatness is Unknown: A Fat Premium Representation Theorem. AA Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 2003/13; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. PG 15. PR no charge. JE D80, G22. KW Order Statistics. Constant Relative Risk Aversion. Tail-Fatness Parameter. Beta Densities.

AB Fat-tailed distributions are used to model claims on general insurance contracts under which extremely large claims are a very real possibility. Since estimation of the tail-fatness parameter is notoriously difficult -- it is one of the major outstanding statistical/actuarial problems -- methods which do not require precise knowledge are valuable. A characteristic feature of an important class of fat-tailed distributions, Pareto, is that ratios of expected values of large claims in the form $\{1+E[X(n)]\}/\{1+E[X(n-k)]\}$ are independent of sample size.

For suitably modeled uncertainty about the tail-fatness parameter, premiums to insurers with constant relative risk aversion can be represented in terms of these ratios. Premiums increase with the insurers' risk-aversion and depend upon their perception of the fattest-tailed distribution generating claims.

PD January 2004. TI The Power Principle and Tail-Fatness Uncertainty. AA Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 2004/01; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. PG 18. PR no charge. JE G22. KW Exponential Principle. Power Principle. Constant Risk Aversion. Ratio Premium. Stop-Loss Insurance.

AB When insurance claims are governed by fat-tailed distributions, gross uncertainty about the value of the tail-fatness index is virtually inescapable. In this paper a new premium principle (the power principle) analogous to the exponential principle for thin-tailed claims, is discussed. Pareto premiums determined under the principle have a transparent ratio structure, cater convincingly for uncertainty in the tail-fatness index, and are applicable in passage to the extremal limit, to all fat-tailed distributions in the domain of attraction of the (Frechet) extreme-value distribution. Cover can be provided for part claims if existence of the claims mean is in doubt. Stop-loss premiums are also discussed. Mathematical requirements are very modest.

Geanakoplos, John

TI Default and Punishment in General Equilibrium. AU Dubey, Pradeep; Geanakoplos, John; Shubik, Martin.

TI The Harmonic Fisher Equation and the Inflationary Bias of Real Uncertainty. AU Karatzas, Ioannis; Shubik, Martin; Sudderth, William; Geanakoplos, John.

TI Real Determinacy with Nominal Assets. AU Dubey, Pradeep; Geanakoplos, John.

PD July 2003. TI The Ideal Inflation Indexed Bond and Irving Fisher's Impatience Theory of Interest in an Overlapping Generations World. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1429; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 40. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE B22, B31, D91, E31, E43, G12. KW Impatience. Theory of Interest. Inflation Indexed Bond. Konus Index. Capital Asset Pricing. Overlapping Generations. Land.

AB Irving Fisher long advocated inflation indexed bonds. I prove in the context of multi-commodity CAPM world that the best welfare improving bond pays the minimum money needed to achieve the same utility, and not the minimum needed to buy an ideal commodity bundle. Irving Fisher also developed and advocated the impatience theory of interest. But in OLG economies, the rate of interest is determined by population growth, not impatience. I reconcile this contradiction by proving that in stationary OLG economies with land, the interest rate at the unique steady state does depend on impatience. Indeed, the proposition that greater impatience creates higher interest rates hold more generally in OLG with land than in Fisher's two-period model.

TI Default and Punishment in General Equilibrium.

AU Dubey, Pradeep; Geanakoplos, John; Shubik, Martin.

Gelos, R. Gaston

PD October 2002. TI Transparency and International Investor Behavior. AU Gelos, R. Gaston; Wei, Shang-Jin. AA Gelos: International Monetary Fund. Wei: International Monetary Fund and NBER. SR National Bureau of Economic Research Working Paper: 9260; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 20. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D80, F30, G10, G30. KW Transparency. Portfolio Investment.

AB Does country transparency affect international portfolio investment? We examine this and related questions using some new measures of transparency and a unique micro dataset on international portfolio holdings. We distinguish between government and corporate transparency. There is clear evidence that international funds invest systematically less in less transparent countries. On the other hand, herding among funds tends to be more prevalent in less transparent countries. There is also some evidence that during crises, funds flee non-transparent countries by a greater amount.

Georgellis, Yannis

TI Gender Differences in Self-Employment. AU Wall, Howard J.; Georgellis, Yannis.

PD March 2004. TI Entrepreneurship and the Policy Environment. AU Georgellis, Yannis; Wall, Howard J. AA Georgellis: Brunel University. Wall: Federal Reserve Bank of St. Louis. SR Federal Reserve Bank of St. Louis Working Paper: 2002/019B; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. PG 27. PR no charge. JE J23, R12. KW Employment Determination. Demand for Labor. Self-Employment. Regional Economic Activity. Entrepreneurship.

AB This paper uses a spatial panel approach to examine the effect of the government-policy environment on the level of entrepreneurship. Specifically, we investigate whether marginal income tax rates and bankruptcy exemptions influence rates of entrepreneurship. Whereas previous work in the literature finds that both policies are positively related to entrepreneurship, we find non-monotonic relationships: a U-shaped relationship between marginal tax rates and entrepreneurship and an S-shaped relationship between bankruptcy exemptions and entrepreneurship.

Gerard-Varet, Louis-Andre

TI Correlation, Independence, and Bayesian Incentives. AU Cremer, Jacques; d'Aspremont, Claude; Gerard-Varet, Louis-Andre.

Gerardi, Dino

PD March 2003. TI Committee Design in the Presence of Communication. AU Gerardi, Dino; Yariv, Leat. AA Gerardi: Yale University. Yariv: UCLA. SR Yale Cowles Foundation Discussion Paper: 1411; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 42. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE D71, D72, D78. KW Communication.

Collective Choice. Mechanism Design. Strategic Voting. Information Acquisition.

AB The goal of this paper is to introduce communication in a collective choice environment with information acquisition. We concentrate on decision panels that are comprised of agents sharing a common goal and having a joint task. Members of the panel decide whether to acquire costly information or not, preceding the communication stage. We take a mechanism design approach and consider a designer who can choose the size of the decision panel, the procedure by which it selects the collective choice, and the communication protocol by which its members abide prior to casting their individual action choices. We characterize the solution of this extended design problem. We find that the optimal communication protocol in such an environment balances a tradeoff between inducing players to acquire information and extracting the maximal amount of information from them. In particular, the optimal device may lead to suboptimal aggregation of information from a statistical point of view. Furthermore, groups producing the optimal collective decisions are bounded in size. Comparative statics results shed light on the regularities the design solution exhibits.

Gerdtham, Ulf-G

PD November 2002. TI Deaths Rise in Good Economic Times: Evidence From the OECD. AU Gerdtham, Ulf-G.; Ruhm, Christopher J. AA Gerdtham: Lund University. Ruhm: University of North Carolina at Greensboro and NBER. SR National Bureau of Economic Research Working Paper: 9357; Working Papers, NBER, 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 U.S.). JE E32, I12, J20. KW Mortality. Economic Downturns. Unemployment. Labor Markets.

AB This study uses aggregate data for 23 OECD countries over the 1960-1997 period to examine the relationship between macroeconomic conditions and fatalities. The main finding is that total mortality and deaths from several common causes increase when labor markets strengthen. For instance, controlling for year effects, location fixed effects, country-specific time trends and demographic characteristics, a one percentage point decrease in the national unemployment rate is associated with a 0.4 percent rise in total mortality and 0.4, 1.1, 1.8, 2.1 and 0.8 percent increases in deaths from cardiovascular disease, influenza/pneumonia, liver disease, motor vehicle fatalities and other accidents. These results are consistent with the findings of other recent research and cast doubt on the hypothesis that economic downturns have negative effects on physical health.

Gersbach, Hans

PD March 2003. TI When Inefficiency Begets Efficiency. AU Gersbach, Hans; Haller, Hans. AA Gersbach: Alfred-Weber-Institut, University of Heidelberg. Haller: Virginia Polytechnic Institute and State University. SR Institute for Advanced Studies (IHS), Economics Series: 128; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. PG 32. PR EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. JE D11, D51, D61. KW Allocative Efficiency. General Equilibrium. Household Behavior.

AB Collective consumption decisions taken by the members of a household may prove inefficient. The impact of such

inefficient household decisions on market performance is investigated. At one extreme, market efficiency can occur even when household decisions are inefficient, namely when household inefficiencies are merely due to inefficient net trades with the market. At the other extreme, market efficiency is bound to fail, if household inefficiencies are solely caused by an inefficient distribution of a household's aggregate consumption to its individual members. This leads us to consider competitive forces as a disciplinary device for households. When households compete for both resources and members then household stability requires fairly efficient internal distribution.

PD December 2003. **TI** Signaling and Commitment: Monetary versus Inflation Targeting. **AU** Gersbach, Hans; Hahn, Volker. **AA** Gersbach: Universitat Heidelberg and CEPR. Hahn: Universitat Heidelberg. **SR** CEPR Discussion Paper: 4151; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4151.asp.

PG 21. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E50, E52, E58. **KW** Central Banks. Inflation Targeting. Monetary Targeting. Signaling. Commitment.

AB This paper compares the social efficiency of monetary targeting and inflation targeting when central banks may have private information on shocks to money demand and, because of verifiability problems, the transparency solution is not feasible. Under inflation targeting and monetary targeting, central banks may have an incentive to signal their private information in order to influence the public's expectations about future inflation. We show that inflation targeting is superior to monetary targeting as it makes it easier for central banks to commit to low inflation. Moreover, central banks that are weak on inflation prefer inflation targeting to monetary targeting.

Getzler, Lawrence S.

TI Accountability, Ability and Disability: Gaming the System. **AU** Figlio, David N.; Getzler, Lawrence S.

Ghironi, Fabio

TI Does It Matter (for Equilibrium Determinacy) What Price Index the Central Bank Targets? **AU** Carlstrom, Charles T.; Fuerst, Timothy S.; Ghironi, Fabio.

Giannetti, Mariassunta

PD December 2003. **TI** Does Prestige Matter More than Profits? Evidence from Entrepreneurial Choice. **AU** Giannetti, Mariassunta; Simonov, Andrei. **AA** Giannetti: Stockholm School of Economics and CEPR. Simonov: Stockholm School of Economics. **SR** CEPR Discussion Paper: 4157; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4157.asp. **PG** 26. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J24, M13, R12, Z13. **KW** Entrepreneurial Choice. Social Interactions. Peer Effects. Social Norms. Agglomeration Economics.

AB This paper investigates whether social norms play an important role in the decision to become an entrepreneur. We study whether the individual decision to become an entrepreneur or entrepreneurial income are affected by the decisions of other individuals living in the same municipality. To overcome the identification problems, we use very detailed Swedish data and exploit the large institutional changes that

occurred in Sweden in the 1980s and early 1990s (the dissolution of the centralized wage-setting arrangements and the major tax reform in 1990-91), which create a quasi-natural experiment for analyzing entrepreneurial choice. The results show that more individuals become entrepreneurs in municipalities where entrepreneurship is more widespread, even though entrepreneurial profits are lower. This suggests that social norms play an important role in the decision to become an entrepreneur. We also evaluate alternative explanations, such as the existence of agglomeration economies, or knowledge spillovers. They do not, however, seem to find support in the data.

Gilbert, R. Alton

PD September 2002. **TI** New Evidence on the Fed's Productivity in Providing Payments Services. **AU** Gilbert, R. Alton; Wheelock, David C.; Wilson, Paul W. **AA** Gilbert and Wheelock: Federal Reserve Bank of St. Louis. Wilson: University of Texas. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/020A; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 17. **PR** no charge. **JE** C14, G28. **KW** Federal Reserve Services. Check Processing. Productivity. Efficiency.

AB As the dominant provider of payments services, the efficiency with which the Federal Reserve provides such services in an important public policy issue. This paper examines the productivity of Federal Reserve check-processing offices during 1980-1999 using non-parametric estimation methods and newly developed methods for non-parametric inference and hypothesis testing. The results support prior studies that found little initial improvement in the Fed's efficiency with the imposition of pricing for Federal Reserve services in 1982. However, we find that median productivity improved substantially during the 1990s, and the dispersion across Fed offices declined.

Gilboa, Itzhak

PD February 2004. **TI** Majority Vote Following a Debate. **AU** Gilboa, Itzhak; Vieille, Nicolas. **AA** Gilboa: Tel Aviv University and Yale University. Vieille: H.E.C. and Ecole Polytechnique, Paris. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/04; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 15. **PR** no charge. **JE** C70, D80. **KW** Case-Based Decision Theory. Debates. Majority Vote.

AB Voters determine their preferences over alternatives based on cases (or arguments) that are raised in the public debate. Each voter is characterized by a matrix, measuring how much support each case lends to each alternative, and her ranking is additive in cases. We show that the majority vote in such a society can be any function from sets of cases to binary relations over alternatives. A similar result holds for voting with quota in the case of two alternatives.

TI Probabilities: Frequencies Viewed in Perspective. **AU** Billot, Antoine; Gilboa, Itzhak; Samet, Dov; Schmeidler, David.

TI Fact-Free Learning. **AU** Aragones, Enriqueta; Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David.

TI Axiomatization of an Exponential Similarity Function. **AU** Billot, Antoine; Gilboa, Itzhak; Schmeidler, David.

PD June 2004. **TI** Rationality of Belief or: Why Bayesianism is Neither Necessary nor Sufficient for Rationality. **AU** Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David. **AA** Gilboa: Tel Aviv University and Yale University. Postlewaite: University of Pennsylvania. Schmeidler: Tel Aviv University and Ohio State University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/14; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 20. **PR** no charge. **JE** C11, D80. **KW** Rationality. Belief. Bayesianism.

AB Economic theory reduces the concept of rationality to internal consistency. The practice of economics, however, distinguishes between rational and irrational beliefs. There is therefore an interest in a theory of rational beliefs, and of the process by which beliefs are generated and justified. We argue that the Bayesian approach is unsatisfactory for this purpose, for several reasons. First, the Bayesian approach begins with a prior, and models only a very limited form of learning, namely, Bayesian updating. Thus, it is inherently incapable of describing the formation of prior beliefs. Second, there are many situations in which there is not sufficient information for an individual to generate a Bayesian prior. Third, this lack of information is even more acute when we address the beliefs that can be attributed to a society. We hold that one needs to explore other approaches to the representation of information and of beliefs, which may be helpful in describing the formation of Bayesian as well as non-Bayesian beliefs.

PD June 2004. **TI** Empirical Similarity. **AU** Gilboa, Itzhak; Lieberman, Offer; Schmeidler, David. **AA** Gilboa: Tel Aviv University and Yale University. Lieberman: The Technion, Haifa. Schmeidler: Tel Aviv University and Ohio State University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/15; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 36. **PR** no charge. **JE** C10, D80. **KW** Similarity. Kernel. Case-Based Decision Theory.

AB No abstract available.

Giuseppe, Moscarini

TI Morale Hazard. **AU** Fang, Hanming; Giuseppe, Moscarini.

Givord, Pauline

PD December 2003. **TI** Job Tenure, Wages and Technology: A Reassessment Using Matched Worker-Firm Panel Data. **AU** Givord, Pauline; Maurin, Eric. **AA** Givord: INSEE. Maurin: CREST and CEPR. **SR** CEPR Discussion Paper: 4147; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4147.asp. **PG** 16. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J31, J53, O33. **KW** Job Tenure. Wages. Technological Change.

AB This paper presents new estimates of the impact of job

tenure on wages using a new French matched worker-firm dataset. We develop an identification strategy that relies on one specific feature of the French labor laws. They stipulate that firms, when firing workers, must include as one of their criteria the number of dependent children of their employees. Our dataset confirms that workers with a relatively large number of dependent children at the entry in the firm are, *ceteris paribus*, less likely to be laid-off and have on average higher job tenure than their co-workers with a relatively small number of dependent children. Within this framework, the relative number of children at entry in the firm represents a plausibly valid instrumental variable for identifying the impact of job tenure on wages. Our new IV estimate of the return to job tenure is much larger than the OLS estimate. The downward bias which affects OLS estimates suggests that workers who receive relatively high wage offers tend to change firms more rapidly: they tend to have relatively high wages and low job tenure.

Glaeser, Edward L.

PD October 2002. **TI** The Benefits of the Home Mortgage Interest Deduction. **AU** Glaeser, Edward L.; Shapiro, Jesse M. **AA** Glaeser: Harvard University and NBER. Shapiro: Harvard University. **SR** National Bureau of Economic Research Working Paper: 9284; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 41. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G21, R21, R31. **KW** Home Mortgage. Externalities. Homeownership.

AB The home mortgage interest deduction creates incentives to buy more housing and to become a homeowner, and the case for the deduction rests on social benefits from housing consumption and homeownership. There is little evidence suggesting large externalities from the level of housing consumption, but there appear to be externalities from homeownership. Externalities from living around homeowners are far too small to justify the deduction. Externalities from homeownership are larger, but the home mortgage interest deduction is a particularly poor instrument for encouraging homeownership since it is targeted at the wealthy, who are almost always homeowners. The irrelevance of the deduction is supported by the time series which shows that the ownership subsidy moves with inflation and has changed significantly between 1960 and today, but the homeownership rate has been essentially constant.

Glatzer, Ernst

TI The Forecasting Performance of German Stock Option Densities. **AU** Craig, Ben R.; Glatzer, Ernst; Keller, Joachim G.; Scheiche, Martin.

Glazer, Jacob

PD May 2003. **TI** A Model of Optimal Persuasion Rules. **AU** Glazer, Jacob; Rubinstein, Ariel. **AA** Glazer: Tel Aviv University and Boston University. Rubinstein: Tel Aviv University and Princeton University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/10; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 30. **PR** no charge. **JE** C60, C70, D70. **KW** Persuasion. Mechanism Design. Hard Evidence. Debates.

AB A speaker attempts to persuade a listener to accept a

certain request. The listener is not sure that the request is justified. The conditions under which the listener should accept the request depend on the values of two aspects known only to the speaker. In order to persuade the listener, the speaker is able to send him a message. The listener can then check the true value of at most one of the two aspects (which is probably to be chosen randomly) after which he either accepts or denies the request. The paper models such a situation and studies the persuasion rules that minimize the probability of the listener making a mistake.

Glyn, Andrew

PD March 2002. TI Convergence and Stability in US Regional Employment. AU Glyn, Andrew; Rowthorn, Robert. AA Glyn: University of Oxford. Rowthorn: Cambridge University. SR University of Oxford, Department of Economics Discussion Paper Series: 92; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. PG 22. PR only available electronically through website. JE C10, J60, N92, R10. KW Regional Employment. Convergence. Measurement Errors. Regional Adjustment.

AB It is widely believed that regional labor markets in the USA are highly flexible, so that employment shocks have only transitory effects on joblessness since induced migration quickly offsets much of the initial impact. However time-series analysis of the response to shocks is very sensitive to errors of measurement in labor market data, and such errors are large in some widely used series which depend on household surveys of limited size. Adjusting for the likelihood magnitude of such errors with some novel statistical approaches, and using a range of data sources, we show that the responsiveness of employment rates to shocks has been rather weak in the USA over the past 30 years, though probably stronger in the 1950s and 1960s. This suggests that flexible regional adjustment is not a major factor behind the contemporary success of monetary union in the USA.

Goeschl, Timo

PD April 2003. TI On Biology and Technology: The Economics of Managing Biotechnologies. AU Goeschl, Timo; Swanson, Timothy. AA Goeschl: University of Cambridge. Swanson: University College London. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/42; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 25. PR no charge; available only on website. JE O31, O32. KW Biotechnology. R&D. Patents.

AB This paper considers those sectors of the economy that operate under the same regimes of rewarding private innovators as others, but differ in that they face recurring problems of resistance, as occur in the pharmaceutical and agricultural industries. This recurrence originates in the natural processes of selection and evolution among humanity's biological competitors. The paper examines the capacity for decentralized patent-based incentive mechanisms to result in socially optimal outcomes in these sectors under scale- and speed-dependent evolution of pathogens. It demonstrates that there is a fundamental incompatibility between the dynamics of the patent system and the dynamics of the resistance problem under both types of evolution. Under scale-dependent evolution, the

externalities within a patent-based system indicate that decentralized mechanisms will result in systematic underinvestment in R&D that decreases further with an increasing severity of the resistance problem. Under speed-dependent evolution, a patent-based system will fail to target socially optimal innovation size. The overall conclusion is that patent-based incentive mechanisms are incapable of sustaining society against a background of increasing resistance problems. The paper concludes with appropriate policy implications of these results.

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.

PD June 2002. TI Does It Pay to Work? AU Gokhale, Jagadeesh; Kotlikoff, Laurence J.; Sluchynsky, Alexi. AA Gokhale: Federal Reserve Bank of Cleveland. Kotlikoff: Boston University and NBER. Sluchynsky: Private Consultant. SR Federal Reserve Bank of Cleveland Working Paper: 02/06; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. PG 74. PR no charge. JE H21, H24, H31. KW Marginal Net Taxes. Dynamic Optimization. Effective Net Tax. Labour Supply.

AB Does it pay to work? This is a tough question to answer because of the complexity of the tax code and a plethora of dynamic linkages involved. First, earning more today typically alters current saving and, therefore, future capital income taxes. Second, earning more today generally alters future consumption and, therefore, future consumption taxes. Third, changing future levels of income and assets changes the eligibility for and levels received of income- and asset-tested transfer benefits. Fourth, the most important transfer program, Social Security, explicitly links future transfer payments to current earnings. Fifth, income taxes in retirement depend on past earnings because Social Security benefits depend on past earnings and these benefits are subject to federal income taxation. This paper attempts to capture the net effective tax on work by using an intertemporal model capable of carefully determining tax and transfer payments at each stage of the life cycle.

Goldfarb, Avi

TI Digital Dispersion: An Industrial and Geographic Census of Commercial Internet Use. AU Forman, Chris; Goldfarb, Avi; Greenstein, Shane.

Goldman, Dana

TI The Link Between Public and Private Insurance and HIV-Related Mortality. AU Bhattacharya, Jay; Goldman, Dana; Sood, Neeraj.

Golombeck, Rolf

PD April 2003. TI Climate Policy Under Technology Spillovers. AU Golombeck, Rolf; Hoel, Michael.

AA Golombeck: Frisch Centre. Hoel: University of Oslo.
SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/38; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 26. **PR** no charge; available only on website. **JE** H23, O30, Q54, Q58. **KW** Climate Policy. IEAs. R&D. Technology Spillovers.

AB We study climate policy when there are technological spillovers between countries, and there is no instrument that directly corrects for these externalities. The non-cooperative equilibrium depends on whether countries use tradable quotas or carbon taxes as their environmental policy instruments. All countries are better off in the tax case than in the quota case. Two types of international climate agreements are studied: One is a Kyoto type of agreement where each country is assigned a specific number of internationally tradable quotas. In the second type of agreement a common carbon tax is used domestically in all countries. None of the cases satisfy the conditions for the social optimum. Even if the quota price is equal to the Pigovian level, R&D investments will be lower than what is socially optimal in the Kyoto case, whereas with a harmonized domestic carbon tax R&D expenditures could even be too high.

Gonzalo, Jesus

PD October 2001. **TI** Subsampling Inference in Threshold Autoregressive Models. **AU** Gonzalo, Jesus; Wolf, Michael. **AA** Gonzalo: Universidad Carlos III. Wolf: Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 573; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/cng/research/research2.php. **PG** 31. **PR** papers only available on web page; no hard copies. **JE** C12, C14, C15, C22. **KW** Confidence Intervals. Continuity. Subsampling. Threshold Autoregressive Models. Regime Shifts.

AB This paper discusses inference in self exciting threshold autoregressive (SETAR) models. Of main interest is inference for the threshold parameter. It is well-known that the asymptotics of the corresponding estimator depend upon whether the SETAR model is continuous or not. In the continuous case, the limiting distribution is normal and standard inference is possible. In the discontinuous case, the limiting distribution is non-normal and cannot be estimated consistently. We show valid inference can be drawn by the use of the subsampling method. Moreover, the method can even be extended to situations where the (dis)continuity of the model is unknown. In this case, also the inference for the regression parameters of the model becomes difficult and subsampling can be used advantageously there as well. In addition, we consider a hypothesis test for the continuity of the SETAR model. A simulation study examines small sample performance.

Gossner, Olivier

PD May 2003. **TI** Entropy and Codification in Repeated Games With Imperfect Monitoring. **AU** Gossner, Olivier; Tomala, Tristan. **AA** Universite de Paris 10 and Universite Catholique de Louvain. Tomala: Universite de Paris 9. **SR** CORE Discussion Paper: 2003/33; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website:

www.core.ucl.ac.be/services/DP.html. **PG** 42. **PR** \$5 per paper; \$100 per year. **JE** C70. **KW** Repeated Games. Imperfect Monitoring. Entropy Function.

AB We characterize the min max values of a class of repeated games with imperfect monitoring. Our result relies on the optimal trade-off for the team formed by punishing players between optimization of stage- payoffs and generation of signals for future correlation. Amounts of correlation are measured through the entropy function. Our theorem on min max values stems from a more general characterization of optimal strategies for a class of optimization problems.

Gradstein, Mark

PD January 2004. **TI** Inequality, Democracy and the Emergence of Institutions. **AA** Ben Gurion University of the Negev and CEPR. **SR** CEPR Discussion Paper: 4187; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4187.asp. **PG** 30. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D72, O11. **KW** Inequality. Democracy. Property Rights.

AB This paper considers the emergence of institutions as a political outcome, arguing that the support for protection of private property rights is stronger the higher is the economy's aggregate income and the more equal its distribution. When these conditions initially hold, the politically influential rich elite may prefer to relinquish its power through democratization in order to commit future policy-makers to the enforcement of private property rights, thus ensuring larger investment and growth. In a very unequal economy, however, this growth-enhancing democratization will not take place. These conclusions are shown to be consistent with the existing historical and cross-country evidence.

PD January 2004. **TI** Political Bargaining in a Federation: Buchanan meets Coase. **AA** Ben Gurion University of the Negev and CEPR. **SR** CEPR Discussion Paper: 4188; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4188.asp. **PG** 18. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D72, H77. **KW** Federation. Secession.

AB In recent decades, the issues of federalism and political integration have gained prominence in the public sphere as well as in the academic realm. A frequently made point is that allowing free secession may protect the minority's interests, thus providing it with an incentive to enter the federation. This paper explicitly considers the political process in the federation arguing that the option to secede may distort the political choices made by the individual regions to improve their bargaining positions. As a result, the allocation of resources in the federation could well end up being inefficient and unattractive for the minority region. In contrast, limiting the secession possibilities by requiring the consent of a majority of voters through a regional referendum, rather than leaving it to the discretion of the legislature, restores efficiency.

Graham, John R.

PD October 2002. **TI** Employee Stock Options, Corporate Taxes and Debt Policy. **AU** Graham, John R.; Lang, Mark H.; Shackelford, Douglas A. **AA** Graham and Lang: not available. Shackelford: University of North Carolina and NBER. **SR** National Bureau of Economic Research Working Paper: 9289; Working Papers, NBER, 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 U.S.). JE H25. KW Employee Stock Options. Tax Rates. Nasdaq 100. S&P 100.

AB We find that employee stock option deductions lead to large aggregate tax savings for Nasdaq 100 and S&P 100 firms and also affect corporate marginal tax rates. For Nasdaq firms, the median marginal tax rate is 31 percent when option deductions are ignored but falls to 5 percent when one accounts for the deductions. For S&P firms, however, option deductions do not affect marginal tax rates to a large degree. In the spirit of DeAngelo and Masulis (1980), option deductions are important non-debt tax shields that can affect corporate policies. We find evidence consistent with option deductions substituting for interest deductions in corporate capital structure decisions. This evidence explains in part why some firms appear to be underlevered.

Gravelle, Hugh

TI The Effects of Budgets on Doctor Behavior: Evidence From a Natural Experiment. AU Dusheiko, Mark; Gravelle, Hugh; Jacobs, Rowena; Smith, Peter.

Green, David A.

TI Decomposing the Twin-Peaks in the World Distribution of Output-Per-Worker. AU Beaudry, Paul; Collard, Fabrice; Green, David A.

Green, Richard C.

TI Mutual Fund Flows and Performance in Rational Markets. AU Berk, Jonathan B.; Green, Richard C.

Greenstein, Shane

TI Digital Dispersion: An Industrial and Geographic Census of Commercial Internet Use. AU Forman, Chris; Goldfarb, Avi; Greenstein, Shane.

Gregg, Paul

PD September 2001. **TI** Why We Should (Also) Measure Worklessness at the Household Level. Theory and Evidence From Britain, Spain, Germany and the United States. AU Gregg, Paul; Wandsworth, Jonathan. AA Gregg: University of Bristol, H.M. Treasury, and London School of Economics. Wandsworth: Royal Holloway College London and London School of Economics. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 02/053; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. PG 19. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** D10, J64. **KW** Workless Households. Distribution of Work. Polarization. Joblessness.

AB Individual and household based aggregate measures of joblessness can, and do, offer conflicting signals about labor market performance. This paper uses a simple set of indices to measure joblessness at the household level in 4 OECD countries with very different labor markets and welfare systems and tries to identify the likely source of any disparity in the signals stemming from individual and household-based measures of worklessness. We show that in all the countries we examine, there has been a growing disparity between the

individual and household based jobless measures. Though the incidence and magnitude of these changes varies widely, the majority of the change is from increases in this polarization rather than from changing household composition or employment levels. This suggests, to us, that inter-relationships between each country's labor market performance and their welfare systems underlie these developments.

TI Employment Polarization in Australia. AU Dawkins, Peter; Gregg, Paul; Scutella, Rosanna.

TI Maternity Rights and Mother's Return to Work. AU Burgess, Simon; Gregg, Paul; Propper, Carol; Washbrook, Elizabeth; ALSPAC Study Team.

TI Eradicating Child Poverty in Britain: Welfare Reform and Children Since 1997. AU Brewer, Mike; Gregg, Paul.

PD May 2003. **TI** The Effects of Early Maternal Employment on Child Development in the UK. AU Gregg, Paul; Washbrook, Elizabeth. AA University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/070; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. PG 56. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** I20, J13, J22. **KW** Maternal Employment. Child Development. UK.

AB This paper explores the effects of early maternal employment on child cognitive and behavioral outcomes. The results indicate that full time maternal employment begun in the 18 months after childbirth has small negative effects on later child outcomes. Part-time work and work begun later than 18 months, however, do not seem to have any adverse consequences. We explore the issue of whether our results are biased by unobserved heterogeneity but find no evidence that our results are sensitive to the inclusion of controls for a wide range of background factors. This paper also explores the mechanisms linking maternal employment to children's development. The mechanisms examined relate to the parenting behaviors of the mother and father, breastfeeding behavior, maternal tiredness and stress, household income and the use of non-maternal childcare. We find that a number of factors work to minimize the effect of mothers' labor market participation on their children. Fathers are significantly more involved in child rearing in households where mothers return to work early and this more equal division of parenting has strongly beneficial effects on later child outcomes. Negative employment effects are concentrated in those families where mothers work full time and also rely on unpaid care by a friend or relative.

Grether, Jean-Marie

TI India's Trade Policy For Sale: How Much? Who Buys? AU Cadot, Olivier; Grether, Jean-Marie; Olarreaga, Marcelo.

Griffith, Rachel

TI Competition and Innovation: An Inverted U Relationship. AU Aghion, Philippe; Bloom, Nicholas; Blundell, Richard; Griffith, Rachel; Howitt, Peter.

TI Competition and Innovation: An Inverted U Relationship. AU Aghion, Philippe; Bloom, Nicholas; Blundell, Richard; Griffith, Rachel; Howitt, Peter.

Griffiths, William

TI Averaging Lorenz Curves. AU Chotikapanich, Duangkamon; Griffiths, William.

Grignon, Michel

TI Access to Physician Services: Does Supplemental Insurance Matter? Evidence from France. AU Buchmueller, Thomas C.; Couffinhal, Agnes; Grignon, Michel; Perronin, Marc.

TI Access to Physician Services: Does Supplemental Insurance Matter? Evidence from France. AU Buchmueller, Thomas C.; Couffinhal, Agnes; Grignon, Michel; Perronin, Marc.

Grinblatt, Mark

PD November 2002. TI Debt Policy, Corporate Taxes, and Discount Rates. AU Grinblatt, Mark; Liu, Jun. AA Grinblatt: UCLA and NBER. Liu: UCLA. SR National Bureau of Economic Research Working Paper: 9353; 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 G10. KW Debt Policy. Debt Tax Shields. Asset Valuation.

AB This paper studies the valuation of assets with debt tax shields when debt policy is a general time-dependent function of the asset's unlevered cash flows, value, and history. In a continuous-time setting, it shows that the value of a project's debt tax shield satisfies a partial differential equation, which simplifies to an easily solved ordinary differential equation for most plausible debt policies. A large class of cases exhibits closed-form solutions for the value of a levered asset, the value of its tax shield, and the appropriate tax-adjusted cost of capital for discounting unlevered cash flows.

Grohall, Guenther

PD October 2003. TI Multiple Objective Step Function Maximization with Genetic Algorithms and Simulated Annealing. AU Grohall, Guenther; Jung, Juergen. AA Grohall: Institute for Advanced Studies. Jung: Indiana University. SR Institute for Advanced Studies (IHS), Economics Series: 141; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. PG 19. PR EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. JE G32, G34. KW Numerical Computation. Genetic Algorithms. Simulated Annealing.

AB We develop a hybrid algorithm using Genetic Algorithms (GA) and Simulated Annealing (SA) to solve multi-objective step function maximization problems. We then apply the algorithm to a specific economic problem which is taken out of the corporate governance literature.

Grose, Simone D.

TI Pricing Australian S&P200 Options: A Bayesian Approach Based on Generalized Distributional Forms. AU Flynn, David B.; Grose, Simone D.; Martin, Gael M.; Martin, Vance L.

Grossman, Gene M.

TI Outsourcing versus FDI in Industry Equilibrium. AU Helpman, Elhanan; Grossman, Gene M.

Grossman, Michael

PD October 2002. TI I Did What Last Night!!!! Adolescent Risky Sexual Behaviors and Substance Use. AU Grossman, Michael; Markowitz, Sara. AA Grossman: NBER and CUNY. Markowitz: NBER and Rutgers University. SR National Bureau of Economic Research Working Paper: 9244; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 16. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE I12, J13. KW Substance Use. Youth.

AB The purpose of this paper is to examine the causal impact of substance use on risky sexual behaviors by teenagers. Risky sexual behaviors, which include unprotected sex and multiple partners, are highly correlated with alcohol and illicit drug use, although the nature of the causal relationship is in question. This study uses two-stage least squares and reduced form models to examine the relationship between substance use and sexual behaviors by gender. Data come from the Youth Risk Behavior Surveys. Results show that alcohol use does not increase the likelihood of having sex or of having multiple partners, although alcohol use does lower the probability of using birth control and condoms among sexually active teens.

TI The Effect of Cigarette Excise Taxes on Smoking Before, During and After Pregnancy. AU Coleman, Greg; Grossman, Michael; Joyce, Ted.

TI An Economic Analysis of Adult Obesity: Results from the Behavioral Risk Factor Surveillance System. AU Chou, Shin-Yi; Grossman, Michael; Saffer, Henry.

Grout, Paul A.

PD July 2002. TI Competition Law in Telecommunications and its Implications for Common Carriage of Water. AA University of Bristol. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 02/056; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmipo/publications.html. PG 28. PR no charge; hardcopies can be obtained from cmipo-office@bristol.ac.uk. JE K21, L33, L51, L95. KW Anti-Trust. Competition Policy. Regulation. Utilities.

AB As with most water companies in the world UK water companies face very little competition for the delivery of water within their area. However, recently both the government and the regulator, Ofwat, have indicated that they wish to see a major change in the industry through a significant growth of competition. The pricing of common carriage of water will be central to whether this objective can be achieved. The aim of this paper is assess UK and European competition policy in telecommunications and the lessons that can be learned from this for the regulation of common carriage in the water industry.

PD September 2002. TI Public and Private Sector Discount Rates in Public-Private Partnerships. AA University of Bristol. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/059; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmipo/publications.html. PG 10. PR no charge; hardcopies can be obtained from cmipo-

office@bristol.ac.uk. **JE** H43. **KW** Discount Rates. Public-Private Partnerships.

AB Whether public sector projects should be discounted at a lower rate than private sector projects is a highly contentious issue and one that has spawned an enormous literature. The purpose of this paper is to assess the appropriate private and public sector discount rates in the context of public-private partnerships. It is shown that there are powerful arguments for using a higher rate to discount private projects than public sector projects and that failure to recognize this may lead to excessive reliance on public provision. It is important to emphasize, however, that the reason for the divergence is not related to the conventional arguments of incomplete markets or taxation. Finally, we suggest that the results may have far broader implications for private sector involvement in public services.

Gruener, Hans Peter

PD December 2003. **TI** Inequality and Political Consensus. **AA** Universitat Mannheim and CEPR. **SR** CEPR Discussion Paper: 4159; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4159.asp. **PG** 21. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C72, D31, D70, D72. **KW** Inequality. Representative Democracy. Political Consensus. Policy Uncertainty.

AB This paper develops a model of political consensus in order to explain the missing link between inequality and political redistribution. Political consensus is an implicit agreement not to vote for extreme policy proposals. We show that such an agreement may play an efficiency-enhancing role. Voters anticipate that voting for extremist parties increases policy uncertainty in the future. A political consensus among voters reduces policy uncertainty because self-interested politicians propose non-discriminatory policies. We study how much inequality can be sustained in a democracy and how the limits to redistribution vary with initial inequality. We find that the bounds of the set of political equilibria may react in a fundamentally different manner to changes in exogenous variables than do the policy variables in the one-dimensional, one-shot game. More initial inequality need not lead to more redistribution from the rich to the poor. The maximum amount of redistribution decreases with inequality if (and only if) agents are sufficiently patient. In this case inequality is politically self-sustaining.

PD February 2004. **TI** Speed and Quality of Collective Decision-Making, I: Imperfect Information Processing. **AU** Gruener, Hans Peter; Schulte, Elisabeth. **AA** Gruener: Universitat Mannheim. Schulte: Universitat Mannheim and CEPR. **SR** CEPR Discussion Paper: 4179; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4179.asp. **PG** 24. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D23, D73, D83, L22. **KW** Information Processing. Hierarchies. Bounded Rationality.

AB A group of P identical managers has to make a choice between N alternatives. They benefit from reaching the decision quickly. In order to learn which is the best option, the alternatives have to be compared. A manager is able to identify the better one of two alternatives only with a certain probability. This paper compares three different hierarchy

designs with respect to decision quality: two strictly balanced hierarchies and the fastest hierarchy, which is the skip-level reporting tree proposed by Radner (1993). The latter hierarchy design is found to outperform the two others not only in terms of speed and cost but also in decision quality.

Gual, Jordi

PD January 2004. **TI** The Integration of EU Banking Markets. **AA** IESE, Barcelona and CEPR. **SR** CEPR Discussion Paper: 4212; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4212.asp. **PG** 28. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F15, G20. **KW** Banking. Market Integration. European Union.

AB The goal of this paper is to provide an assessment of the EU policies that pursue the creation of a single banking market. The paper evaluates the degree of integration of EU banking markets and discusses whether current policies are the most appropriate instruments for market integration. After comparing the key features of EU policy with alternative methods of market opening, the analysis stresses that market opening in regulated markets such as banking faces a difficult trade-off between respect for domestic preferences and the elimination of regulations that protect local competitors and are not justified on efficiency grounds. The paper also provides an overview of recent research, which has looked at different indicators of market integration in EU banking. Finally, it analyses the impact of integration policies on the conduct, the structure and the performance of the banking industry.

Guedhami, Omrane

TI Postprivatization Corporate Governance: The Role of Ownership Structure and Investor Protection. **AU** Boubakri, Narjess; Cosset, Jean-Claude; Guedhami, Omrane.

Guerra, Gerardo A.

TI Is Trust Self-Fulfilling? An Experimental Study. **AU** Bacharach, Michael; Guerra, Gerardo A.; Zizzo, Daniel John.

PD February 2002. **TI** Modeling Transactions With Ultimatum Games; An Experiment on Certification. **AA** University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 87; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 19. **PR** only available electronically through website. **JE** C72, C78, C90, D82. **KW** Ultimatum. Bargaining. Experiments. Certification. Asymmetric Information.

AB Ultimatum games have been extensively used in experimental studies. By studying the consequences that restrictions shared by ultimatum games have in subject's behavior, this paper argues that some results are falsified by design constraints. This paper also presets a taxonomy of certification, and provides experimental evidence supporting the commonly observed use of rankings in certificates, as well as the restriction of awareness by certifiers to increase revenue. Regulatory implications are discussed.

Guidolin, Massimo

TI Subjective Probabilities: Psychological Evidence and

Economic Applications. AU Chiodo, Abigail J.; Guidolin, Massimo; Owyang, Michael T.; Shimoji, Makoto.

Guimaraes, Bernardo

PD September 2003. TI Risk and Wealth in a Model of Self-Fulfilling Currency Attacks. AU Guimaraes, Bernardo; Morris, Stephen. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1433; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 28. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE E44, F31. KW Currency Crisis. Sunspots. Global Games. Risk Aversion. Wealth. Portfolio.

AB We analyze the effect of risk aversion, wealth and portfolios on the behavior of investors in a global game model of currency crises with continuous action choices. The model generates a rich set of striking theoretical predictions. For example, risk aversion makes currency crises significantly less likely; increased wealth makes crises more likely; and foreign direct investment (illiquid investments in the target currency) make crises more likely. Our results extend linearly to a heterogeneous agent population.

Guinnane, Timothy W.

PD January 2004. TI Financial Vergangenheitsbewältigung: The 1953 London Debt Agreement. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 880; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 47. PR \$2.00 plus postage. JE F34, N24. KW Germany. London Debt Agreement. Sovereign Debt. Debt Overhang. HIPC Initiative.

AB The 1953 London Debt Agreement settled Germany's debts from the intra-war period and allowed the country to re-establish its role in international capital markets. The Agreement wrote-down the overall debt by about 50 percent and gave the debtors a much longer period to repay it. One interesting clause in the Agreement allowed Germany to postpone some payments until re-unification. The Agreement reflects a subtle and responsible understanding of the problems associated with the reparations and debt crises of the 1920s and 1930s, as well as fears about the moral hazard problems that would arise with making any part of the Agreement contingent on events Germany could influence. Recent advocates of third-world debt relief have held up the London Debt Agreement of 1953 as a precedent for debt relief for poor countries today. That argument reflects a misunderstanding of the historical circumstances of the early 1950s, as well as the economic principles reflected in the Agreement.

Guiso, Luigi

PD October 2002. TI People's Opium? Religion and Economic Attitudes. AU Guiso, Luigi; Sapienza, Paola; Zingales, Luigi. AA Guiso: Luigi Einaudi. Sapienza: Northwestern University. Zingales: University of Chicago, NBER, and CEPR. SR National Bureau of Economic Research Working Paper: 9237; 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 O40, O57, P51, Z12. KW Religion. Economic Attitudes. Institutional Factors.

AB Since Max Weber, there has been an active debate on the impact of religion on people's economic attitudes. Much of the existing evidence, however, is based on cross-country studies in which this impact is confounded by differences in other institutional factors. We use the World Values Surveys to identify the relationship between intensity of religious beliefs and economic attitudes, controlling for country fixed effects. We study several economic attitudes toward cooperation, the government, working women, legal rules, thriftiness, and the market economy. We also distinguish across religious denominations, differentiating on whether a religion is dominant in a country. We find that on average, religious beliefs are associated with "good" economic attitudes, where "good" is defined as conducive to higher per capita income and growth. Yet religious people tend to be more racist and less favorable with respect to working women. These effects differ across religious denominations. Overall, we find that Christian religions are more positively associated with attitudes conducive to economic growth.

PD January 2004. TI Awareness and Stock Market Participation. AU Guiso, Luigi; Jappelli, Tullio. AA Guiso: Ente Luigi Einaudi, Roma and CEPR. Jappelli: Università di Salerno and CEPR. SR CEPR Discussion Paper: 4182; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4182.asp. PG 25. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D82, D83, G11, G14. KW Financial Information. Portfolio Choice.

AB The extent to which consumers are aware of available financial assets depends on the incentives of asset suppliers to spread information about the instruments they issue. We propose a theoretical framework in which the amount of information disseminated and the probability of individuals becoming aware of financial assets are correlated with the probability that, once informed, they will invest in the asset and negatively affected by the cost of spreading information. Social learning is a further channel through which potential investors may come to be informed about existing assets. While social learning may limit the production of financial information by assets suppliers, it increases the probability that individuals become financially aware. These predictions are supported by data on awareness of financial assets available in the 1995 and 1998 waves of the Italian Survey of Household Income and Wealth. Lack of financial awareness has important implications for understanding the stockholding puzzle and for estimating stock market participation costs.

Guo, Hui

PD July 2003. 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: 2002/013B; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. PG 27. PR no charge. JE G10, G12. KW Time-Varying. Investment Opportunities. Asset Pricing.

AB This paper estimates a variant of Campbell's (1993) intertemporal capital asset pricing model (ICAPM), in which risk factors include a stock market return and variables forecasting stock market returns or variance. Our major innovation is the use of a new set of forecasting variables, which, as shown by recent authors, not only have superior

predictive abilities for returns and variance, but also are theoretically motivated. We find strong support for Campbell's ICAPM: in addition to stock market risk, all the other risk factors are also significantly priced. However, while loadings on the additional risk factors account for a substantial portion of the momentum profit, they imply a relatively small value premium. Consistent with Lakonishok, Shleifer, and Vishny (1994), our evidence indicates that the value premium also reflects irrational pricing -- investors tend to be more risk averse toward value stocks than growth or glamour stocks.

PD August 2003. **TI** Limited Stock Market Participation and Asset Prices in a Dynamic Economy. **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2000/031C; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 38. **PR** no charge. **JE** C68, E21, G12. **KW** Stock Market Participation. Borrowing Constraints. Uninsurable Income Risk. Equity Premium Puzzle. Excess Volatility. Leverage Effect.

AB We present a consumption-based model that explains the equity premium puzzle through two channels. First, because of borrowing constraints, the shareholder cannot completely diversify his income risk and requires a sizable risk premium on stocks. Second, because of limited stock market participation, the precautionary saving demand lowers the risk-free rate but not stock return and generates a substantial liquidity premium. Our model also replicates many other salient features of the data, including the first two moments of the risk-free rate, excess stock volatility, stock return predictability, and the unstable relationship between stock volatility and the dividend yield.

PD October 2003. **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: 2002/008C; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 40. **PR** no charge. **JE** G12, G14. **KW** Consumption-Wealth Ratio. Stock Market Volatility. Out-of-Sample Forecast.

AB In this paper, we provide new evidence on the out-of-sample predictability of stock returns. In particular, we find that the consumption-wealth ratio in conjunction with a measure of aggregate stock market volatility exhibits substantial out-of-sample forecasting power for excess stock market returns. Also, simple trading strategies based on the documented predictability generate returns of higher mean and lower volatility than the buy-and-hold strategy does, and this difference is economically important.

PD October 2003. **TI** On the Real-Time Forecasting Ability of the Consumption-Wealth Ratio. **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2003/007B; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 31. **PR** no charge. **JE** C53, G14. **KW** Real-Time Data. Out-of-Sample Forecast. Consumption-Wealth Ratio. Stock Market Volatility. Short-Term Interest Rate.

AB Lettau and Ludvigson (2001a) show that the consumption-wealth ratio -- the error term from the cointegration relationship between consumption, net worth, and labor income -- forecasts stock market returns out of sample. In

this paper, we reexamine their evidence using real-time data. Consistent with their work, we find that consumption and labor income data are subject to substantial revisions, which reflect (1) incorporating new information or methodologies and (2) reducing noise. Consequently, the out-of-sample forecasting power of the consumption-wealth ratio is found to be negligible in real time.

PD November 2003. **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: 2002/004B; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 35. **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 is significantly larger for small stocks than for big stocks in the late 1970s, when business conditions were typically bad. However, the "size effect" is not present in the 1990s, when business conditions were typically good. We document a similar pattern using portfolios formed according to the book-to-market value ratio. Our evidence of the state-dependent monetary effect provides support for recent rationales about the anomalous size and value premiums.

PD January 2004. **TI** Does Stock Market Volatility Forecast Returns: The International Evidence. **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2003/012B; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 37. **PR** no charge. **JE** G11, G12. **KW** CAPM. Predictability. Stock Market Integration. Consumption-Wealth Ratio. Realized Volatility.

AB We use daily price indices obtained from Morgan Stanley Capital International to construct realized volatility for 18 individual stock markets, including the US, and the world stock market. In contrast with the CAPM, we find that volatility by itself does not forecast excess returns in most countries; however, it becomes a significant predictor when combined with the US consumption-wealth ratio, which, as argued by recent authors, is a proxy for the liquidity premium. The latter result mainly reflects the fact that volatility in international stock markets co-moves closely with the US stock volatility: The former loses its predictive power if we also include the latter in the forecasting equation. Moreover, the out-of-sample forecast of the US or the world stock market returns appears to be a good proxy for conditional returns of international stock markets. Our results thus indicate that (1) volatility is one of important determinants of the equity premium and (2) international stock markets are integrated.

Gust, Christopher

TI Monetary Policy in a Financial Crisis. **AU** Christiano, Lawrence J.; Gust, Christopher; Roldos, Jorge.

Haag, Matthew

PD June 2003. **TI** On the Size and Structure of Group Cooperation. **AU** Haag, Matthew; Lagunoff, Roger. **AA** Haag: University of Warwick. Lagunoff: Georgetown University. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/54; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.

PG 21. **PR** no charge; available only on website. **JE** C72, D71, D78. **KW** Repeated Games. **MAC** Likelihood. Returns to Scale.

AB This paper examines characteristics of cooperative behavior in a repeated, n -person, continuous action generalization of a Prisoner's Dilemma game. When time preferences are heterogeneous and bounded away from one, how "much" cooperation can be achieved by an ongoing group? How does group cooperation vary with the group's size and structure? For an arbitrary distribution of discount factors, we characterize the maximal average co-operation (MAC) likelihood of this game. The MAC likelihood is the highest average level of cooperation, over all stationary subgame perfect equilibrium paths, that the group can achieve. The MAC likelihood is shown to be increasing in monotone shifts, and decreasing in mean preserving spreads, of the distribution of discount factors. The latter suggests that more heterogeneous groups are less cooperative on average. Finally, we establish weak conditions under which the MAC likelihood exhibits increasing returns to scale when discounting is heterogeneous. That is, larger groups are more cooperative, on average, than smaller ones. By contrast, when the group has a common discount factor, the MAC likelihood is invariant to group size.

Haaland, Jan I.

PD January 2004. **TI** Cooperative and Non-Cooperative R&D Policy in an Economic Union. **AU** Haaland, Jan I.; Kind, Hans Jarle. **AA** Haaland: Norwegian School of Economics and Business Administration and CEPR. Kind: Norwegian School of Economics and Business Administration. **SR** CEPR Discussion Paper: 4185; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4185.asp. **PG** 27. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F12, F13. **KW** Research and Development. Policy Game. Economic Union.

AB Should R&D policies within an economic union be centralized or decentralized to each individual country? Do non-cooperative policies - typically implying policy competition between countries - always give rise to too high R&D subsidies in a decentralized policy regime? Should small countries subsidize R&D more than larger countries? To address such questions, we construct a simple model with horizontally differentiated consumer goods, where each firm may invest in quality-improving R&D. Assuming that the goods are produced in different countries within an economic union, we compare non-cooperative and cooperative R&D policies. We show that non-cooperative policies imply R&D subsidies that are too low for horizontally differentiated goods and are too high for goods that are close substitutes. Furthermore, small, net exporting countries of R&D intensive goods have fewer incentives to subsidize R&D than large countries, resulting in an unwarranted vertical product differentiation between goods produced in different countries.

Coordination of R&D policies at the union level helps overcome some of these problems. If only a subset of countries cooperate, however, union welfare may be lower than if there is no R&D cooperation at all.

Hachez, Yvan

PD May 2003. **TI** Optimization Problems Over Non-Negative Polynomials With Interpolation Constraints. **AU** Hachez, Yvan; Nesterov, Yurii. **AA** Universite Catholique de Louvain. **SR** CORE Discussion Paper: 2003/34; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 33. **PR** \$5 per paper; \$100 per year. **JE** C60. **KW** Convex Optimization. Non-Negative Polynomials. Interpolation Constraints.

AB Optimization problems over several cones of non-negative polynomials are described; we focus on linear constraints on the coefficients that represent interpolation constraints. For these problems, the complexity of solving the dual formulation is shown to be almost independent of the number of constraints, provided that an appropriate preprocessing has been performed. These results are also extended to non-negative matrix polynomials and to interpolation constraints on the derivatives.

Hadar, Yossi

PD March 2003. **TI** Population Growth and its Distribution Between Cities: Positive and Normative Aspects. **AU** Hadar, Yossi; Pines, David. **AA** Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/07; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingpapers.asp. **PG** 51. **PR** no charge. **JE** H41, R12, R23, R38. **KW** Population Growth. Concentration. Dispersion. Market Failure.

AB This paper investigates positive and normative aspects of population distribution among cities when aggregate population is growing. On the positive level, the paper investigates how different allocation regimes, on the one hand, and different elasticities of substitution between housing and differentiated products, on the other, affect the characteristics of city-size distribution. On the normative level, the paper investigates the potential sources of market failures and their policy implications. It is shown that the sources of market failures are rent-sharing externality, price markup, and multiple equilibria. Because of the latter, a straightforward elimination of the rent-sharing externality and the price markup may reduce welfare even below its achievable level under laissez-faire allocation. It depends on the stage of the aggregate population growth at the time when the policy is introduced (i.e., history matters). When the social planner is fully informed, a transfer scheme which induces the economy to convergence to the global optima can be designed.

PD May 2003. **TI** On the Market Failure in a Dixit-Stiglitz Setup with Two Trading Cities. **AU** Hadar, Yossi; Pines, David. **AA** Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/12; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978.

Israel.

Website: econ.tau.ac.il/research/search_workingPapers.asp. PG 35. PR no charge. JE H40, R10, R31. KW Agglomeration. Concentration. Dispersion. Market Failure.

AB This study discusses the reasons for market failure and its bias in an economy with two cities and two final goods: Tradeable differentiated products and non-tradeable housing. It is shown that inside the city, as in Dixit and Stiglitz (1977), diversity (number of firms) is too small. With regard to the population partition between the cities, the paper distinguishes between a marginal and a global market bias against agglomeration or dispersion (in a second-best context). The reasons for a marginal bias are twofold: A gap between marginal and average labor productivity and the (excessive) labor employed in housing production, which vary between the large and the small cities. The source of the global bias is multiple stable equilibria. The marginal bias may be in an opposite direction to the global bias, such that more agglomeration may be marginally desirable, whereas full dispersion is (second-best) optimal. Simulations demonstrate that the same market structure and potential source of market failure may imply bias in different direction, depending on the aggregate population size.

Haefke, Christian

PD August 2001. TI Shocks and Institutions in a Job Matching Model. AA Universitat Pompeu Fabra. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 568; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.cs/cng/research/research2.php. PG 52. PR papers only available on web page; no hard copies. JE E24, J64. KW Job Matching Model. Unemployment. Unemployment Benefits. Turbulence. TFP Slowdown.

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

Hahn, Volker

TI Signaling and Commitment: Monetary versus Inflation Targeting. AU Gersbach, Hans; Hahn, Volker.

Haile, Philip A.

PD August 2003. TI On the Empirical Content of Quantal Response Equilibrium. AU Haile, Philip A.; Hortacsu, Ali; Kosenok, Grigory. AA Haile: Yale University. Hortacsu: University of Chicago. Kosenok: New Economic School. SR Yale Cowles Foundation Discussion Paper: 1432; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 22. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International.

JE C52, C72. KW Quantal Response. Testable Restrictions. Comparative Statics.

AB The quantal response equilibrium (QRE) notion of McKelvey and Palfrey (1995) has recently attracted considerable attention, due largely to its widely documented ability to rationalize observed behavior in games played by experimental subjects. We show that this ability to fit the data, as typically measured in this literature, is uninformative. Without a priori distributional assumptions, a QRE can match any distribution of behavior by each player in any normal form game. We discuss approaches that might be taken to provide valid empirical evaluation of the QRE and discuss its potential value as an approximating empirical structure.

Hale, Galina B.

PD February 2003. TI Bonds or Loans? The Effect of Macroeconomic Fundamentals. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1403; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 53. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C34, F34, F41. KW Emerging Markets. Foreign Debt. Debt Composition. Country Risk.

AB The lending boom of the 1990s witnessed considerable variation over time and across countries in the ratio of international bonds to foreign bank loans used as debt instrument by emerging market borrowers. Why some issuers float international bonds while others borrow from international banks has received little if any systematic attention. This paper tests how macroeconomic fundamentals affect the choice of international debt instrument available to emerging market borrowers. As a stepping stone for empirical analysis, a model with asymmetric information is presented. Empirical results show that macroeconomic fundamentals explain a significant share of variation in the ratio of bonds to loans for private borrowers, but not for the sovereigns.

Hall, George J.

PD October 2002. TI Exchange Rates and Casualties During the First World War. AA Yale University and NBER. SR National Bureau of Economic Research Working Paper: 9261; 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 F31, N14. KW Exchange Rates. Casualties. World War One.

AB I estimate two factor models of Swiss exchange rates during the First World War. I have data for five of the primary belligerents: Britain, France, Italy, Germany, and Austria-Hungary. At the outbreak of the war, these nations suspended convertibility of their currencies into gold with the promise that after the war each would restore convertibility at the old par. However, once convertibility was suspended, the value of each currency depended on the outcome of the war. I decompose exchange rate movements into a common trend, a common factor, and country-specific factors. Movements in the common trend are consistent with the quantity theory of money. The common factor contains information on contemporaries' expectations about the war's resolution. Innovations to this common factor are correlated with time series on soldiers killed, wounded, and taken prisoner.

Hall, Peter G.

PD July 2003. **TI** Nonparametric Confidence Intervals for Receiver Operating Characteristic Curves. **AU** Hall, Peter G.; Hyndman, Rob J.; Fan, Yanan. **AA** Hall: Australian National University. Hyndman: Monash University. Yanan: University of Puerto Rico. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/12; Department of Econometrics and Business Statistics, Monash University. Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 14. **PR** no charge. **JE** C12, C13, C14. **KW** Bandwidth Selection. Binary Classification. Kernel Estimator. Receiver Operating Characteristic Curve.

AB We study methods for constructing confidence intervals, and confidence bands, for estimators of receiver operating characteristics. Particular emphasis is placed on the way in which smoothing should be implemented, when estimating either the characteristic itself or its variance. We show that substantial undersmoothing is necessary if coverage properties are not to be impaired. A theoretical analysis of the problem suggests an empirical, plug-in rule for bandwidth choice, optimizing the coverage accuracy of interval estimators. The performance of this approach is explored. Our preferred technique is based on asymptotic approximation, rather than a more sophisticated approach using the bootstrap, since the latter requires a multiplicity of smoothing parameters all of which must be chosen in nonstandard ways. It is shown that the asymptotic method can give very good performance.

Hallak, Issam

PD July 2001. **TI** The Determinants of Up-Front Fees on Bank Loans to LDC Sovereigns. **AA** University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 75; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 30. **PR** only available electronically through website. **JE** F34, G21. **KW** Sovereign Debt. Syndicated Loans. Up-Front Fees. Pricing Design. Less-Developed Countries.

AB The paper explores the determinants of up-front fees on sovereign bank loans. Remuneration of bank loans is typically channeled through the floating interest benchmark, the interest spread, and a battery of fees. There is substantial evidence of the spread paying for long-run sovereign repayment capacity. Little is known, however, about the role of the fees paid up-front. Based on a uniquely extensive sample of LDCs sovereign loan contracts, this study provides substantial evidence of up-front fees capturing the costs due to the expected renegotiations and agency issues. This contradicts previous studies based on spreads only, predicting a pricing difference between public and private debt to LDCs sovereigns.

Haller, Hans

TI When Inefficiency Begets Efficiency. **AU** Gersbach, Hans; Haller, Hans.

Hanson, Gordon H.

TI International Migration, Self-Selection, and the Distribution of Wages: Evidence from Mexico and the United States. **AU** Chiquiar, Daniel; Hanson, Gordon H.

TI The Value of Information in International Trade: Gains to

Outsourcing through Hong Kong. **AU** Feenstra, Robert C.; Hanson, Gordon H.; Lin, Songhua.

Harris, Mark N.

TI Who Are the Self-Employed? A New Approach. **AU** Brown, Sarah; Farrell, Lisa; Harris, Mark N.

Hart, Oliver

PD July 2002. **TI** Incomplete Contracts and Public Ownership: Remarks, and an Application to Public-Private Partnerships. **AA** Harvard University. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/061; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. **PG** 11. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** D23, H10, H40. **KW** Public-Private Partnerships. Ownership. Incomplete Contracts.

AB The question of what should determine the boundaries between public and private firms in an advanced capitalist economy is a highly topical one. This paper discusses some recent theoretical thinking on this issue. The paper is divided into two parts. First, some general remarks are made about the relationship between the theoretical literature of privatization and incomplete contracting theories of the firm. Second, the paper uses some of the ideas from this literature to develop a very preliminary model of public-private partnerships.

Haubrich, Joseph G.

TI Getting the Most Out of a Mandatory Subordinated Debt Requirement. **AU** Fan, Rong; Haubrich, Joseph G.; Ritchken, Peter H.; Thomson, James B.

Hauk, William R., Jr.

PD December 2003. **TI** A Monte Carlo Study of Growth Regressions. **AU** Hauk, William R., Jr.; Wacziarg, Romain. **AA** Hauk: Stanford University. Wacziarg: Stanford University and NBER. **SR** Stanford Graduate School of Business Research Paper: 1836; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 53. **PR** no charge. **JE** C15, O40. **KW** Monte Carlo Simulations. Growth Regressions. Solow Model.

AB Using Monte Carlo simulations this paper evaluates the bias properties of common estimators used in growth regressions derived from the Solow model. We explicitly allow for measurement error in the right-hand side variables, as well as country-specific effects that are correlated with the regressors. Our results suggest that using an OLS estimator applied to a single cross-section of variables averaged over time (the between estimator) performs best in terms of the extent of bias on each of the estimated coefficients. The fixed-effects estimator and the Arellano-Bond estimator greatly overstate the speed of convergence under a wide variety of assumptions concerning the type and extent of measurement error, while between understates it somewhat. Finally, fixed effects and Arellano-Bond bias towards zero the slope estimates on the human and physical capital accumulation variables.

Hausman, Jerry

PD October 2002. **TI** Sources of Bias and Solutions to Bias in the CPI. **AA** MIT and NBER. **SR** National Bureau

of Economic Research Working Paper: 9298; 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 C43, D12, D43. KW Consumer Prices Index. Substitution Bias. Quality Bias. Outlet Bias.

AB Four sources of bias in the CPI have been identified. The most discussed is substitution bias, which creates a second order bias in the CPI. Three other changes besides prices changes create first order effects on a correctly measured cost of living index (COLI). (1) Introduction of new goods creates a first order effect of "new good bias" (2) Quality changes in existing goods will lead to "quality" bias, which has first order effects (3) Shifts in shopping patterns to lower priced stores can create first order "outlet bias." This paper explains that a "pure price" based approach of surveying prices to estimate a COLI cannot succeed in solving the three problems of first order bias. Neither the BLS nor the recent report C. Schultze and C. Mackie, eds., *At What Price (AWP, 2002)*, recognizes that to solve these problems both quantity and price data are necessary. This paper discusses economic and econometric approaches to measure the first order bias effects as well as the availability of scanner data that would permit implementation of the techniques. Lastly, the paper reviews recent research that demonstrates that these sources of bias are large in relation to measured inflation in the CPI.

Heathcote, Jonathan

PD October 2002. **TI** Financial Globalization and Real Regionalization. **AU** Heathcote, Jonathan; Perri, Fabrizio. **AA** Heathcote: Georgetown University. Perri: New York University and NBER. **SR** National Bureau of Economic Research Working Paper: 9292; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 40. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F36, F41. **KW** Financial Globalization. Trade. Financial Market Integration.

AB Over the period 1972-1986, the correlations of GDP, employment and investment between the United States and an aggregate of Europe, Canada and Japan were respectively 0.76, 0.66, and 0.63. For the period 1986 to 2000 the same correlations were much lower: 0.26, 0.03 and -0.07 (real regionalization). At the same time, U.S. international asset trade has significantly increased. For example, between 1972 and 1999, United States gross FDI and equity assets in the same group of countries rose from 4 to 23 percent of the U.S. capital stock (financial globalization). We document that the correlation of real shocks between the U.S. and the rest of the world has declined. We then present a model in which international financial market integration occurs endogenously in response to less correlated shocks. Financial integration further reduces the international correlations in GDP and factor supplies. We find that both less correlated shocks and endogenous financial market development are needed to account for all the changes in the international business cycle.

Heckman, James J.

PD October 2002. **TI** China's Investment in Human Capital. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 9296; Working Papers, NBER, 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 U.S.). **JE** J24, O15. **KW** Human Capital. China. Investment.

AB This paper discusses evidence on human capital investment in China. Policies through the mid 1990s favor physical investment over schooling.

Heifetz, Aviad

PD July 2003. **TI** Interactive Unawareness and Speculative Trade. **AU** Heifetz, Aviad; Meicr, Martin; Schipper, Burkhard C. **AA** Heifetz: Tel Aviv University. Meier: Universite Catholique de Louvain. Schipper: University of Bonn. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/17; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 17. **PR** no charge. **JE** C70, D80. **KW** Unawareness. Knowledge. Interactive Epistemology. Speculative Trade. Bounded Perception.

AB The standard state-spaces of asymmetric information preclude non-trivial forms of unawareness (Dekel, Lipman and Rustichini, 1998). We introduce a generalized state-space model that allows for non-trivial unawareness among several individuals, and which satisfies strong properties of knowledge as well as all the desiderata on unawareness proposed thus far in the literature. In an example of speculative trade, we demonstrate how mutual unawareness of fundamentals allows for common knowledge of willingness to trade together with strict preference for trade. Such a state of affairs is impossible to model in standard information structures with strong properties of knowledge.

Heller, Dana

PD June 2003. **TI** Intergenerational Risk Sharing Through Social Convention. **AA** Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/13; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 24. **PR** no charge. **JE** D70, D80, E40. **KW** Social Asset. Convention. Money. Risk.

AB We present a generational model in which an asset (possibly) with no intrinsic value is traded for a positive price in equilibrium. Coordination on the asset facilitates trade and generates an instrument to transfer wealth across generations. This social mechanism is welfare improving. Diamonds, masterpieces, clubs and desirable neighborhoods are examples of such assets. The existence of a social convention regarding the asset affects the choice among two income-generating actions, one that involves risk but is more productive and another which is safe. We identify an asymmetric equilibrium where owners of the asset choose the riskier more productive action while most of the non-owners choose the safe income. This generates differences in ex-post income distributions and persistent inequality across the two groups.

Hellmann, Thomas

PD November 2002. **TI** IPOs, Acquisitions and the Use of Convertible Securities in Venture Capital. **AA** Stanford

University. **SR** Stanford Graduate School of Business Research Paper: 1702(R); Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 59. **PR** no charge. **JE** G24, G32, M13. **KW** Acquisitions. IPO. Convertible Securities. Venture Capital.

AB This paper provides a new explanation for the use of convertible securities in venture capital, which is based on the trade-off between acquisition or IPOs. A key property of convertible preferred equity is that it allocates different cash flow rights, depending on whether exit occurs by acquisition or IPO. The paper builds a model with double moral hazard, where both the entrepreneur and the venture capitalist provide value-adding effort. The optimal contract gives the venture capitalist more cash flow rights in acquisitions than IPOs. This explains the use of convertible preferred equity, including automatic conversion at IPO. Contingent control rights are shown to be instrumental for achieving efficient exit decisions. The model also explains when to use simple versus participating convertible preferred equity.

Helpman, Elhanan

PD October 2002. **TI** Outsourcing versus FDI in Industry Equilibrium. **AU** Helpman, Elhanan; Grossman, Gene M. **AA** Helpman: Harvard University and NBER. Grossman: Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 9300; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 12. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D23, F12, F23, L22. **KW** Outsourcing. Foreign Direct Investment.

AB We study the determinants of the extent of outsourcing and of direct foreign investment in an industry in which producers need specialized components. Potential suppliers must make a relationship-specific investment in order to serve each prospective customer. Such investments are governed by imperfect contracts. A final-good producer can manufacture components for itself but the per-unit cost is higher than for specialized suppliers. We consider how the size of the cost differential, the extent of contractual incompleteness, the size of the industry, and the relative wage rate affect the organization of industry production.

TI Global Sourcing. **AU** Antras, Pol; Helpman, Elhanan.

Hendershott, Patric H.

TI Determinants of Real House Price Dynamics. **AU** Capozza, Dennis R.; Hendershott, Patric H.; Mack, Charlotte; Mayer, Christopher J.

Hendry, David

TI Economic Forecasting: Some Lessons From Recent Research. **AU** Clements, Michael P.; Hendry, David.

Henry, Peter Blair

TI Is Debt Relief Efficient? **AU** Arslanalp, Serkan; Henry, Peter Blair.

TI Helping The Poor to Help Themselves: Debt Relief or Aid? **AU** Arslanalp, Serkan; Henry, Peter Blair.

TI Is the Invisible Hand Discerning or Indiscriminate? Investment and Stock Prices in the Aftermath of Capital

Account Liberalizations. **AU** Chari, Anusha; Henry, Peter Blair.

Hernandez-Murillo, Ruben

TI Tax Competition and Tax Harmonization With Evasion. **AU** Gandelman, Nestor; Hernandez-Murillo, Ruben.

PD November 2002. **TI** Patent Licensing Revisited: Heterogeneous Firms and Product Differentiation. **AU** Hernandez-Murillo, Ruben; Llobet, Gerard. **AA** Hernandez-Murillo: Federal Reserve Bank of St. Louis. Llobet: CEMFI. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/31A; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 26. **PR** no charge. **JE** L13, O32. **KW** Patent Licensing. Royalty Rate. Fixed Fees. Private Information.

AB We analyze the optimal licensing contract that a patentee provides for a cost-reducing innovation to a set of firms competing in a downstream market. We study two alternative licensing regimes: (i) a combination of royalties on sales and flat fees and (ii) fixed fees only. The first contract depends on the degree of competition in the final good market: when competition is stronger, the patentee demands a higher royalty. We also show that, contrary to the literature, using fixed fees only is not optimal for the patentee when firms are heterogeneous or when there is product differentiation. The reason is that royalties allow the patent holder to soften competition in the final good market. Finally we show that even though a combination of royalties and fees allows for improved access to the technology, social welfare is lower compared with using fixed fees only.

Herring, Bradley

TI Health Insurance on the Internet and the Economics of Search. **AU** Pauly, Mark V.; Herring, Bradley; Song, David.

Hietala, Pekka

PD October 2002. **TI** What is the Price of Hubris? Using Takeover Battles to Infer Overpayments and Synergies. **AU** Hietala, Pekka; Kaplan, Steven N.; Robinson, David T. **AA** Hietala: INSEAD. Kaplan: University of Chicago and NBER. Robinson: Columbia University. **SR** National Bureau of Economic Research Working Paper: 9264; Working Papers, NBER, 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 U.S.). **JE** G12, G14, G32, G34. **KW** Overpayments. Takeovers. Synergies. Paramount. Viacom.

AB We present a framework for determining the information that can be extracted from stock prices around takeover contests. In only two types of cases is it theoretically possible to use stock price movements to infer bidder overpayment and relative synergies. The takeover contest for Paramount in 1994 illustrates one of these generic cases. We estimate that Viacom, the "winning" bidder, overpaid for Paramount by more than \$2 billion. This occurred despite the fact that Viacom's CEO owned roughly 3/4 of Viacom. These results are consistent with managerial overconfidence and/or large private benefits, but not with the traditional agency-based incentive problem.

Hintermaier, Thomas

PD October 2002. **TI** Occupational Choice and the

Private Equity Premium Puzzle. AU Hintermaier, Thomas; Steinberger, Thomas. AA Hintermaier: Institute for Advanced Studies. Steinberger: European University Institute. SR Institute for Advanced Studies (IHS), Economics Series: 122; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. PG 26. PR EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. JE D91, G11. KW Portfolio Choice. Life-Cycle Models. Private Equity.

AB This paper suggests a solution to what has become known as the "private equity premium puzzle" (Moskowitz and Vissing-Jorgensen (2002)). We interpret occupational choice as a dynamic portfolio choice problem of a life-cycle investor facing a liquidity constraint and imperfect information about the profitability of potential businesses. In this setting, becoming an entrepreneur is equivalent to investing in non-traded private equity capital subject to transaction costs. We model the return on private equity as the sum of two components, the individual ability of the entrepreneur and idiosyncratic business risk. Information is imperfect, because only entrepreneurs observe their own business risk realizations. Using numerical techniques we find that the model generates the observed return structure for private equity using standard CRRA-preferences and fully rational expectations.

Hodrick, Robert J.

TI Pricing the Global Industry Portfolios. AU Cavaglia, Stefano; Hodrick, Robert J.; Vadim, Moroz; Zhang, Xiaoyan.

Hoel, Michael

TI Climate Policy Under Technology Spillovers. AU Golombeck, Rolf; Hoel, Michael.

Hofer, Helmut

TI Active Job-Search Programs a Promising Tool? A Microeconomic Evaluation for Austria. AU Weber, Andrea; Hofer, Helmut.

Hoff, Karla

PD October 2002. TI After the Big Bang? Obstacles to the Emergence of the Rule of Law in Post-Communist Societies. AU Hoff, Karla; Stiglitz, Joseph E. AA Hoff: The World Bank. Stiglitz: Columbia University and NBER. SR National Bureau of Economic Research Working Paper: 9282; Working Papers, NBER, 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 U.S.). JE K10, K40, P26. KW Privatization. Law. Transitional Economies.

AB When Russia launched mass privatization, it was widely believed that it would create a powerful constituency for the rule of law. That didn't happen. We present a dynamic equilibrium model of the political demand for the rule of law and show that beneficiaries of mass privatization may fail to demand the rule of law even if it is the Pareto efficient "rule of the game." The reason is that uncertainty about the legal regime can lead to asset stripping, and stripping can give agents an interest in prolonging the absence of the rule of law.

Holthausen, Cornelia

TI Interbank Market Integration under Asymmetric Information. AU Freixas, Xavier; Holthausen, Cornelia.

Horbach, Jens

PD June 2003. TI Employment and Innovations in the Environmental Sector: Determinants and Econometric Results for Germany. AA University of Applied Sciences Anhalt, Germany. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/47; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 17. PR no charge; available only on website. JE C25, J49, Q59. KW Employment. Environmental Sector. Innovation.

AB Environmental agencies and social customs lead to a demand for environmental goods and services. On the basis of the public choice theory it can be shown that environmental regulation is endogenous and can be influenced by the environmental awareness of voters and interest groups. Following the so-called Porter hypothesis, environmental legislation developed early induces environmental innovations and creates first mover advantages connected with a high international competitiveness of the environmental industry. An empirical analysis based on the establishment panel of the Institute for Employment Research shows that more than 900,000 persons are employed in the environmental sector in Germany. Following the results of an econometric analysis of employment perspectives and innovation behavior integrated environmental technologies will become more relevant whereas employment in "traditional" end-of-pipe fields like the prevention of waste water pollution or air pollution will be reduced.

Horsewood, Nicholas

TI The Causes of Unemployment in Interwar Australia. AU Dimsdale, Nicholas H.; Horsewood, Nicholas.

Hortacsu, Ali

TI On the Empirical Content of Quantal Response Equilibrium. AU Haile, Philip A.; Hortacsu, Ali; Kosenok, Grigory.

Hovakimian, Armen

PD November 2002. TI How Country and Safety-Net Characteristics Affect Bank Risk-Shifting. AU Hovakimian, Armen; Kane, Edward J.; Laeven, Luc. AA Hovakimian: Baruch College. Kane: Boston College and NBER. Laeven: The World Bank. SR National Bureau of Economic Research Working Paper: 9322; 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 G21, G28. KW Risk Shifting. Deposit Insurance. Coverage Limits. Coinsurance. Corruption.

AB Risk-shifting occurs when creditors or guarantors are exposed to loss without receiving adequate compensation. This paper seeks to measure and compare how well authorities in 56 countries controlled bank risk shifting during the 1990s. Although significant risk shifting occurs on average, substantial variation exists in the effectiveness of risk control across countries. We find that the tendency for explicit deposit insurance to exacerbate risk shifting is tempered by incorporating loss-control features such as risk-sensitive premiums, coverage limits, and coinsurance. Introducing explicit deposit insurance has had adverse effects in environments that are low in political and economic freedom and high in corruption.

Huang, Jikun

TI Will China's WTO Accession Worsen Rural Poverty?
AU Anderson, Kym; Huang, Jikun; Ianchovichina, Elena.

Hughes, James W.

PD October 2002. **TI** "Napsterizing" Pharmaceuticals: Access, Innovation, and Consumer Welfare. **AU** Hughes, James W.; Moore, Michael J.; Snyder, Edward A. **AA** Hughes: Bates College. Moore: University of Virginia and NBER. Snyder: University of Chicago. **SR** National Bureau of Economic Research Working Paper: 9229; Working Papers, NBER, 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 U.S.). **JE** D61, I10, O31, O34, O38. **KW** Pharmaceuticals. Innovation. Consumer Welfare. Patent Rights.

AB We analyze the effects on consumers of an extreme policy experiment -- "Napsterizing" pharmaceuticals -- whereby all patent rights on branded prescription drugs are eliminated for both existing and future prescription drugs without compensation to the patent holders. The question of whether this policy maximizes consumer welfare cannot be resolved on an a priori basis due to an obvious tradeoff: While accelerating generic entry will yield substantial gains in consumer surplus associated with greater access to the current stock of pharmaceuticals, future consumers will be harmed by reducing the flow of new pharmaceuticals to the market. Our estimates of the consumer surpluses at stake are based on the stylized facts concerning how generic entry has affected prices, outputs, and market shares. We find that providing greater access to the current stock of prescription drugs yields large benefits to existing consumers. However, realizing those benefits has a substantially greater cost in terms of lost consumer benefits from reductions in the flow of new drugs. We obtain this result even accounting for the stylized fact that after generic entry branded drugs continue to earn significant price premia over generic products and hence recognizing that Napsterizing does not completely eliminate the incentives to innovate.

Humpage, Owen

PD November 2002. **TI** Do Energy-Price Shocks Affect Core-Price Measures? **AU** Humpage, Owen; Pelz, Edward. **AA** Humpage: Federal Reserve Bank of Cleveland. Pelz: University of Iowa. **SR** Federal Reserve Bank of Cleveland Working Paper: 02/15; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. **PG** 21. **PR** no charge. **JE** E52, Q43. **KW** Energy Prices. Vector Autoregression. Inflation. Monetary Policy.

AB This paper investigates the relationship between energy-price shocks and three core measures of inflation in a vector autoregression model that incorporates measures of monetary policy and inflation expectations. The sample set includes data at monthly frequencies from 1980 through 2000. We find that that positive energy-price shocks have significant, though small, effects on all core price measures after a lag of 12 to 18 months, but that negative shocks have no discernible impact. The results suggest that relative energy-price changes do not distort the inflation signals that standard core-price measures provide.

PD November 2003. **TI** Government Intervention in the

Foreign Exchange Market. **AA** Federal Reserve Bank of Cleveland. **SR** Federal Reserve Bank of Cleveland Working Paper: 03/15; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. **PG** 35. **PR** no charge. **JE** E52, F31, F41. **KW** Forex Intervention. Survey. Empirical Results.

AB This article offers a survey of the literature on foreign exchange intervention, including sections on the theoretical channels through which intervention might affect exchange rates and a summary of the empirical findings. The survey emphasizes that intervention is intended to provide monetary authorities with a means of influencing their exchange rates independently of monetary policy, and tends to evaluate theoretical channels and empirical results from this perspective.

Hunter, Mark

TI Internet E-ethics in Confrontation with an Activists' Agenda: Yahoo! on Trial. **AU** Le Meneestrel, Marc; Hunter, Mark; de Bettignies, Henri-Claude.

Hurkens, Sjaak

TI Endogenous Price Leadership. **AU** van Damme, Eric; Hurkens, Sjaak.

Hurst, Erik

TI The Correlation of Wealth Across Generations. **AU** Charles, Kerwin Kofi; Hurst, Erik.

Hvide, Hans K.

PD February 2003. **TI** Cultural Diversity, Status Concerns and the Organization of Work. **AU** Hvide, Hans K.; Fershtman, Chaim; Weiss, Yoram. **AA** Kvide: NHH. Fershtman and Weiss: Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/04; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 33. **PR** no charge. **JE** J30, Z10. **KW** Diversity. Status Concerns. Aggregate Output. Wage Dispersion.

AB A well documented human tendency is to compare outcomes with others, trying to outperform them. These tendencies vary across cultures and among different individuals in a given society. The workplace is an important source for social interaction. The willingness of workers to exert effort depends on the private and social rewards that they receive in the form of wages and esteem. Workers may differ in the importance that they give to status ranking and the reference group to which they compare themselves. We explore the conditions under which, at equilibrium, firms would mix workers with different status concerns. We then discuss the effects of such cultural diversity on wages and show that, for equally productive workers, wages may vary, reflecting the different incentives that firms provide to workers with different social concerns. We show that, under plausible conditions, a more diverse workforce can increase the total output of the economy.

Hyndman, Rob J.

TI Empirical Information Criteria for Time Series Forecasting Model Selection. **AU** Billah, M. Baki;

Hyndman, Rob J.; Koehler, Anne B.

TI Stochastic Models Underlying Croston's Method for Intermittent Demand Forecasting. AU Shenstone, Lydia; Hyndman, Rob J.

PD April 2003. **TI** Invertibility Conditions for Exponential Smoothing Models. AU Hyndman, Rob J.; Akram, Muhammad; Archibald, Blyth. **AA** Hyndman and Billah: Monash University. Archibald: Dalhousie University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/03; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 19. **PR** no charge. **JE** C22, C53. **KW** Exponential Smoothing. Invertibility. State Space Models.

AB In this article we discuss invertibility conditions for some state space models, including the models that underly simple exponential smoothing, Holt's linear method, Holt-Winters' additive method and damped trend versions of Holt's and Holt-Winters' methods. The parameter space for which the model is invertible is compared to the usual parameter regions. We find that the usual parameter restrictions (requiring all smoothing parameters to lie between 0 and 1) do not always lead to invertible models. Conversely, some invertible models have parameters which lie outside the usual region. We also find that all seasonal exponential smoothing methods are non-invertible when the usual equations are used. However, this does not affect the forecast mean. Alternative models are presented which solve the problem while retaining the basic exponential smoothing ideas.

TI Nonparametric Confidence Intervals for Receiver Operating Characteristic Curves. AU Hall, Peter G.; Hyndman, Rob J.; Fan, Yanan.

Ianchovichina, Elena

TI Will China's WTO Accession Worsen Rural Poverty? AU Anderson, Kym; Huang, Jikun; Ianchovichina, Elena.

Inder, Brett

TI Migration and Unemployment in South Africa: When Motivation Surpasses the Theory. AU Cornwell, Katy; Inder, Brett.

PD January 2004. **TI** Economic Growth and Contraction and Their Impact on the Poor. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2004/03; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 24. **PR** no charge. **JE** C33, O11, O40. **KW** Economic Growth. Growth and Inequality. Economic Contraction. Inflation and Growth.

AB This paper considers the relationship between growth in real per capita GDP and the growth in real per capita GDP of the poorest 20% of a country. It uses the data set compiled by Dollar and Kraay (2002), but come to very different conclusions. We argue that if the purpose is to answer questions about the impact of growth on the poor, models are best estimated in growth rates. The empirical results show that growth's impact on the poor occurs in two episodes. First, in periods of sustained economic slowdown (negative growth over

a period of at least 5 years), the poor clearly suffer more than the average. In contrast, where economies are growing, the poor do not benefit as much as the average. We also find that the poor benefit from growth less in periods of high inflation, and in countries with low average income.

Ireland, Peter N.

TI The Own-Price of Money and a New Channel of Monetary Transmission. AU Belongia, Michael T.; Ireland, Peter N.

Jackson, Matthew O.

PD June 2003. **TI** Allocation Rules for Network Games. **AA** California Institute of Technology. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/51; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 31. **PR** no charge; available only on website. **JE** A14, C71, C72. **KW** Networks. Network Games. Allocation Rules. Cooperative Games.

AB Previous allocation rules for network games, such as the Myerson Value, implicitly or explicitly take the network structure as fixed. In many situations, however, the network structure can be altered by players. This means that the value of alternative network structures (not just sub-networks) can and should influence the allocation of value among players on any given network structure. I present a family of allocation rules that incorporate information about alternative network structures when allocating value.

TI Vote Buying. AU Dekel, Eddie; Jackson, Matthew O.; Wolinsky, Asher.

Jacobs, Rowena

TI The Effects of Budgets on Doctor Behavior: Evidence From a Natural Experiment. AU Dusheiko, Mark; Gravelle, Hugh; Jacobs, Rowena; Smith, Peter.

Janeba, Eckhard

PD November 2002. **TI** Why Europe Should Love Tax Competition -- and the U.S. Even More So. AU Janeba, Eckhard; Schjelderup, Guttorm. **AA** Janeba: University of Colorado and NBER. Schjelderup: Norwegian School of Economics and Business Administration. **SR** National Bureau of Economic Research Working Paper: 9334; Working Papers, NBER, 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 U.S.). **JE** D72, F02, H11. **KW** Public Finance. Political Institutions. Tax Competition.

AB Is global competition for mobile capital harmful (less public goods) or beneficial (less government waste)? This paper combines both aspects within a generalized version of the comparative public finance model (Persson, Roland and Tabellini, 2000) by introducing multiple countries and endogenous tax bases. We consider the role of political institutions and compare parliamentary democracies (Europe) and presidential-congressional systems (USA) to show that increasing tax competition is likely to improve voter welfare, even if public good supply decreases because rents to politicians also fall. The conditions for voter welfare to improve are less stringent under the presidential-congressional system than under parliamentary democracies. Increasing tax

competition lowers voter welfare if the only benefit to politicians is to divert resources from the government budget and the future is valued highly.

Jappelli, Tullio

TI Awareness and Stock Market Participation. **AU** Guiso, Luigi; Jappelli, Tullio.

Jenn, Brian

TI Federal Terrorism Risk Insurance. **AU** Brown, Jeffrey R.; Kroszner, Randall S.; Jenn, Brian.

Jeon, Doh-Shin

PD August 2001. **TI** Failure to Collude in the Presence of Asymmetric Information. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 574; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. **PG** 36. **PR** papers only available on web page; no hard copies. **JE** D80, L20. **KW** Asymmetric Information. Transaction Costs. Limited Liability. Side-Contract. Collusion-Proofness.

AB In this paper, we study the transaction costs in coalition formation created by asymmetric information in a setting in which two agents producing complementary inputs can collude. They are assumed to have correlated private information and be protected by limited liability. We first characterize the optimal mechanism without collusion. The optimal quantity schedule is decreasing for negative and weak positive correlation while it is not monotonic for strong positive correlation. When collusion takes place under complete information between the agents, the principal can never implement a non-monotonic quantity schedule in a collusion-proof way. However, we show that when collusion takes place under asymmetric information, by taking advantage of the transaction costs created by asymmetric information, the principal can implement the optimal mechanism without side-contracting in a collusion-proof way without any loss regardless of the sign and the degree of correlation.

Jin, Sainan

PD March 2003. **TI** Consistent HAC Estimation and Robust Regression Testing Using Sharp Origin Kernels with No Truncation. **AU** Jin, Sainan; Phillips, Peter C. B.; Sun, Yixiao. **AA** Jin: Yale University. Phillips: Yale University, University of Auckland, and University of York. Sun: University of California, San Diego. **SR** Yale Cowles Foundation Discussion Paper: 1407; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 50. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C13, C14, C22, C51. **KW** Consistent HAC Estimation. Data Determined. Kernel Estimation. Long Run Variance. Mercer's Theorem. Power Parameter. Sharp Origin Kernel.

AB A new family of kernels is suggested for use in heteroskedasticity and autocorrelation consistent (HAC) and long run variance (LRV) estimation and robust regression testing. The kernels are constructed by taking powers of the Bartlett kernel and are intended to be used with no truncation (or bandwidth) parameter. As the power parameter (?) increases, the kernels become very sharp at the origin and

increasingly downweight values away from the origin, thereby achieving effects similar to a bandwidth parameter. Sharp origin kernels can be used in regression testing in much the same way as conventional kernels with no truncation, as suggested in the work of Kiefer and Vogelsang (2002a, 2002b). A unified representation of HAC limit theory for untruncated kernels is provided using a new proof based on Mercer's theorem that allows for kernels which may or may not be differentiable at the origin. In practice a simple fixed choice of the exponent parameter around ≈ 16 for the sharp origin kernel produces favorable results for both size and power in regression testing with sample sizes that are typical in econometric applications.

Joliffe, Dean

TI After, Before and During: Returns to Education in Hungary (1986-1998). **AU** Campos, Nauro F.; Joliffe, Dean.

Jones, Charles I.

PD November 2002. **TI** Why Have Health Expenditures as a Share of GDP Risen So Much? **AA** University of California, Berkeley and NBER. **SR** National Bureau of Economic Research Working Paper: 9325; Working Papers, NBER, 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 U.S.). **JE** I11, I12. **KW** Health Expenditures. Technological Progress.

AB Aggregate health expenditures as a share of GDP have risen in the United States from about 5 percent in 1960 to nearly 14 percent in recent years. Why? This paper explores a simple explanation based on technological progress. Medical advances allow diseases to be cured today, at a cost, that could not be cured at any price in the past. When this technological progress is combined with a Medicare-like transfer program to pay the health expenses of the elderly, the model is able to reproduce the basic facts of recent U.S. experience, including the large increase in the health expenditure share, a rise in life expectancy, and an increase in the size of health-related transfer payments as a share of GDP.

Joshi, Mary Sissons

PD December 2001. **TI** The Prisoner's Dilemma and City-Centre Traffic. **AU** Joshi, Mary Sissons; Joshi, Vijay; Lamb, Roger. **AA** Joshi and Lamb: Oxford Brookes University. Joshi, Vijay: University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 85; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 35. **PR** only available electronically through website. **JE** C70, C72. **KW** Game Theory. Prisoner's Dilemma. Assurance Game. Trust. City Centre Traffic.

AB It is commonly asserted that such problems as inner-city traffic congestion and pollution can be understood as examples of the Prisoner's Dilemma Game (PD), but there is a dearth of empirical research that tests this assertion. 587 car owners in Oxford City were presented with three pairs of alternatives designed as traffic versions of the four outcomes of the PD, and asked to state which alternative in each pair they preferred. Only 2% of respondents showed the full set of preferences which fit the PD. Four sets of preferences accounted for 93% of

responses suggesting that no single canonical game structure can represent the traffic problem. The most common set of preferences, shown by 48% of respondents fitted as "Assurance Game". The results imply that the current traffic problem may be due to lack of assurance and trust rather than raw self-interest. The public policy implications of the data are discussed.

Joshi, Vijay

TI The Prisoner's Dilemma and City-Centre Traffic.
AU Joshi, Mary Sissons; Joshi, Vijay; Lamb, Roger.

Jovanovic, Boyan

PD October 2002. **TI** Mergers as Reallocation.
AU Jovanovic, Boyan; Rousseau, Peter L. **AA** Jovanovic: New York University and NBER. Rousseau: Vanderbilt University and NBER. **SR** National Bureau of Economic Research Working Paper: 9279; 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** L16, N81, N82, O33. **KW** Technology Diffusion. Information Age. Takeovers. Mergers.

AB We argue that takeovers have played a major role in speeding up the diffusion of new technology. The role that they play is similar to that of entry and exit of firms. We focus on and compare two periods: 1890-1930, during which electricity and the internal combustion engine spread through the U.S. economy, and 1971-2001, the Information Age.

Joyce, Ted

TI The Effect of Cigarette Excise Taxes on Smoking Before, During and After Pregnancy. **AU** Coleman, Greg; Grossman, Michael; Joyce, Ted.

Ju, Nengjiu

PD November 2002. **TI** Horses and Rabbits? Optimal Dynamic Capital Structure from Shareholder and Manager Perspectives. **AU** Ju, Nengjiu; Parrino, Robert; Potoshman, Allen M.; Weisbach, Michael S. **AA** Ju: University of Maryland. Parrino: University of Texas at Austin. Potoshman: University of Illinois. Weisbach: University of Illinois and NBER. **SR** National Bureau of Economic Research Working Paper: 9327; 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** G32, G33, H25. **KW** Capital Structure. Interest Tax Shields. Debt/Equity. Leverage.

AB This paper examines optimal capital structure choice using a dynamic capital structure model that is calibrated to reflect actual firm characteristics. The model uses contingent-claim methods to value interest tax shields, allows for reorganization in bankruptcy, and maintains a long-run target debt/equity ratio by refinancing maturing debt. Using this model we calculate optimal capital structures in a realistic representation of the traditional "tradeoff" model. In contrast to previous research, the resulting optimal capital structures do not imply that firms tend to use too little leverage in practice. We also estimate the costs borne by a firm whose capital structure deviates from its optimal, "target" debt/equity ratio. The costs of moderate deviations are relatively small, suggesting that a policy of adjusting leverage only when it

deviates substantially from a target debt/equity ratio is likely to be reasonable for most firms.

Jung, Jeeman

PD November 2002. **TI** One Simple Test of Samuelson's Dictum for the Stock Market. **AU** Jung, Jeeman; Shiller, Robert J. **AA** Jung: Sangmyung University. Shiller: Yale University and NBER. **SR** National Bureau of Economic Research Working Paper: 9348; Working Papers, NBER, 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 U.S.). **JE** G14. **KW** Micro Efficiency. Macro Inefficiency. Efficient Markets Hypothesis.

AB Samuelson (1998) offered the dictum that the stock market is "micro efficient" but "macro inefficient." That is, the efficient markets hypothesis works much better for individual stocks than it does for the aggregate stock market. In this paper, we present one simple test, based both on regressions and on a simple scatter diagram that vividly illustrates that there is some truth to Samuelson's dictum. The data comprise all U.S. firms on the CRSP tape that have survived since 1926.

Jung, Juergen

TI Multiple Objective Step Function Maximization with Genetic Algorithms and Simulated Annealing. **AU** Grohall, Guenther; Jung, Juergen.

Kahn, Lawrence M.

TI The Impact of Welfare Benefits on Single Motherhood and Headship of Young Women: Evidence from the Census. **AU** Blau, Francine D.; Kahn, Lawrence M.; Waldfogel, Jane.

Kanbur, Ravi

PD December 2003. **TI** Spatial Inequality in Education and Health Care in China. **AU** Kanbur, Ravi; Zhang, Xiaobo. **AA** Kanbur: Cornell University. Zhang: International Food Policy Research Institute. **SR** CEPR Discussion Paper: 4136; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4136.asp. **PG** 12. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D63, O15, O18. **KW** Illiteracy. Infant Mortality Rate. Spatial Inequality. China. Polarization.

AB While increasing income inequality in China has been commented on and studied extensively, relatively little analysis is available on inequality in other dimensions of human development. Using data from different sources, this paper presents some basic facts on the evolution of spatial inequalities in education and healthcare in China over the long run. In the era of economic reforms, as the foundations of education and healthcare provision have changed, so has the distribution of illiteracy and infant mortality. Across provinces and within provinces, between rural and urban areas and within rural and urban areas, social inequalities have increased substantially since the reforms began.

Kane, Edward J.

TI How Country and Safety-Net Characteristics Affect Bank Risk-Shifting. **AU** Hovakimian, Armen; Kane, Edward J.; Laeven, Luc.

Kannan, Ravi

TI Indeterminacy, Nonparametric Calibration and

Counterfactual Equilibria. AU Brown, Donald; Kannan, Ravi.

TI The Computation of Counterfactual Equilibria in Homothetic Walrasian Economics. AU Brown, Donald; Kannan, Ravi.

Kaplan, Steven N.

TI What is the Price of Hubris? Using Takeover Battles to Infer Overpayments and Synergies. AU Hietala, Pekka; Kaplan, Steven N.; Robinson, David T.

PD December 2003. TI How Do Legal Differences and Learning Affect Financial Contracts? AU Kaplan, Steven N.; Martel, Frederic; Stroemberg, Per Johan. AA Kaplan: University of Chicago. Martel: University of Lausanne and UBS Global Asset Management. Stroemberg: University of Chicago and CEPR. SR CEPR Discussion Paper: 4161; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4161.asp. PG 23. PR 5 pounds, \$5 or 8 euros + postage and handling. JE G24, G32. KW Venture Capital. Learning. Financial Contracts. Legal Regimes.

AB We analyze venture capital (VC) investments in 23 non-US countries and compare them to VC investments in the US. We describe how the contracts allocate cash flow, board, liquidation, and other control rights. In univariate analyses, contracts differ across legal regimes. At the same time, however, more experienced VCs implement US-style contracts regardless of legal regime. In most specifications, legal regime becomes insignificant controlling for VC sophistication. VCs who use US-style contracts fail significantly less often. Financial contracting theories in the presence of fixed costs of learning, therefore, appear to explain contracts along a wide range of legal regimes.

Kaplow, Louis

PD November 2002. TI Why Measure Inequality? AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 9342; Working Papers, NBER, 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 U.S.). JE D31, D63, H23, I32. KW Income Inequality. Measurement. Poverty.

AB A large body of literature is devoted to the measurement of income inequality, yet little attention is given to the question, why measure inequality? However, the reasons for measurement bear importantly on whether and how measurement should be done. Upon examination, normative measures are found to be of questionable value. Descriptive measures, by contrast, may be useful, but the appropriate measure depends on the field of application rather than on general, a priori principles of the sort that are emphasized in the existing measurement literature. Measures of poverty are also considered, and similar conclusions are reached.

Karatzas, Ioannis

PD June 2003. TI The Harmonic Fisher Equation and the Inflationary Bias of Real Uncertainty. AU Karatzas, Ioannis; Shubik, Martin; Sudderth, William; Geanakoplos, John. AA Shubik and Geanakoplos: Yale University. Karatzas: Columbia University. Sudderth: University of Minnesota.

SR Yale Cowles Foundation Discussion Paper: 1424; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 27. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C73, E31, E41, E52, E58. KW Inflation. Equilibrium. Control. Interest Rate. Central Bank. Harmonic Fisher Equation.

AB The classical Fisher equation asserts that in a nonstochastic economy, the inflation rate must equal the difference between the nominal and real interest rates. We extend this equation to a representative agent economy with real uncertainty in which the central bank sets the nominal rate of interest. The Fisher equation still holds, but with the inflation rate replaced by the harmonic mean of the growth rate of money. Except for logarithmic utility, we show that on almost every path the long-run rate of inflation is strictly higher than it would be in the nonstochastic world obtained by replacing output with expected output in every period. If the central bank sets the nominal interest rate equal to the discount rate of the representative agent, then the long-run rate of inflation is positive (and the same) on almost every path. By contrast, the classical Fisher equation asserts that inflation should then be zero. In fact, no constraint interest rate will stabilize prices, even if the economy is stationary with bounded i.i.d. shocks. The central bank must actively manage interest rates if it wants to keep prices bounded forever. However, not even an active central bank can keep prices exactly constant.

Kaszniak, Ron

PD January 2001. TI The Effects of Limiting Accounting Discretion on the Informativeness of Financial Statements: Evidence from Software Revenue Recognition. AA Stanford University. SR Stanford Graduate School of Business Research Paper: 1400(R1); Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. PG 44. PR no charge. JE L86, M41. KW Software Companies. Earnings Statements. Financial Statements. Discretion.

AB This paper examines the effects on the informativeness of software companies' financial statements of limiting the amount of discretion with respect to software revenue recognition following the issuance of Statement of Position 91-1 in 1992. The requirement that companies adopt SOP 91-1 by restating earnings for prior periods allows comparing the value-relevance of two sets of data, the originally reported and the restated earnings numbers. This paper finds that the originally reported numbers provide incremental information content over the more conservative restated earnings numbers. This finding is consistent with managers using their discretion in pre-SOP 91-1 periods to convey private information about their firms' underlying economics. Furthermore, relative to a control group of software firms less sensitive to the accounting change, this paper documents a significant decline in the information content of sample firms' reported earnings following the issuance of SOP 91-1, as well as a significant increase in the voluntary disclosure of long-term earnings projections and non-financial information. This paper interprets these findings as evidence that limiting the amount of discretion has adversely affected managers' ability to communicate effectively with investors through the financial statements.

TI SFAS 123 Stock-Bases Compensation Expense and Equity Market Values. AU Aboody, David; Barth, Mary E.;

Kaszniak, Ron.

TI Firms' Voluntary Recognition of Stock-Based Compensation Expense. **AU** Aboody, David; Barth, Mary E.; Kaszniak, Ron.

Kearney, Melissa Schettini

PD November 2002. **TI** State Lotteries and Consumer Behavior. **AA** Wellesley College and NBER. **SR** National Bureau of Economic Research Working Paper: 9330; 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, H31, H89. **KW** State Lotteries. Gambling Demand.

AB Despite considerable controversy surrounding the use of state lotteries as a means of public finance, little is known about their consumer consequences. This project investigates two central questions about lotteries. First, do state lotteries primarily crowd out other forms of gambling, or do they crowd out non-gambling consumption? Second, does consumer demand for lottery games respond to expected returns, as maximizing behavior predicts, or do consumers appear to be misinformed about the risks and returns of lottery gambles? Analyses of multiple sources of micro-level gambling data demonstrate that lottery spending does not substitute for other forms of gambling. Household consumption data suggest that household lottery gambling crowds out approximately \$38 per month, or two percent, of other household consumption, with larger proportional reductions among low-income households. Demand for lottery products responds positively to the expected value of the gamble, controlling for other moments of the gamble and product characteristics; this suggests that consumers of lottery products are not simply uninformed, but are perhaps making fully-informed purchases.

Keller, Joachim G.

TI The Forecasting Performance of German Stock Option Densities. **AU** Craig, Ben R.; Glatzer, Ernst; Keller, Joachim G.; Scheiche, Martin.

TI The Empirical Performance of Option Based Densities of Foreign Exchange. **AU** Craig, Ben R.; Keller, Joachim G.

Keller, Wolfgang

PD December 2003. **TI** The Origins of Spatial Interaction. **AU** Keller, Wolfgang; Shiue, Carol. **AA** Keller: International Monetary Fund and University of Texas. Shiue: University of Texas. **SR** CEPR Discussion Paper: 4138; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4138.asp. **PG** 24. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F10, O10, R10, R40. **KW** International Trade. China. Spatial Empirical Methods.

AB Geography shapes economic outcomes in a major way. This paper uses spatial empirical methods to detect and analyze trade patterns in a historical dataset on Chinese rice prices. Our results suggest that spatial features were important for the expansion of interregional trade. Geography dictates, first, over what distances trade was possible in different regions, because the costs of ship transport were considerably below those for land transport. Spatial features also influence the direction in which a trading network is expanding. Moreover, our analysis

captures the impact of new trade routes both within and outside the trading areas. We also discuss the long-run implications this might have.

Kenc, Turalay

TI On Model Selection and Markov Switching: An Empirical Examination of Term Structure Models with Regime Shifts. **AU** Driffill, John; Kenc, Turalay; Sola, Martin; Spagnolo, Fabio.

Kenkel, Donald S.

PD October 2002. **TI** Rational Addiction, Peer Externalities and Long Run Effects of Public Policy. **AU** Kenkel, Donald S.; Reed, Robert R., III.; Wang, Ping. **AA** Kenkel: Cornell University and NBER. Reed: University of Kentucky. Wang: Vanderbilt University and NBER. **SR** National Bureau of Economic Research Working Paper: 9249; Working Papers, NBER, 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 U.S.). **JE** D91, H20, I12. **KW** Public Policy. Addiction. Tax Policy. General Equilibrium Model.

AB The main purpose of this research is to understand the patterns of consumption of addictive goods, their economic and welfare consequences for society and the long-run effect of tax policy in a dynamic general equilibrium model of rational addiction. In contrast to prior research, we allow individuals to make their consumption decisions simultaneous with savings and labor supply. When addictive goods have a stronger habit formation effect (an "addiction effect"), individuals choose to save less due to the anticipated adverse health consequences of addiction (a "detrimental health effect"). This is particularly important since total savings pins down future productivity in the economy. We also consider the role of peer influence in the choice of addiction and find that more "peer pressure" raises addictive consumption, lowers savings and reduces productivity. In light of the various distortions associated with addiction, we conclude by studying the long-run effects of an excise tax on addictive goods. Our calibration exercises suggest that incorporating capital formation and peer effects in a model of rational addiction are crucial for the design of public policy. In particular, accounting for peer externalities increases the optimal sin tax rate by more than 50 percent.

Kerschbamer, Rudolf

TI Price Discrimination in Markets for Experts' Services. **AU** Dulleck, Uwe; Kerschbamer, Rudolf.

Kim, Chang-Jin

PD November 2003. **TI** The Dynamic Relationship Between Permanent and Transitory Components of U.S. Business Cycles. **AU** Kim, Chang-Jin; Piger, Jeremy; Startz, Richard. **AA** Piger: Federal Reserve Bank of St. Louis. Kim: Korea University and University of Washington. Startz: University of Washington. **SR** Federal Reserve Bank of St. Louis Working Paper: 2001/017C; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 25. **PR** no charge. **JE** C32, E32. **KW** Asymmetry. Business Cycle. Markov-Switching. Fluctuations.

AB This paper investigates the dynamic relationship between permanent and transitory components of post-war U.S. business

cycles. We specify a time-series model for real GNP and consumption in which the two share a common stochastic trend and transitory component, and Markov-regime switching is used to model business cycle phases in these components. The timing of switches between business cycle phases is allowed to differ across the permanent and transitory components. The parameter estimates suggest a specific pattern of recessions: switches in the permanent component lead switches in the transitory component both when entering and leaving recessions.

PD December 2003. **TI** Nonlinearity and the Permanent Effects of Recessions. **AU** Kim, Chang-Jin; Piger, Jeremy; Morley, James. **AA** Piger: Federal Reserve Bank of St. Louis. Kim: Korea University and University of Washington. Morley: Washington University. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/014E; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 42. **PR** no charge. **JE** C22, E32. **KW** Asymmetry. Business Cycle. Economic Fluctuations. Markov-Switching.

AB This paper presents a new nonlinear time series model that captures a post-recession "bounce-back" in the level of aggregate output. While a number of studies have examined this type of business cycle asymmetry using recession-based dummy variables and threshold models, we relate the "bounce-back" effect to an endogenously estimated unobservable Markov-switching state variable. When the model is applied to U.S. real GDP, we find that the Markov-switching regimes are closely related to NBER-dated recessions and expansions. Also, the Markov-switching form of nonlinearity is statistically significant and the "bounce-back" effect is large, implying that the permanent effects of recessions are small. Meanwhile, having accounted for the "bounce-back" effect, we find little or no remaining serial correlation in the data, suggesting that our model is sufficient to capture the defining features of U.S. business cycle dynamics. When the model is applied to other countries, we find larger permanent effects of recessions.

Kim, Jae-Young

TI End-of-Sample Cointegration Breakdown Tests. **AU** Andrews, Donald W. K.; Kim, Jae-Young.

Kind, Hans Jarle

TI Cooperative and Non-Cooperative R&D Policy in an Economic Union. **AU** Haaland, Jan I.; Kind, Hans Jarle.

King, Maxwell L.

TI Estimation of Asymmetric Box-Cox Stochastic Volatility Models Using MCMC Simulation. **AU** Zhang, Xibin; King, Maxwell L.

Kivets, Ran

PD November 2003. **TI** Alternative Models for Capturing the Compromise Effect. **AU** Kivets, Ran; Netzer, Oded; Srinivasan, V. **AA** Kivets: Columbia University. Netzer and Srinivasan: Stanford University. **SR** Stanford Graduate School of Business Research Paper: 1731(R); Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 49. **PR** no charge. **JE** M30. **KW** Compromise Effect. Choice Modeling. Brands.

AB In this article, we suggest four context-dependent choice models that can conceptually capture the compromise effect. Although these models are motivated by theory from economics and behavioral decision research, they differ with respect to the particular mechanism that underlies the compromise effect (e.g., contextual concavity vs. loss aversion). Using two empirical applications, we (1) contrast the alternative models and show that incorporating the compromise effect by modeling the local choice context leads to superior predictions and fit relative to the traditional value maximization model and a stronger (naive) model that adjusts for possible biases in utility measurement; (2) generalize the compromise effect by demonstrating that it systematically affects choice in larger sets of products and attributes than previously shown; (3) show the theoretical and empirical equivalence of loss aversion and local (contextual) concavity; and (4) demonstrate the superiority of models that use a single reference point over "tournament models" in which each option serves as a reference point. We discuss the theoretical and practical implications of this research, as well as the ability of the proposed models to predict other behavioral context effects.

Kocenda, Evzen

PD December 2003. **TI** Ownership and Firm Performance After Large-Scale Privatization. **AU** Kocenda, Evzen; Svejnar, Jan. **AA** Kocenda: CERGE-EI. Svejnar: University of Michigan. **SR** CEPR Discussion Paper: 4143; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4143.asp. **PG** 33. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C33, D20, G32, G34, L33. **KW** Ownership. Performance. Privatization. Panel Data. Industrial Organization.

AB We analyze the effect of ownership on post-privatization performance in a virtually complete population of medium and large firms privatized in a model large-scale privatization economy (Czech Republic). We find that concentrated foreign ownership improves economic performance, but domestic private ownership does not, relative to state-owned firms. Foreign firms engage in strategic restructuring by increasing profit and sales, while domestic firms reduce sales and labor cost without increasing profit. Ownership concentration is associated with superior performance, thus providing support to the agency theory and contradicting theories stressing the positive effects of managerial autonomy and initiative. Our results are also consistent with the thesis that the presence of a large domestic stockholder may not result in a superior performance if this shareholder "loots" the firm. We find support for the hypothesis that firms restructure by lowering and later increasing employment. The state as a holder of the golden share stimulates profitable restructuring, while pursuing a socially understandable employment objective in a period of rising unemployment. Our results hence depict the state in transition economies as a much more economically and socially beneficial agent than many recent theoretical studies.

Koczy, Laszlo A.

PD June 2003. **TI** The Minimal Dominant Set is a Non-Empty Core-Extension. **AU** Koczy, Laszlo A.; Lauwers, Luc. **AA** Catholic University Leuven. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/50; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milan, Italy. Website:

www.fecm.it/Fecm/Pub/Publications/Wpapers/default.htm.

PG 21. PR no charge; available only on website. JE C70, C71. KW Core. Non-Emptiness. Indirect Dominance. Outsider-Independence.

AB A set of outcomes for a TU-game in characteristic function form is dominant if it is, with respect to an outsider-independent dominance relation, accessible (or admissible) and closed. This outsider-independent dominance relation is restrictive in the sense that a deviating coalition cannot determine the payoffs of those coalitions that are not involved in the deviation. The minimal (for inclusion) dominant set is non-empty and for a game with a non-empty coalition structure core, the minimal dominant set returns this core.

Koedijk, Kees

TI Diversification Meltdown or the Impact of Fat Tails on Conditional Correlation? AU Campbell, Rachel; Forbes, Catherine S.; Koedijk, Kees; Kofman, Paul.

Koehler, Anne B.

TI Empirical Information Criteria for Time Series Forecasting Model Selection. AU Billah, M. Baki; Hyndman, Rob J.; Koehler, Anne B.

Kofman, Paul

TI Diversification Meltdown or the Impact of Fat Tails on Conditional Correlation? AU Campbell, Rachel; Forbes, Catherine S.; Koedijk, Kees; Kofman, Paul.

Konishi, Hideo

TI Free Trade Networks. AU Furusawa, Taiji; Konishi, Hideo.

Kool, Clemens J. M.

TI A Note on the Expectations Hypothesis at the Founding of the Fed. AU Thornton, Daniel L.; Kool, Clemens J. M.

Kosenok, Grigory

TI On the Empirical Content of Quantal Response Equilibrium. AU Haile, Philip A.; Hortacsu, Ali; Kosenok, Grigory.

Kotlikoff, Laurence J.

TI Does It Pay to Work? AU Gokhale, Jagadeesh; Kotlikoff, Laurence J.; Sluchynsky, Alexi.

Krainer, John

TI House Prices and Consumer Welfare. AU Bajari, Patrick; Benkard, C. Lanier; Krainer, John.

Krishnan, C. N. V.

PD May 2003. TI Monitoring and Controlling Bank Risk: Does Risky Debt Serve any Purpose? AU Krishnan, C. N. V.; Ritchken, Peter H.; Thomson, James B. AA Krishnan and Ritchken: Case Western Reserve University. Thomson: Federal Reserve Bank of Cleveland. SR Federal Reserve Bank of Cleveland Working Paper: 03/01; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. PG 47. PR no charge. JE G12, G21, G28. KW Credit Spreads. Market Discipline. Subordinated Debt.

AB We examine whether mandating banks to issue subordinated debt would serve to enhance market monitoring and control risk taking. To evaluate whether subordinated debt enhances risk monitoring, we extract the credit-spread curve for each banking firm in our sample and examine whether changes in credit spreads reflect changes in bank risk variables, after controlling for changes in market and liquidity variables. We find that they do not. Our result is robust to firm type, examination rating, size, leverage and profitability, as well as to different model specifications. To evaluate whether subordinated debt controls risk taking, we examine whether issuing subordinated debt changes the risk-taking behavior of a bank. We find that it does not. We conclude that a mandatory subordinated debt requirement for banks is unlikely to provide the purported benefits of enhancing risk monitoring or controlling risk-taking.

PD November 2003. TI On Credit Spread Slopes and Predicting Bank Risk. AU Krishnan, C. N. V.; Ritchken, Peter H.; Thomson, James B. AA Krishnan and Ritchken: Case Western Reserve University. Thomson: Federal Reserve Bank of Cleveland. SR Federal Reserve Bank of Cleveland Working Paper: 03/14; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. PG 46. PR no charge. JE G12, G18, G28. KW Credit-Spread Curves. Credit-Spread Slopes. Bank Risk.

AB We examine whether credit-spread curves, engendered by a mandatory subordinated-debt requirement for banks, would help predict bank risk. We extract the credit-spread curves each quarter for each bank in our sample, and analyze the information content of credit-spread slopes. We find that credit-spread slopes are significant predictors of future credit spreads. However, credit-spread slopes do not provide significant additional information on future bank-risk variables, over and above other bank-specific and market-wide information.

Kroszner, Randall S.

TI Federal Terrorism Risk Insurance. AU Brown, Jeffrey R.; Kroszner, Randall S.; Jenn, Brian.

Krueger, Dirk

PD January 2004. TI Competitive Risk Sharing Contracts with One-Sided Commitment. AU Krueger, Dirk; Uhlig, Harald. AA Krueger: University of Pennsylvania. Uhlig: Humboldt Universität and CEPR. SR CEPR Discussion Paper: 4208; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4208.asp. PG 29. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D11, D91, E21, G22. KW Long-Term Contracts. Risk Sharing. Limited Commitment. Competition.

AB This paper analyses dynamic equilibrium risk sharing contracts between profit-maximizing intermediaries and a large pool of ex-ante identical agents that face idiosyncratic income uncertainty that makes them heterogeneous ex-post. In any given period, after having observed their income, the agent can walk away from the contract, while the intermediary cannot, i.e. there is one-sided commitment. We consider the extreme scenario that the agents face no costs to walking away, and can sign up with any competing intermediary without any reputational losses. Contrary to intuition, we demonstrate that not only autarky, but also partial and full insurance can obtain,

depending on the relative patience of agents and financial intermediaries. Insurance can be provided because in an equilibrium contract an up-front payment effectively locks in the agent with an intermediary. We then show that our contract economy is equivalent to a consumption-savings economy with one-period Arrow securities and a short-sale constraint, similar to Bulow and Rogo (1989). From this equivalence and our characterization of dynamic contracts it immediately follows that without cost of switching financial intermediaries debt contracts are not sustainable, even though a risk allocation superior to autarky can be achieved.

Krugman, Paul

TI Agglomeration, Integration and Tax Harmonization. **AU** Baldwin, Richard E.; Krugman, Paul.

Kubler, Felix

TI Borrowing Costs and the Demand for Equity Over the Life Cycle. **AU** Davis, Steven J.; Kubler, Felix; Willen, Paul.

Kugler, Adriana

TI Protective or Counter-Productive? Labor Market Institutions and the Effect of Immigration on EU Natives. **AU** Angrist, Joshua D.; Kugler, Adriana.

Kumar, Sunil

PD January 2004. **TI** Self-Interested Routing in Queuing Networks. **AU** Kumar, Sunil; Parlakturk, Ali. **AA** Stanford University. **SR** Stanford Graduate School of Business Research Paper: 1782(R); Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 38. **PR** no charge. **JE** D85. **KW** Stochastic Networks. Self-Interested Routing. Queuing Networks.

AB We study self-interested routing in stochastic networks, taking into account the discrete stochastic dynamics of such networks. We analyze a two station multiclass queueing network in which the system manager chooses the scheduling rule used, and individual customers choose routes in a self-interested manner. We show that this network can be unstable in Nash equilibrium under some scheduling rules. We also design a non-trivial scheduling rule that negates the performance degradation due to self-interested routing and achieves a Nash equilibrium with performance comparable to the first-best solution.

Kunst, Robert M.

PD September 2002. **TI** Decision Maps for Bivariate Time Series with Potential Threshold Cointegration. **AA** University of Vienna and Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 121; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 28. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** C11, C15, C32. **KW** Model Selection. Bayes Testing. Nonlinear Models. Time Series Models.

AB Bivariate time series data often show strong relationships between the two components, while both individual variables can be approximated by random walks in the short run and are obviously bounded in the long run. Three model classes are considered for a time-series model selection problem: stable vector autoregressions, cointegrated models, and globally

stable threshold models. It is demonstrated how simulated decision maps help in classifying observed time series. The maps process the joint evidence of two test statistics: a canonical root and an LR-type specification statistic for threshold effects.

PD May 2003. **TI** Testing for Relative Predictive Accuracy: A Critical Viewpoint. **AA** Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 130; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 45. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** C12, C32, C53. **KW** Information Criteria. Forecasting. Hypothesis Testing.

AB Tests for relative predictive accuracy have become a widespread addendum to forecast comparisons. Many empirical research reports conclude that the difference between the entertained forecasting models is "insignificant". This paper collects arguments that cast doubt on the usefulness of relative predictive accuracy tests. The main point is not that test power is too low but that their application is conceptually mistaken. The features are highlighted by means of some Monte Carlo experiments for simple time-series decision problems.

Kuzmics, Christoph

TI Tail-Dependence in Stock-Return Pairs. **AU** Fortin, Ines; Kuzmics, Christoph.

Kydland, Finn E.

TI Inflation Persistence and Flexible Prices. **AU** Dittmar, Robert; Gavin, William T.; Kydland, Finn E.

Ladron-de-Guevara, Antonio

PD November 2001. **TI** A Dynamic Choice Model of Hybrid Behavior in the Attribute-Space. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 589; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. **PG** 25. **PR** papers only available on web page; no hard copies. **JE** C35, D91, M39. **KW** Consumer Choice Models. State-Dependence Models. Consumption Patterns. Variety Seeking. Hybrid Behavior.

AB This paper presents a dynamic choice model in the attribute space considering rational consumers that discount the future. In light of the evidence of several state-dependence patterns, the model is further extended by considering a utility function that allows for the different types of behavior described in the literature: pure inertia, pure variety seeking and hybrid. The model presents a stationary consumption pattern that can be inertial, where the consumer only buys one product, or a variety-seeking one, where the consumer buys several products simultaneously. Under the inverted-U marginal utility assumption, the consumer behaves inertial among the existing brands for several periods, and eventually, once the stationary levels are approached, the consumer turns to a variety-seeking behavior. An empirical analysis is run using a scanner database for fabric softener and significant evidence of hybrid behavior for most attributes is found, which supports the functional form considered in the theory.

Laeven, Luc

TI How Country and Safety-Net Characteristics Affect Bank Risk-Shifting. **AU** Hovakimian, Armen; Kane, Edward J.; Laeven, Luc.

Lagunoff, Roger

TI On the Size and Structure of Group Cooperation. **AU** Haag, Matthew; Lagunoff, Roger.

Lakdawalla, Darius

TI Does Medicare Benefit the Poor? New Answers to an Old Question. **AU** Bhattacharya, Jay; Lakdawalla, Darius.

Lamb, Roger

TI The Prisoner's Dilemma and City-Centre Traffic. **AU** Joshi, Mary Sissons; Joshi, Vijay; Lamb, Roger.

Lang, Kevin

TI How Important are Classroom Peer Effects? Evidence from Boston's Metco Program. **AU** Angrist, Joshua D.; Lang, Kevin.

Lang, Mark H.

TI Employee Stock Options, Corporate Taxes and Debt Policy. **AU** Graham, John R.; Lang, Mark H.; Shackelford, Douglas A.

Laussel, Didier

TI Increasing Returns, Entrepreneurship and Imperfect Competition. **AU** Gabszewicz, Jean J.; Laussel, Didier.

Lauwers, Luc

TI The Minimal Dominant Set is a Non-Empty Core-Extension. **AU** Koczy, Laszlo A.; Lauwers, Luc.

Lazarev, Valery

PD March 2004. **TI** Political Rents, Promotion Incentives, and Support for a Non-Democratic Regime. **AA** Yale University. **SR** Yale Economic Growth Center Discussion Paper: 882; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. **PG** 52. **PR** \$2.00 plus postage. **JE** D72, J45, N44, P30. **KW** Non-Democratic Regimes. Bureaucracy. Hierarchy. Political Support. Promotion Incentives. Implicit Contract. Soviet Union.

AB This paper analyzes the economic foundations of a non-democratic political regime, where the ruling bureaucracy captures rents through collective control over state property and job assignment. The model developed here yields the equilibrium in the "political labor market," where the ruling bureaucracy buys services and political support of activists recruited from the working population. The underlying implicit contract requires that the incumbent bureaucrats retire after a certain time to allow for deferred promotion of activists into rent-paying positions. The major implications are that the stability of a non-democratic regime is consistent with high-income gap between the rulers and the rest of the population, strengthened when the government pursues an active investment policy, and is not directly affected by public goods provision or the rate of economic growth. The results of

econometric analysis of panel data from former Soviet states for the period of 1956-1968 confirm the predictions of the model.

Le Menestrel, Marc

PD September 2001. **TI** A Process Approach to the Utility for Gambling. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 570; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. **PG** 13. **PR** papers only available on web page; no hard copies. **JE** D81. **KW** Gambling. Expected Utility. Process Utility. Rationality. Irrationality.

AB This paper argues that any specific utility or disutility for gambling must be excluded from expected utility because such a theory is consequential while a pleasure or displeasure for gambling is a matter of process, not of consequences. A (dis)utility for gambling is modeled as a process utility which monotonically combines with expected utility restricted to consequences. This allows for a process (dis)utility for gambling to be revealed. As an illustration, the model shows how empirical observations in the Allais paradox can reveal a process disutility of gambling. A more general model of rational behavior combining processes and consequences is then proposed and discussed.

PD October 2001. **TI** The Domain and Interpretation of Utility Functions: An Exploration. **AU** Le Menestrel, Marc; Van Wassenhove, Luk N. **AA** Le Menestrel: Universitat Pompeu Fabra. Van Wassenhove: INSEAD. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 576; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. **PG** 20. **PR** papers only available on web page; no hard copies. **JE** A12, D00, D81. **KW** Utility. Representation. Interpretation. Preference Reversal.

AB This paper proposes an exploration of the methodology of utility functions that distinguishes interpretation from representation. While representation univocally assigns numbers to the entities of the domain of utility functions, interpretation relates these entities with empirically observable objects of choice. This allows us to make explicit the standard interpretation of utility functions which assumes that two objects have the same utility if and only if the individual is indifferent among them. We explore the underlying assumptions of such a hypothesis and propose a non-standard interpretation according to which objects of choice have a well-defined utility although individuals may vary in the way they treat these objects in a specific context. We provide examples of such a methodological approach that may explain some reversal of preferences and suggest possible mathematical formulations for further research.

PD November 2001. **TI** Internet E-ethics in Confrontation with an Activists' Agenda: Yahoo! on Trial. **AU** Le Menestrel, Marc; Hunter, Mark; de Bettignies, Henri-Claude. **AA** Le Menestrel: Universitat Pompeu Fabra. Hunter and de Bettignies: INSEAD. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 577; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. **PG** 21.

PR papers only available on web page; no hard copies. JE L86, M14, O30. KW E-ethics. Legal Compliance. Internet Regulation. Freedom of Expression. E-business.

AB A prolonged confrontation between Yahoo! Inc. and French anti-racism activists who ask for the removal of Nazi items from auction sites as well as restricted access to neo-Nazi sites is analyzed. We present the case and its development up to the decision of Yahoo! Inc. to remove the items from yahoo.com following a French court's verdict against the firm. Using a business ethics approach, we distinguish the legal, technical, philosophical and managerial issues involved in the case and their management by Yahoo! We conclude on the difficulty of governing relations with society from corporate and legal affairs departments at the headquarters level, and on the clash of two visions over the regulation of social freedom.

PD November 2001. TI Economic Rationality and Ethical Behavior. AA Universitat Pompeu Fabra. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 584; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. PG 13. PR papers only available on web page; no hard copies. JE A13, M14. KW Rationality. Business Ethics. Economic Rationality. Transparency. Confidentiality.

AB This paper argues that economic rationality and ethical behavior cannot be reduced one to the other, casting doubts on the validity of formulas like "profit is ethical" or "ethics pays". In order to express ethical dilemmas as opposing economic interest with ethical concerns, we propose a model of rational behavior that combines these two irreducible dimensions in an open but not arbitrary manner. Behaviors that are neither ethical nor profitable are considered irrational (non-arbitrariness). However, behaviors that are profitable but unethical, and behaviors that are ethical but not profitable, are all treated as rational (openness). Combining ethical concerns with economic interest, ethical business is in turn an optimal form of rationality between venality and sacrifice. Because every one prefers to communicate that he acts ethically, ethical business remains ambiguous until some economic interest is actually sacrificed. We argue however that ethical business has an interest in demonstrating its consistency between communication and behavior by a transparent attitude. On the other hand, venal behaviors must remain confidential to hide the corresponding lack of consistency. This discursive approach based on transparency and confidentiality helps to further distinguish between ethical and unethical business behaviors.

Leahy, Dermot

PD January 2004. TI Absorptive Capacity, R&D Spillovers and Public Policy. AU Leahy, Dermot; Neary, J. Peter. AA University College Dublin and CEPR. SR CEPR Discussion Paper: 4171; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4171.asp. PG 21. PR 5 pounds, \$5 or 8 euros + postage and handling. JE L13, O31. KW Absorptive Capacity of R&D. Competition. Policy. Industrial Policy. R&D Spillovers. Research Joint Ventures.

AB Empirical evidence strongly suggests that R&D increases a firm's "absorptive capacity" (its ability to absorb spillovers from other firms) as well as contributing directly to

profitability. We explore the theoretical implications of this. We specify a general model of the absorptive capacity process and show that costly absorption both raises the effectiveness of own R&D and lowers the effective spillover coefficient. This weakens the case for encouraging research joint ventures, even if there is complete information sharing between its members. It also implies an additional strategic pay-off to policies that raise the level of extra-industry knowledge.

Lechene, Valerie

TI Caring and Sharing: Tests Between Alternative Models of Intra- Household Allocation. AU Browning, Martin; Lechene, Valerie.

TI Smoking and Endogenous Mortality: Does Heterogeneity in Life Expectancy Explain Differences in Smoking Behavior? AU Adda, Jerome; Lechene, Valerie.

Ledoit, Olivier

PD October 2001. TI Some Hypothesis Tests for the Covariance Matrix when the Dimension is Large Compared to the Sample Size. AU Ledoit, Olivier; Wolf, Michael. AA Ledoit: UCLA. Wolf: Universitat Pompeu Fabra. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 575; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. PG 19. PR papers only available on web page; no hard copies. JE C12, C52. KW Concentration Asymptotics. Equality Test. Sphericity Test.

AB This paper analyzes whether standard covariance matrix tests work when dimensionality is large, and in particular larger than sample size. In the latter case, the singularity of the sample covariance matrix makes likelihood ratio tests degenerate, but other tests based on quadratic forms of sample covariance matrix eigenvalues remain well-defined. We study the consistency property and limiting distribution of these tests as dimensionality and sample size go to infinity together, with their ratio converging to a finite non-zero limit. We find that the existing test for sphericity is robust against high dimensionality, but not the test for equality of the covariance matrix to a given matrix. For the latter test, we develop a new correction to the existing test statistic that makes it robust against high dimensionality.

PD October 2001. TI Flexible Multivariate GARCH Modeling with an Application to International Stock Markets. AU Ledoit, Olivier; Santa-Clara, Pedro; Wolf, Michael. AA Ledoit: Credit Suisse First Boston. Santa-Clara: UCLA. Wolf: Universitat Pompeu Fabra. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 578; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. PG 33. PR papers only available on web page; no hard copies. JE C13, C51, C61, G11, G15. KW Diagonal-Vech Model. Multivariate GARCH. Unrestricted Estimation.

AB The goal of this paper is to estimate time-varying covariance matrices. Since the covariance matrix of financial returns is known to change through time and is an essential ingredient in risk measurement, portfolio selection, and tests of asset pricing models, this is a very important problem in practice. Our model of choice is the Diagonal-Vech version of the Multivariate GARCH (1, 1) model. The problem is that the

estimation of the general Diagonal-Vech model is numerically infeasible in dimensions higher than 5. The common approach is to estimate more restrictive models which are tractable but may not conform to the data. Our contribution is to propose an alternative estimation method that is numerically feasible, produces positive semi-definite conditional covariance matrices, and does not impose unrealistic a priori restrictions. We provide an empirical application in the context of international stock markets, comparing the new estimator to a number of existing ones.

PD November 2001. **TI** Improved Estimation of the Covariance Matrix of Stock Returns With an Application to Portfolio Selection. **AU** Ledoit, Olivier; Wolf, Michael. **AA** Ledoit: Credit Suisse First Boston. Wolf: Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 586; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. **Website:** www.econ.upf.es/eng/research/research2.php. **PG** 19. **PR** papers only available on web page; no hard copies. **JE** C13, C51, G11. **KW** Covariance Matrix Estimation. Factor Models. Portfolio Selection. Shrinkage.

AB This paper proposes to estimate the covariance matrix of stock returns by an optimally weighted average of two existing estimators: the sample covariance matrix and single-index covariance matrix. This method is generally known as shrinkage, and it is standard in decision theory and in empirical Bayesian statistics. Our shrinkage estimator can be seen as a way to account for extra-market covariance without having to specify an arbitrary multi-factor structure. For NYSE and AMEX stock returns from 1972 to 1995, it can be used to select portfolios with significantly lower out-of-sample variance than a set of existing estimators, including multi-factor models.

Lee, David S.

PD October 2002. **TI** Credibility and Policy Convergence: Evidence from U.S. House Roll Call Voting Records. **AU** Lee, David S.; Moretti, Enrico; Butler, Matthew J. **AA** Lee: University of California, Berkeley and NBER. Moretti: UCLA and NBER. Butler: University of California, Berkeley. **SR** National Bureau of Economic Research Working Paper: 9315; 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** D72, P16. **KW** House Voting Records. Regression Discontinuity. Political Divergence.

AB Traditional models of political behavior predict complete or partial policy convergence, whereby electoral competition compels partisan politicians to choose positions more moderate than their most-preferred policies. Alternatively, if politicians cannot overcome the inability to make binding pre-commitments to policies, the expected result is complete policy divergence. By exploiting a regression discontinuity (RD) design inherent in the Congressional electoral system, this paper empirically tests the strong predictions of the complete divergence hypothesis against the alternative of partial convergence within the context of Representatives' roll call voting behavior in the U.S. House (1946-1994). The RD design implies that which party wins a district seat is quasi-randomly assigned among elections that turn out to be "close". We use this variation to examine if Representatives' roll call voting patterns do not respond to large exogenous changes in the probability of

winning the election, the strong prediction of complete policy divergence. The evidence is more consistent with full divergence and less consistent with partial convergence, suggestive that the difficulty of establishing credible commitments to policies is an important real-world phenomenon.

Lee, Gabriel S.

TI Effects of Securities Transaction Taxes on Depth and Bid-Ask Spread. **AU** Dupont, Dominique Y.; Lee, Gabriel S.

Leiderman, Leo

TI Living with Dollarization and the Route to De-Dollarization. **AU** Galindo, Arturo; Leiderman, Leo.

Levin, Andrew T.

PD November 2003. **TI** Is Inflation Persistence Intrinsic in Industrial Economies? **AU** Levin, Andrew T.; Piger, Jeremy. **AA** Levin: Federal Reserve Board. Piger: Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/023E; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. **Website:** research.stlouisfed.org/wp/. **PG** 44. **PR** no charge. **JE** C11, C22, E31. **KW** Inflation Dynamics. Bayesian Econometrics. Largest AR Root.

AB We apply both classical and Bayesian econometric methods to characterize the dynamic behavior of inflation for twelve industrial countries over the period 1984-2003, using four different price indices for each country. In particular, we estimate a univariate autoregressive (AR) model for each series, and consider the possibility of a structural break at an unknown date. For many of these countries, we find strong evidence for a break in the intercept of the AR equation in the late 1980s or early 1990s. Allowing for a break in the intercept, the inflation measures generally exhibit relatively low inflation persistence. Evidently, high inflation persistence is not an inherent characteristic of industrial economies.

Levine, Ross

TI Bank Regulation and Supervision: What Works Best? **AU** Barth, James R.; Caprio, Gerard, Jr.; Levine, Ross.

Lichtenberg, Frank R.

PD October 2002. **TI** The Dual Effects of Intellectual Property Regulations: Within- and Between- Patent Competition in the US Pharmaceuticals Industry. **AU** Lichtenberg, Frank R.; Philipson, Tomas J. **AA** Lichtenberg: Columbia University and NBER. Philipson: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 9303; 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** I11, K20, L10, O31. **KW** Intellectual Property. Patents. Pharmaceuticals Industry.

AB A patent only protects an innovator from others producing the same product, but it does not protect him from others producing better products under new patents. Therefore, one may divide up the source of competition facing an innovator into within-patent competition, which results from production of the same product, and between-patent competition, which results from production of products on

other patents. Previous theoretical and empirical micro-based analyses have emphasized the effects of IP-regulations on within-patent competition by showing how protecting innovative returns from imitators raises R&D incentives. However, between-patent competition affects innovative returns, particularly through creative destruction in the many high-tech industries that seem central to overall economic progress. This suggests that a fuller understanding of IP-regulations take into account its effects on between-patent competition. We find that the total effects of IP-regulations depend heavily on whether these unexplored effects are present. We attempt to estimate the relative magnitudes of the two sources of competition in limiting innovative returns in the U.S. pharmaceuticals market. In this market within-patent competition has been analyzed relatively more compared to competition between-patents. We estimate that between-patent competition costs the innovator at least as much as within-patent competition.

PD November 2002. **TI** Pharmaceutical-Embodied Technical Progress, Longevity, and Quality of Life: Drugs as "Equipment For Your Health". **AU** Lichtenberg, Frank R.; Virabhak, Suchin. **AA** Lichtenberg: Columbia University and NBER. Virabhak: Columbia University. **SR** National Bureau of Economic Research Working Paper: 9351; 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** I12, L65, O30. **KW** Technical Progress. Health. Pharmaceuticals.

AB In this paper we test the pharmaceutical-embodied technical progress hypothesis -- the hypothesis that newer drugs increase the length and quality of life -- and estimate the rate of progress. To do this, we estimate health production functions, in which the dependent variables are various indicators of post-treatment health status and the regressors include drug vintage and indicators of pre-treatment health status. We estimate these relationships using extremely disaggregated cross-sectional data. We find that people who used newer drugs had better post-treatment health than people using older drugs for the same condition, controlling for pre-treatment health, age, sex, race, marital status, education, income, and insurance coverage. People consuming newer drugs tend to experience greater increases in physical ability than people consuming older drugs. Most of the health measures indicate that the effect of drug vintage on health is higher for people with low initial health than it is for people with high initial health. Therefore in contrast to equipment-embodied technical progress, which tends to increase economic inequality, pharmaceutical-embodied technical progress has a tendency to reduce inequality as well as promote economic growth, broadly defined.

Lieberman, Offer

TI Empirical Similarity. **AU** Gilboa, Itzhak; Lieberman, Offer; Schmeidler, David.

Limao, Nuno

TI Government Gains from Self-Restraint: A Bargaining Theory of Inefficient Redistribution Policies. **AU** Drazen, Allen; Limao, Nuno.

Lin, Songhua

TI The Value of Information in International Trade: Gains to

Outsourcing through Hong Kong. **AU** Feenstra, Robert C.; Hanson, Gordon H.; Lin, Songhua.

Lindeboom, Maarten

PD January 2004. **TI** Individual Mortality and Macroeconomic Conditions from Birth to Death. **AU** Lindeboom, Maarten; Portrait, France; van den Berg, Gerard J. **AA** Lindeboom and Portrait: Vrije Universiteit Amsterdam. van den Berg: Vrije Universiteit Amsterdam and CEPR. **SR** CEPR Discussion Paper: 4200; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4200.asp. **PG** 24. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** I10, J10, N30. **KW** Death. Longevity. Health. Business Cycle. Life Expectancy.

AB This paper analyses the effects of macroeconomic conditions throughout life on the individual mortality rate. We estimate flexible duration models where the individual's mortality rate depends on current conditions, conditions earlier in life (notably during childhood), calendar time, age, individual characteristics, including individual socio-economic indicators, and interaction terms. We use individual data records from Dutch registers of birth, marriage, and death certificates, covering an observation window of unprecedented size (1812-1999). These are merged with historical data on macroeconomic and health indicators. The results indicate a strong effect of macroeconomic conditions during childhood on mortality at all ages. Those who are born in bad times on average have a high mortality rate throughout life, in particular during childhood itself and at ages above 50. Current macroeconomic conditions mostly have an effect on youths and on the elderly.

Lipse, Robert E.

PD October 2002. **TI** Home and Host Country Effects of FDI. **AA** NBER. **SR** National Bureau of Economic Research Working Paper: 9293; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 6C. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F10, F21, F23. **KW** Foreign Direct Investment. Multinationals.

AB Fears that production abroad would cause home country exports and employment to fall have not been confirmed by evidence. Multinational operations have led to a shift by parent firms in the United States toward more capital-intensive and skill-intensive domestic production. However, that type of reallocation does not appear to have taken place in Japan or Sweden. Within host countries, foreign-owned firms almost always pay higher wages than domestically-owned firms. It is not always the case that they cause wages in locally-owned firms to rise, but their presence does generally raise wage levels in host countries. Foreign firms generally have higher productivity than local firms, but the evidence for spillovers to local firms' productivity is mixed. The same mixture of impacts applies to host-country growth in general. The impact of FDI in promoting the growth of host country exports and linkages to the outside world is clearer. The major role of FDI in the transformation of host economies from being exporters of raw materials and foods to being exporters of manufactures, and in some cases relatively high-tech manufactures, is also evident in some cases.

Liu, Jun

TI Debt Policy, Corporate Taxes, and Discount Rates.
AU Grinblatt, Mark; Liu, Jun.

Ljungqvist, Alexander P.

PD December 2003. **TI** Competing for Securities Underwriting Mandates: Banking Relationships and Analyst Recommendations. **AU** Ljungqvist, Alexander P.; Marston, Felicia; Wilhelm, William J., Jr.. **AA** Ljungqvist: New York University and CEPR. Marston: University of Virginia. Wilhelm: Oxford University. **SR** CEPR Discussion Paper: 4162; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4162.asp. **PG** 33. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G21, G24. **KW** Analyst Behavior. Underwriting. Commercial Banks. Glass-Steagall Act.

AB We investigate directly whether analyst behavior influenced the likelihood of banks winning underwriting mandates for a sample of 16,625 US debt and equity offerings sold between December 1993 and June 2002. We control for the strength of the issuer's investment-banking relationships with potential competitors for the mandate, prior lending relationships, and the endogeneity of analyst behavior and the bank's decision to provide analyst coverage. Contrary to recent allegations, we find no evidence that aggressive analyst recommendations or recommendation upgrades increased a bank's probability of winning an underwriting mandate once we control for analysts' career concerns. In fact, the opposite appears to be the case. We interpret this finding as evidence that credibility is central to resolving information frictions associated with securities offerings. Overly aggressive analyst behavior undermines credibility.

PD December 2003. **TI** Conflicts of Interest and Efficient Contracting in IPOs. **AA** New York University and CEPR. **SR** CEPR Discussion Paper: 4163; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4163.asp. **PG** 30. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G24, G32. **KW** Initial Public Offerings. Underpricing. Intermediation. Underwriting Contracts.

AB We study the role of underwriter compensation in mitigating conflicts of interest between companies going public and their investment bankers. Making the bank's compensation more sensitive to the issuer's valuation should reduce agency conflicts and thus underpricing (Baron (1982); Biais, Bossaerts, and Rochet (2002)). Consistent with this prediction, we show that contracting on higher commissions in a large sample of UK IPOs completed between 1991-2002 leads to significantly lower initial returns, after controlling for other influences on underpricing and a variety of endogeneity concerns. These results indicate that issuing firms' contractual choices affect the pricing behavior of their IPO underwriters. Moreover, we cannot reliably reject the hypothesis that the intensity of incentives is optimal and thus that contracts are efficient.

Ljungqvist, Lars

PD January 2004. **TI** European Unemployment and Turbulence Revisited in a Matching Model. **AU** Ljungqvist, Lars; Sargent, Thomas J. **AA** Ljungqvist: Stockholm School of Economics and CEPR. Sargent: New York University and Hoover Institution. **SR** CEPR Discussion Paper: 4183;

Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4183.asp.

PG 9. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E24, J64. **KW** European Unemployment. Turbulence.

AB We recalibrate den Haan, Haefke, and Ramey's matching model to incorporate our preferred specification of "turbulence" as causing distinct dynamics of human capital after voluntary and involuntary job losses. Under our calibration, with high unemployment benefits, an increase in turbulence increases the unemployment rate and the duration of unemployment while leaving the inflow rate into unemployment roughly unchanged, mirroring features of European data in the 1980s and 1990s. The essential issue is that den Haan, Haefke, and Ramey specify that, in turbulent times, workers experiencing layoffs and quits are both subject to instantaneous skill losses, while we restrict instantaneous skill losses to laid off workers.

Llavorador, Humberto

PD September 2001. **TI** Platforms and Policies. **AA** Universitat Pompeu Fabra. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 571; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php.

PG 31. **PR** papers only available on web page; no hard copies. **JE** D72. **KW** Elections. Voting. Compromise. Platforms. Abstention.

AB This paper differentiates between policies and platforms at two levels: it incorporates a non-trivial policy-setting process, and it models voters who care not only about the implemented policy but also about the platform they support with their vote. We show that the lightest influence of the opposition in the policy-making process provokes a divergent tendency in platform writing. Platforms can be even more extreme than the candidates' ideal policies. With purely pragmatic voters, parties radicalize their positions but the implemented policy is moderate and consistently differs from the median voter ideal policy. When voters care about both the policy and the platforms, parties announce differentiated yet non-extreme policies, voters concentrate around the platforms, and substantial turnout rates are generically obtained. Abstention occurs among voters with extreme views as well as with moderate views. Our results are consistent with the observation of polarized platforms and moderate policies.

Llobet, Gerard

TI Patent Licensing Revisited: Heterogeneous Firms and Product Differentiation. **AU** Hernandez-Murillo, Ruben; Llobet, Gerard.

Llorens, Vanesa

TI Gender Wage Gaps by Education in Spain: Glass Floors versus Glass Ceilings. **AU** Dolado, Juan Jose; Llorens, Vanesa.

Lo, Ming Chien

PD July 2003. **TI** Is the Response of Output to Monetary Policy Asymmetric? Evidence From a Regime-Switching Coefficients Model. **AU** Lo, Ming Chien; Piger, Jeremy. **AA** Lo: St. Cloud State University. Piger: Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2001/022D; Research Division, Federal

Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. PG 23. PR no charge. JE C32, E32. KW Asymmetry. Business Cycles. Regime Switching. Monetary Policy.

AB This paper investigates regime switching in the response of U.S. output to a monetary policy action. We find substantial, statistically significant time variation in this response, and that this time variation corresponds to "high response" and "low response" regimes. We then investigate whether the timing of the regime shifts is consistent with three particular manifestations of asymmetry by modeling the transition probabilities governing the switching process as a function of state variables. We find strong evidence that the regime shifts can be explained by whether the economy is in a recession at the time the policy action was taken. In particular, policy actions taken during recessions seem to have larger effects than those taken during expansions. We find much less evidence of any asymmetry related to the direction or size of the policy action.

Lockwood, Ben

TI Appropriability, Investment Incentives and the Property Rights Theory of the Firm. AU de Meza, David; Lockwood, Ben.

Lojschova, Adriana

PD October 2003. **TI** Estimating the Impact of the Balassa-Samuelson Effect in Transition Economies. AA Institute for Advanced Studies. SR Institute for Advanced Studies (IHS), Economics Series: 140; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. PG 30. PR EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. JE F11, F31, F41. KW Balassa-Samuelson Effect. Purchasing Power Parity. Real Exchange Rate. Transition Economies.

AB The Balassa-Samuelson (BS) effect is usually considered as the prime explanation of the continuous real exchange rate appreciation of the central and east European (CEE) transition countries against their western European counterparts. This paper tries to explain relative price differentials observed over the past decade between four CEE economies -- Slovakia, the Czech Republic, Hungary, and Poland -- and Euro area in terms of productivity growth differentials. Using panel estimation techniques, we find strong empirical evidence in favor of the BS hypothesis. Our estimates of the BS term suggest that the BS effect in these 4 CEE countries does not have to be as sizeable as other studies propose.

Longstaff, Francis A.

PD October 2002. **TI** The Flight-to-Liquidity Premium in U.S. Treasury Bond Prices. AA UCLA and NBER. SR National Bureau of Economic Research Working Paper: 9312; Working Papers, NBER, 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 U.S.). JE G11, G12. KW US Treasury Bonds. Liquidity Premium.

AB We examine whether there is a flight-to-liquidity premium in Treasury bond prices by comparing them with prices of bonds issued by Refcorp, a U.S. Government agency, which are guaranteed by the Treasury. We find a large liquidity premium in Treasury bonds, which can be more than fifteen

percent of the value of some Treasury bonds. This liquidity premium is related to changes in consumer confidence, the amount of Treasury debt available to investors, and flows into equity and money market mutual funds. This suggests that the popularity of Treasury bonds directly affects their value.

Lopez-Casasnovas, Guillem

PD October 2001. **TI** A Multilevel Analysis on the Determinants of Regional Health Care Expenditure. A Note. AU Lopez-Casasnovas, Guillem; Saez, Marc. AA Lopez-Casasnovas: Universitat Pompeu Fabra. Saez: Universitat de Girona. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 572; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. PG 16.

PR papers only available on web page; no hard copies. **JE** C51, E62, H51, I18. **KW** OECD Health Expenditure. Fiscal Federalism. Multilevel Hierarchical Models.

AB We apply a multilevel hierarchical model to explore whether an aggregation fallacy exists in estimating the income elasticity of health expenditure by ignoring the regional composition of national health expenditure figures. We use data for 110 regions in eight OECD countries in 1997: Australia, Canada, France, Germany, Italy, Spain, Sweden and United Kingdom. In doing this we have tried to identify two sources of random variation: within countries and between-countries. Our results show that: 1- Variability between countries amounts to (SD) 0.5433 and just 13% of that can be attributed to income elasticity and the remaining 87% to autonomous health expenditure; 2- Within countries, variability amounts to (SD) 1.0249; and 3- The intra-class correlation is 0.5300. We conclude that we have to take into account the degree of fiscal decentralization within countries in estimating income elasticity of health expenditure. Two reasons lie behind this: a) where there is decentralization to the regions, policies aimed at emulating diversity tend to increase national health care expenditure; and b) without fiscal decentralization, central monitoring of finance tends to reduce regional diversity and therefore decrease national health expenditure.

Loranth, Gyoengyi

PD December 2003. **TI** Multinational Bank Regulation with Deposit Insurance and Diversification Effects. AU Loranth, Gyoengyi; Morrison, Alan D. AA Loranth: London Business School and CEPR. Morrison: University of Oxford. SR CEPR Discussion Paper: 4148; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4148.asp. PG 22. PR 5 pounds, \$5 or 8 euros + postage and handling. JE F23, G21, G28. KW Capital Adequacy Requirements. Deposit Insurance. Multinational Bank.

AB We analyze a model in which bank deposits are insured and there is an exogenous cost of bank capital. The former effect results in bank over-investment and the latter in under-investment. Regulatory capital requirements introduce investment distortions, which are a constrained optimal response to these market imperfections. We show that capital requirements which are constrained optimal for national banks result in under-investment by multinational banks. The extent of under-investment depends upon the home bank's riskiness, the extent of international diversification, and the liability

structure (branch or subsidiary) of the multinational. Capital requirements for international banks should therefore reflect these effects. We relate our findings to observed features of multinational banks and we discuss the possible existence of a multinational bank channel for financial contagion.

Lourenco, Helena R.

TI Exploiting Fitness Distance Correlation of Set Covering Problems. **AU** Finger, Markus; Stuetzle, Thomas; Lourenco, Helena R.

Mack, Charlotte

TI Determinants of Real House Price Dynamics. **AU** Capozza, Dennis R.; Hendershott, Patric H.; Mack, Charlotte; Mayer, Christopher J.

TI Determinants of Real House Price Dynamics. **AU** Capozza, Dennis R.; Hendershott, Patric H.; Mack, Charlotte; Mayer, Christopher J.

Maharaj, Elizabeth A.

PD April 2003. **TI** Using Evolutionary Spectra to Forecast Time Series. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/04; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 14. **PR** no charge. **JE** C10, C53. **KW** Evolutionary Spectra. Adaptive Smoothing. M3 Competition.

AB In this paper, an adaptive smoothing forecasting approach based on evolutionary spectra as developed by Rao and Shapiro (1970) is applied to the 3003 time series of various types and lengths used in the M3 Competition (Makridakis and Hibon, 2000). Comparisons of out-of-sample forecasts are made with other methods used in the M3 Competition via the symmetric mean absolute percentage error (SMAPE). It will be seen that this method does appear to perform very well when applied specifically to yearly, quarterly and monthly macro time series and to yearly and monthly demographic time series used in the competition.

Mahringer, Helmut

TI Choice and Success of Job Search Methods. **AU** Weber, Andrea; Mahringer, Helmut.

Maignan, Carole

PD June 2003. **TI** ICT, Clusters, and Regional Cohesion: A Summary of Theoretical and Empirical Research. **AU** Maignan, Carole; Pinelli, Dino; Ottaviano, Gianmarco I. P. **AA** Maignan and Pinelli: FEEM. Ottaviano: University of Bologna, FEEM, and CEPR. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/58; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.

PG 14. **PR** no charge; available only on website. **JE** R11, R12. **KW** Information Technology. Communication Technology. Clustering. ICT.

AB The question of the spatial impacts of the Information and Communication Technology (ICT) has animated the intellectual and policy debate for a long time. At the beginning of the 1990s the rise of the Internet brought a new surge of debate: it was argued that the Internet would free the economy

from the constraints of geography (Cairncross, 1997) bringing about a more even economic landscape. This contrasts sharply with the popular view of, for example, Silicon Valley, a congested area where world-class ICT and high-tech industries cluster together. In theory, geographical agglomeration of economic activities results as an equilibrium solution of a tension between centripetal and centrifugal forces. The paper discusses how the use of ICT may alter the balance between centripetal and centrifugal forces and therefore the final equilibrium solution. It shows that, from a theoretical point of view, there are many counterbalancing effects and no unique answer. The question can therefore only be resolved by empirical research. Available empirical evidence is then reported and discussed. Finally, the implications for European policies are drawn.

Makris, Miltos

PD January 2003. **TI** Administrative Bureaus With Standard Operating Procedures. **AA** University of Bristol, University of Exeter, and Athens University of Economics and Business. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/062; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmipo/publications.html. **PG** 30. **PR** no charge; hardcopies can be obtained from cmipo-office@bristol.ac.uk. **JE** D73, D82, H11, H41, L31. **KW** Bureaucracy. Nonprofit Organizations. Adverse Selection.

AB We investigate the terms of exchange between the government's legislative branch and an administrative bureau with standard operating procedures. An administrative bureau is a not-for-profit public firm that produces a non-marketable good, is tax-financed and its budget can be related to a verifiable measure of its performance. The budget must not be less than the agency's monetary costs. When standard operating procedures exist, the agency is unencumbered by moral hazard. Yet, such agency is likely to have superior information over its production technology. In such an environment, we focus on how the legislature could minimize its welfare losses. Our results come in striking contrast to those in the literature on bureaucracies and to the received adverse selection findings. In a two cost-type setting, we find that in most cases the principal distorts the bureau's production performance regardless of the latter's type. Also, the distortions are not of the same direction.

Malcomson, James

TI Cost Sharing in Health Service Provision: An Empirical Assessment of Cost Savings. **AU** Chalkley, Martin; Malcomson, James.

PD January 2002. **TI** General Training by Firms, Apprentice Contracts, and Public Policy. **AU** Malcomson, James; Maw, James W.; McCormick, Barry. **AA** Malcomson: University of Oxford. Maw: University of Swansea Wales. McCormick: University of Southampton. **SR** University of Oxford, Department of Economics Discussion Paper Series: 86; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 16. **PR** only available electronically through website. **JE** J24, J38. **KW** Contract Enforceability. Apprenticeships. Regulation.

AB Workers will not pay for general on-the-job training if

contracts are not enforceable. Firms may if there are mobility frictions. Private information about worker productivities, however, prevents workers who quit receiving their marginal products elsewhere. Their new employers then receive external benefits from their training. In this paper, training firms increase profits by offering apprenticeships which commit firms to high wages for those trainees retained on completion. At these high wages, only good workers are retained. This signals their productivity and reduces the external benefits if they subsequently quit. Regulation of apprenticeship length (a historically important feature) enhances efficiency. Appropriate subsidies enhance it further.

Malmendier, Ulrike

PD November 2003. **TI** Overestimating Self-Control: Evidence from the Health Club Industry. **AU** Malmendier, Ulrike; Della Vigna, Stefano. **AA** Malmendier: Stanford University. Della Vigna: University of California, Berkeley. **SR** Stanford Graduate School of Business Research Paper: 1800; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 44. **PR** no charge. **JE** D12, D18, D91, L11, L83. **KW** Microeconomics. Behavioral Economics. Customer Relations/Retention.

AB Experimental evidence suggests that people make time-inconsistent choices and display overconfidence about positive personal attributes. Do these features affect consumer behavior in the market? To address this question we use a new panel data set from three US health clubs with information on the contract choices and the day-to-day attendance decisions of 7,978 health club members over three years. Members who choose a contract with a flat monthly fee of over \$70 attend on average 4.8 times per month. They pay a price per expected visit of more than \$17, even though a \$10-per-visit fee is also available. On average, these users forgo savings of \$700 during their membership. We review many aspects of the consumer behavior, including the interval between last attendance and contract termination, the survival probability, and the correlation between different consumption choices. The empirical results are difficult to reconcile with the standard assumption of time-consistent preferences and rational expectations. A model of time-inconsistent agents with overconfidence about future patience explains the findings. The agents overestimate the future attendance and delay contract cancellation whenever renewal is automatic. Salesman pressure and overestimation of future efficiency are the leading alternative explanations.

PD December 2003. **TI** Who Makes Acquisitions? CEO Overconfidence and the Market's Reaction. **AU** Malmendier, Ulrike; Tate, Geoffrey. **AA** Malmendier: Stanford University. Tate: University of Pennsylvania. **SR** Stanford Graduate School of Business Research Paper: 1798; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 54. **PR** no charge. **JE** D80, G14, G32, G34. **KW** Economics of Organizations. Mergers and Acquisitions. Behavioral Corporate Finance.

AB Overconfident CEOs over-estimate their ability to generate returns. Thus, on the margin, they undertake mergers that destroy value. They also perceive outside finance to be over-priced. We classify CEOs as overconfident when, despite their under-diversification, they hold options on company stock until expiration. We find that these CEOs are more acquisitive

on average, particularly via diversifying deals. The effects are largest in firms with abundant cash and untapped debt capacity. Using press coverage as "confident" or "optimistic" to measure overconfidence confirms these results. We also find that the market reacts significantly more negatively to takeover bids by overconfident managers.

PD December 2003. **TI** Contract Design and Self-Control: Theory and Evidence. **AU** Malmendier, Ulrike; Della Vigna, Stefano. **AA** Malmendier: Stanford University. Della Vigna: University of California, Berkeley. **SR** Stanford Graduate School of Business Research Paper: 1801; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 43. **PR** no charge. **JE** D10, D21, D40, D90, L11. **KW** Microeconomics. Behavioral Economics. Industrial Organization. Contract Theory. Applied Theory.

AB How do rational firms respond to consumer biases? In this paper, we analyze the profit-maximizing contract design of firms if consumers have time-inconsistent preferences and are partially naive about it. We consider markets for two types of goods: goods with immediate costs and delayed benefits (investment goods) such as health club attendance, and goods with immediate benefits and delayed costs (leisure goods) such as credit card-financed consumption. We establish three features of the profit-maximizing contract design with partially naive time-inconsistent consumers. First, firms price investment goods below marginal cost. Second, firms price leisure goods above marginal cost. Third, for all types of goods firms introduce switching costs and charge back-loaded fees. The contractual design targets consumer misperception of future consumption and underestimation of the renewal probability. The predictions of the theory match the empirical contract design in the credit card, gambling, health club, life insurance, mail order, mobile phone, and vacation timesharing industries. We also show that time inconsistency has adverse effects on consumer welfare only if consumers are naive.

Manera, Matteo

TI STAR-GARCH Models for Stock Markets Interactions in the Pacific Basin Region, Japan and US. **AU** Buseti, Giorgio; Manera, Matteo.

Marcet, Albert

PD November 2001. **TI** The HP-Filter in Cross-Country Comparisons. **AU** Marcet, Albert; Ravn, Morten O. **AA** Marcet: Universitat Pompeu Fabra. Ravn: London Business School. **SR** Universitat Pompeu Fabra, Economics and Business Working Paper: 588; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. **PG** 25. **PR** papers only available on web page; no hard copies. **JE** C32, E32. **KW** Business Cycles. Cross-Country Comparisons. Macroeconomic Volatility.

AB Many empirical studies of business cycles have followed the practice of applying the Hodrick-Prescott filter for cross-country comparisons. The standard procedure is to set the weight, which determines the 'smoothness' of the trend equal to 1600. We show that this choice might distort the results when the cyclical component is highly serially correlated, and that care should be taken in checking if the results are unreasonable in the light of common wisdom. As an example, we show that

the long recession that occurred in Spain between 1975 and 1985 goes unnoticed by the HP filter. We propose a method for adjusting lambda by reinterpreting the HP-filter as the solution to a constrained minimization problem. We argue that the common practice of fixing lambda across countries amounts to changing the constraints on trend variability across countries. Our proposed method is easy to apply, retains all the virtues of the standard HP-filter and when applied to Spanish data the results are in line with economic historian's view. Applying the method to a number of OECD countries we find that, with the exception of Spain, Italy and Japan, the standard choice of lambda=1600 is sensible.

Marchiori, Carmen

TI Endogenous Strategic Issue Linkage in International Negotiations. AU Carraro, Carlo; Marchiori, Carmen.

Marion, Nancy

TI The High Demand for International Reserves in the Far East: What's Going On? AU Aizenman, Joshua; Marion, Nancy.

Markowitz, Sara

TI I Did What Last Night!!!! Adolescent Risky Sexual Behaviors and Substance Use. AU Grossman, Michael; Markowitz, Sara.

Marsh, Thomas L.

TI Political Allocation of Agriculture Disaster Payments in the 1990s. AU Garrett, Thomas A.; Marsh, Thomas L.; Marshall, Maria I.

Marshall, Maria I.

TI Political Allocation of Agriculture Disaster Payments in the 1990s. AU Garrett, Thomas A.; Marsh, Thomas L.; Marshall, Maria I.

Marsiliani, Laura

TI Optimal Dynamic Taxation with Indivisible Labor. AU Basu, Parantap; Marsiliani, Laura; Renstroem, Thomas I.

Marston, Felicia

TI Competing for Securities Underwriting Mandates: Banking Relationships and Analyst Recommendations. AU Ljungqvist, Alexander P.; Marston, Felicia; Wilhelm, William J., Jr..

Martel, Frederic

TI How Do Legal Differences and Learning Affect Financial Contracts? AU Kaplan, Steven N.; Martel, Frederic; Stroemberg, Per Johan.

Martin, Gael M.

PD February 2003. TI Implicit Bayesian Inference Using Option Prices. AU Martin, Gael M.; Forbes, Catherine S.; Martin, Vance L. AA Martin and Forbes: Monash University, Martin: Melbourne University. SR Monash Department of Econometrics and Business Statistics Working Paper: 2003/05; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. PG 36. PR no charge. JE C11, C16, G13. KW Bayesian Option Pricing.

Leptokurtosis. Skewness. GARCH Option Pricing. Option Price Prediction.

AB A Bayesian approach to option pricing is presented, in which posterior inference about the underlying returns process is conducted implicitly via observed option prices. A range of models allowing for conditional leptokurtosis, skewness and time-varying volatility in returns are considered, with posterior parameter distributions and model probabilities backed out from the option prices. Models are ranked according to several criteria, including out-of-sample fit, predictive and hedging performance. The methodology accommodates heteroskedasticity and autocorrelation in the option pricing errors, as well as regime shifts across contract groups. The method is applied to intraday option price data on the S&P500 stock index for 1995. Whilst the results provide support for models which accommodate leptokurtosis, no one model dominates according to all criteria considered.

TI Pricing Australian S&P200 Options: A Bayesian Approach Based on Generalized Distributional Forms. AU Flynn, David B.; Grose, Simone D.; Martin, Gael M.; Martin, Vance L.

TI Coherent Predictions of Low Count Time Series. AU McCabe, Brendan P. M.; Martin, Gael M.

TI Bayesian Analysis of the Stochastic Conditional Duration Model. AU Strickland, Chris M.; Forbes, Catherine S.; Martin, Gael M.

TI Simulation-Based Bayesian Estimation of Affine Term Structure Models. AU Sanford, Andrew D.; Martin, Gael M.

TI Persistence and Nonstationary Models. AU McCabe, Brendan P. M.; Martin, Gael M.; Tremayne, Andrew R.

TI Bayesian Estimation of a Stochastic Volatility Model Using Option and Spot Prices: Application of a Bivariate Kalman Filter. AU Forbes, Catherine S.; Martin, Gael M.; Wright, Jill.

Martin, Philippe

PD October 2002. TI Financial Globalization and Emerging Markets: With or Without Crash? AU Martin, Philippe; Rey, Helene. AA Martin: Universite Paris I. Rey: Princeton University and NBER. SR National Bureau of Economic Research Working Paper: 9288; 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 E00, F30, F40, G10. KW Globalization. Asset Prices. Emerging Markets. Financial Crashes.

AB We analyze the impact of financial globalization on asset prices, investment and the possibility of crashes driven by self-fulfilling expectations in emerging markets. In a two-country model with one emerging market (intermediate income level) and one industrialized country (high income level), we show that liberalization of capital flows increases asset prices, investment and income in the emerging market. However, for intermediate levels of international financial transaction costs, we find that pessimistic expectations can be self-fulfilling, leading to a financial crash. The crash is accompanied by capital flight, a drop in income and investment below the financial autarky level and more market incompleteness. We show that emerging markets are more prone to financial crashes simply because they have a lower income level and not because

of the existence of market failures (moral hazard or credit constraints), bad monetary policies or exchange rate regimes.

Martin, Vance L.

TI Implicit Bayesian Inference Using Option Prices. AU Martin, Gael M.; Forbes, Catherine S.; Martin, Vance L.

TI Pricing Australian S&P200 Options: A Bayesian Approach Based on Generalized Distributional Forms. AU Flynn, David B.; Grose, Simone D.; Martin, Gael M.; Martin, Vance L.

Mason, Robin

PD January 2004. TI Independence and Heterogeneity in Games of Incomplete Information. AU Mason, Robin; Valentinyi, Akos. AA Mason: University of Southampton and CEPR. Valentinyi: University of Southampton, Hungarian Academy of Sciences and CEPR. SR CEPR Discussion Paper: 4177; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4177.asp. PG 34. PR 5 pounds, \$5 or 8 euros + postage and handling. JE C72, D82. KW Incomplete Information. Heterogeneity. Existence. Pure Strategy Equilibrium.

AB This paper provides a sufficient condition for the existence and uniqueness of equilibrium in monotone pure strategies for games of incomplete information. First, we show that if each player's incremental ex post pay-off is uniformly increasing in its own action and type, and its type is sufficiently uninformative of the types of its opponents (independence), then its expected pay-off satisfies a strict single crossing property in its own action and type, for any strategy profile played by its opponents. This ensures that a player's best response to any strategy profile is a monotone pure strategy. Secondly, we show that if, in addition, there is sufficient heterogeneity of the conditional density of types, then the best response correspondence is a contraction mapping. This ensures equilibrium existence and uniqueness. Our approach allows us to establish these results in a wide range of applications, including cases where there are no existing existence results.

Matouschek, Niko

PD January 2004. TI Labor Market Frictions, Job Insecurity and the Flexibility of the Employment Relationship. AU Matouschek, Niko; Ramezzana, Paolo; Robert-Nicoud, Frederic. AA Matouschek: Northwestern University and CEPR. Ramezzana: University of Virginia. Robert-Nicoud: University of Geneva. SR CEPR Discussion Paper: 4193; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4193.asp. PG 27. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D82, J41. KW Job Insecurity. Flexibility of Employment Relationships. Private Information.

AB We analyze a search model of the labor market in which firms and workers meet bilaterally and negotiate over wages in the presence of private information. We show that a fall in labor market frictions induces more aggressive wage bargaining behavior, which in turn leads to a costly increase in job insecurity. This adverse insecurity effect can be so large that firms and workers who are in an employment relationship can be made worse off by a fall in labor market frictions. In contrast, firms and workers who are not in an employment

relationship and are searching the market for a counterpart are always made better off by such a fall in labor market frictions. We then endogenize the organizational structure of the employment relationship and show that a fall in labor market frictions induces a one-off reorganization in which firms and workers switch from a rigid employment relationship to a flexible one. This reorganization leads to a large, one-off increase in job insecurity and unemployment.

Maug, Ernst

PD January 2004. TI Do Shareholders Vote Strategically? Evidence on the Advisory Role of Annual General Meetings. AU Maug, Ernst; Rydqvist, Kristian. AA Maug: Humboldt University. Rydqvist: Binghamton University and CEPR. SR CEPR Discussion Paper: 4192; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4192.asp. PG 31. PR 5 pounds, \$5 or 8 euros + postage and handling. JE G10. KW Shareholder Meeting. Information Aggregation. Strategic Voting. Sincere Voting. Super Majority. AB We investigate if the proxy voting process transmits valuable information from shareholders to management. A simple strategic voting model is developed and tested in a large sample of management proposals. The evidence suggests that voting is strategic in the sense that shareholders take into account the information of the other shareholders when making their voting decisions. The structural estimation suggests that strategic voting saves up to 30% of the value at stake in a proposal compared to naive voting strategies, especially for voting on governance proposals. The data also suggest that super majority requirements are never optimal. We conclude that shareholder meetings have an advisory function in addition to the disciplining role typically emphasized in the literature.

Mauleon, Ana

PD June 2003. TI Farsightedness and Cautiousness in Coalition Formation. AU Mauleon, Ana; Vannetelbosch, Vincent. AA Mauleon: Universite Catholique de Lille. Vannetelbosch: FNRS, IRES, and Universite Catholique de Louvain. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/52; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.fcem.it/Feem/Pub/Publications/Wpapers/default.htm.

PG 22. PR no charge; available only on website. JE C71, C72, C78. KW Coalition Formation. Farsightedness. Cautiousness. Positive Spillovers. Largest Consistent Set.

AB We adopt the largest consistent set defined by Chwe and Suk-Young (1994) to predict which coalition structures are possibly stable when players are farsighted. We also introduce a refinement, the largest cautious consistent set, based on the assumption that players are cautious. For games with positive spillovers, many coalition structures may belong to the largest consistent set. The grand coalition, which is the efficient coalition structure, always belongs to the largest consistent set and is the unique one to belong to the largest cautious consistent set.

Maurin, Eric

TI Job Tenure, Wages and Technology: A Reassessment Using Matched Worker-Firm Panel Data. AU Givord, Pauline; Maurin, Eric.

Maw, James W.

TI General Training by Firms, Apprentice Contracts, and Public Policy. **AU** Malcomson, James; Maw, James W.; McCormick, Barry.

McCabe, Brendan P. M.

PD April 2003. **TI** Coherent Predictions of Low Count Time Series. **AU** McCabe, Brendan P. M.; Martin, Gael M. **AA** McCabe: Liverpool University. Martin: Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/08; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 28. **PR** no charge. **JE** C11, C22, C53. **KW** Forecasting. Discrete Time Series. INAR(1). Bayesian Prediction. Bayesian Model Averaging.

AB The application of traditional forecasting methods to discrete count data yields forecasts that are non-coherent. That is, such methods produce non-integer point and interval predictions which violate the restrictions on the sample space of the integer variable. This paper presents a methodology for producing coherent forecasts of low count time series. The forecasts are based on estimates of the p -step ahead predictive mass functions for a family of distributions nested in the integer-valued first-order autoregressive (INAR(1)) class. The predictive mass functions are constructed from convolutions of the unobserved components of the model, with uncertainty associated with both parameter values and model specification fully incorporated. The methodology is used to analyze two sets of Canadian wage loss claims data.

PD September 2003. **TI** Persistence and Nonstationary Models. **AU** McCabe, Brendan P. M.; Martin, Gael M.; Tremayne, Andrew R. **AA** McCabe: Liverpool University. Martin: Monash University. Tremayne: University of Sydney. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/16; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 25. **PR** no charge. **JE** C10, C22. **KW** Cramer Representation. Stochastic Unit Root Model. Stochastic Integration. Impulse Response. Variance Ratio.

AB The aim of this paper is to examine the measurement of persistence in a range of time series models nested in the framework of Cramer (1961). This framework is a generalization of the Wold (1938) decomposition for stationary time series which, in addition to accommodating the standard $I(0)$ and $I(1)$ models, caters for alternative nonstationary processes. Three measures of persistence are considered, namely the long-run impulse response, variance ratio and autocorrelation functions. Particular emphasis is given to the behavior of these measures in a range of nonstationary models. We document conflict that arises between different measures, applied to the same model, as well as conflict arising from the use of a given measure in different models. Precisely which persistence measures are time dependent and which are not, is highlighted. The nature of the general representation used also helps clarify what shock the impulse response function refers to in the case of models where more than one random disturbance impinges on the time series.

McCarthy, Samuel

PD January 2003. **TI** Who Refers to Whom: A Study of Research Reference and the Relationship between Research Reports and Final Publication. **AU** McCarthy, Samuel; Shubik, Martin; Yu, Jianfeng. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1396; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 23. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** A14, L82, L84, L86. **KW** Referencing. Cost of Publication.

AB The size and style of referencing for a large sample of 60 years of publications of the Cowles Foundation are examined. The influence of computerization is considered. Self-referencing is noted and some observations are made on the costs and distribution of research papers.

McCormick, Barry

TI General Training by Firms, Apprentice Contracts, and Public Policy. **AU** Malcomson, James; Maw, James W.; McCormick, Barry.

McGarry, Kathleen

PD November 2002. **TI** Health and Retirement: Do Changes in Health Affect Retirement Expectations? **AA** UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 9317; 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** J14, J26. **KW** Health Status. Retirement Date.

AB One of the factors that undoubtedly affects the choice of a retirement date is the worker's health. However, the many studies examining the relationship between health and retirement have failed to reach agreement on the relative importance of health in comparison to financial variables. Efforts to do so have been hampered by the difficulty of correctly measuring health status. Much of the concern centers on the fear that subjective reports of health are biased by individuals using poor health as a justification for early retirement. This paper takes advantage of a unique measure of labor force attachment, the subjective probability of continued work, to re-examine the role of health and changes in health status. By focusing exclusively on workers I eliminate the concern about justification bias among retired individuals and find that subjective reports of health do have important effects on retirement. The effects of subjective health remain large even when more objective measures of health, such as disease conditions, are included in the model. I also find that changes in retirement expectations are driven to a much greater degree by changes in health than by changes in income or wealth.

McMillan, Robert

TI Residential Segregation in General Equilibrium. **AU** Bayer, Patrick; McMillan, Robert; Rueben, Kim.

Meier, Martin

TI Interactive Unawareness and Speculative Trade. **AU** Heifetz, Aviad; Meier, Martin; Schipper, Burkhard C.

Meissner, Christopher M.

PD October 2002. **TI** A New World Order: Explaining the Emergence of the Classical Gold Standard.

AA University of Cambridge and NBER. SR National Bureau of Economic Research Working Paper: 9233; Working Papers, NBER, 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 U.S.). JE F33, N10. KW Gold Standard. Duration Analysis. Network Externalities. Trade.

AB The classical gold standard only gradually became an international monetary regime after 1870. This paper provides a cross-country analysis of why countries adopted when they did. The paper uses duration analysis to show that network externalities operating through trade channels help explain the pattern of diffusion of the gold standard. Countries adopted the gold standard sooner when they had a large share of trade with other gold countries relative to GDP. The quality of the financial system also played a role. Support is found for the idea that a weak gold backing for paper currency emissions, possibly because of an unsustainable fiscal position or an unsound banking system, delayed adoption. A large public debt burden also led to a later transition. Data are also consistent with the idea that nations adopted the gold standard earlier to lower the costs of borrowing on international capital markets. The paper finds no evidence that the level of exchange rate volatility or agricultural interests mattered for the timing of adoption.

Mendoza, Enrique G.

PD October 2002. TI Margin Calls, Trading Costs, and Asset Prices in Emerging Markets: The Financial Mechanics of the "Sudden Stop" Phenomenon. AU Mendoza, Enrique G.; Smith, Katherine A. AA Mendoza: University of Maryland and NBER. Smith: Duke University. SR National Bureau of Economic Research Working Paper: 9286; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 40. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D52, E44, F32, F41. KW Emerging Markets. Sudden Stop. Crises.

AB A central feature of emerging markets crises is the "Sudden Stop" phenomenon characterized by large reversals of capital inflows and current accounts, deep recessions, and collapses in asset prices. This paper proposes an open-economy asset-pricing model with financial frictions that yields predictions in line with these observations. Margin requirements and information costs distort asset trading between a small open economy and foreign securities firms. If the economy's debt-equity ratio is low, standard productivity shocks cause normal recessions with smooth current-account adjustments. If the ratio is high, the same productivity shocks trigger margin calls forcing domestic agents to fire-sell equity to foreign traders who are slow to adjust their portfolios. This sets off a Fisherian asset-price deflation and subsequent rounds of margin calls. A current account reversal and a collapse in consumption occur if the fire-sale of assets cannot prevent a sharp increase in net foreign asset holdings.

Merz, Monika

PD January 2004. TI Labour and the Market Value of the Firm. AU Merz, Monika; Yashiv, Eran. AA Merz: University of Bonn. Yashiv: London School of Economics, Tel Aviv University and CEPR. SR CEPR Discussion Paper: 4184; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United

Kingdom. Website: www.cepr.org/pubs/dps/DP4184.asp. PG 25. PR 5 pounds, \$5 or 8 euros + postage and handling. JE E22, E23, E24, G12. KW Labor Market Frictions. Gross Flows. Q-Model. GMM.

AB What role does labor play in firms' market value? We explore this question using a production-based asset-pricing model with frictions in the adjustment of both capital and labor. We posit that hiring of labor is akin to investment in capital and that the two interact, with the interaction being a crucial determinant of market value behavior. We use aggregate US corporate sector data to estimate firms' optimal hiring and investment decisions and the consequences for firms' value. We then decompose this value, thereby quantifying the link between firms' market value and gross hiring flows, employment, gross investment and physical capital. We find that a conventional specification -- quadratic adjustment costs for capital and no hiring costs -- performs poorly. Rather hiring and investment flows, unlike employment and capital stocks, are volatile and both are essential to account for market volatility. A key result is that firms' value embodies the value of hiring and investment over and above the capital stock.

Micco, Alejandro

TI Microeconomic Flexibility in Latin America. AU Caballero, Ricardo J.; Engel, Eduardo M.R.A.; Micco, Alejandro.

Mikhail, Michael B.

TI Information Content of Equity Analyst Reports. AU Asquith, Paul; Mikhail, Michael B.; Au, Andrea S.

Miller, Nolan

PD June 2003. TI The Effects of Environmental Regulation on Technology Diffusion: The Case of Chlorine Manufacturing. AU Miller, Nolan; Snyder, Lori D.; Stavins, Robert. AA Miller and Snyder: Harvard University. Stavins: Harvard University and Resources for the Future. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/48; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Fcem/Pub/Publications/Wpapers/default.htm. PG 10. PR no charge; available only on website. JE L50, L65, O33, Q55. KW Regulation. Technological Change. Environment. Hazard Model.

AB We use a hazard model to estimate the effect of environmental regulation on the diffusion of membrane cell production technology in the chlorine manufacturing industry. We estimate the effect of regulation on both the adoption of the membrane technology at existing plants and on the exit of existing plants using older technologies. We find that environmental regulation did affect the diffusion of the cleaner technology in the chlorine industry. However, it did so not by encouraging the adoption of membrane cells by existing facilities, but by reducing the demand for chlorine and hence encouraging the shutdown of facilities using the environmentally inferior options.

Miller, Thomas W., Jr.

TI Directly Measuring Early Exercise Premiums Using American and European S&P 500 Index Options. AU Dueker, Michael; Miller, Thomas W., Jr..

Millock, Katrin

PD April 2003. TI The French Tax on Air Pollution:

Some Preliminary Results on its Effectiveness. AU Millock, Katrin; Nauges, Celine. AA Millock; CIRED (CNRS/EHESS). Nauges; LEERNA, INRA-Toulouse. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/44; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 19. PR no charge; available only on website. JE H23, Q52, Q53, Q58. KW Environmental Tax. Emissions Regulation. Earmarking. Air Quality.

AB The objective of this paper is to evaluate one form of environmental taxation, the French tax on air pollution from 1990-99. While starting out in 1985 as a tax levied only on emissions of sulphur dioxide (SO₂), the tax base was subsequently extended to encompass also emissions of nitrogen oxides (NO_x), hydrochloric acid (HCl), and volatile organic compounds (VOC). The revenues of the French tax on air pollution were earmarked for abatement subsidies and the financing of air quality surveillance systems. Using a plant-level database, we find a negative, significant effect of the tax on emissions of SO₂, NO_x, and HCl. The abatement elasticity with regard to the tax is quite small, however.

Mishkin, Frederic S.

PD October 2002. TI The Role of Output Stabilization in the Conduct of Monetary Policy. AA Columbia University and NBER. SR National Bureau of Economic Research Working Paper: 9291; 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 E50, E52, E58. KW Fluctuations. Credibility. Stabilization. Activist Monetary Policy.

AB This paper examines the role of output stabilization in the conduct of monetary policy. It argues that activist monetary policy in which the monetary authorities focus on output fluctuations in the setting of their policy instrument and in policy statements is likely to produce worse outcomes for output and inflation fluctuations, both because it will lead to suboptimal monetary policy, but also because it complicates monetary authorities' communication strategy and can weaken the credibility of the central bank. In contrast, conducting monetary policy with a flexible inflation target rule is likely to produce better outcomes. A flexible inflation target rule also allows the monetary authorities to effectively communicate to the public that they do care about output fluctuations, but makes it less likely that they will be encouraged to try to exploit the short-run tradeoff between output and inflation.

Mitchell, Olivia S.

PD October 2002. TI The Role of Company Stock in Defined Contribution Plans. AU Mitchell, Olivia S.; Utkus, Stephen P. AA Mitchell: University of Pennsylvania and NBER. Utkus: Vanguard Center for Retirement Research. SR National Bureau of Economic Research Working Paper: 9250; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 40. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE G11, G20, G30, J26. KW Defined Contribution Plans. Retirement. Portfolio Diversification.

AB We explore the risks and benefits of holding company stock in employer-sponsored defined contribution (DC)

retirement plans. We address three questions: (1) What is the role and function of company stock in such plans? (2) Who might be affected by enhanced portfolio diversification in such plans? and (3) What mechanisms exist, or might be developed, to enhance portfolio diversification if more diversification were deemed useful? Firms offer company stock within DC plans in an effort to enhance economic performance, though evidence is mixed on productivity gains from stock ownership. We demonstrate that concentrated stock positions arise most often in larger firms' DC plans where sponsors direct employer contributions and restrict diversification. Stock concentration also arises because participants systematically underestimate the risk of employer stock and over-rely on its past performance in making investment decisions. In a retirement system with concentrated stock positions, there will always be some participants who forfeit DC plan savings to firm bankruptcy. Encouraging plan diversification mitigates this risk, but it could also induce some companies to redirect plan contributions to other forms of stock compensation or to replace stock contributions with cash compensation. We conclude by describing policy tools that might be used to encourage diversification and discuss conditions for their effective implementation.

Mitra, Devashish

TI Political Ideology and Endogenous Trade Policy: An Empirical Investigation. AU Dutt, Pushan; Mitra, Devashish.

Mitra, Manipushpak

TI Financing Infrastructure Under Budget Constraints. AU Gautier, Axel; Mitra, Manipushpak.

Mody, Ashoka

PD October 2002. TI The Role of Information in Driving FDI: Theory and Evidence. AU Mody, Ashoka; Razin, Assaf; Sadka, Efraim. AA Mody: International Monetary Fund. Razin: Tel Aviv University, NBER, and Cornell University. Sadka: Tel Aviv University. SR National Bureau of Economic Research Working Paper: 9255; Working Papers, NBER, 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 U.S.). JE F21, F23, G30. KW Foreign Direct Investment. Corporate Transparency.

AB We develop a simple information-based model of FDI flows in which the abundance of "intangible" capital in the source countries, which generates expertise in cream-skimming investment projects in the host countries and enhances FDI flows. Corporate transparency in the host countries, on the other hand, diminishes the value of this expertise and thereby reduces the flow of FDI. Empirical evidence (from a sample of 12 source countries and 45 host countries over the 1980s and 1990s) which is analyzed in a gravity equation model provides some support to our theoretical hypotheses. The gains from FDI in the host country in our model are reflected in a more efficient size of stock of domestic capital and its allocation across firms. These gains depend crucially (and inversely) on the degree of competition among FDI investors.

Moore, Michael J.

TI "Napsterizing" Pharmaceuticals: Access, Innovation, and Consumer Welfare. AU Hughes, James W.; Moore, Michael J.; Snyder, Edward A.

Moreno-Jimenez, Jose Mariz

PD November 2003. **TI** E-Democracy and Knowledge: A Multicriteria Framework for the New Democratic Era. **AU** Moreno-Jimenez, Jose Mariz; Polasek, Wolfgang. **AA** Moreno-Jimenez: Universidad de Zaragoza. Polasek: Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 142; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 16. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** D72, Z00. **KW** E-Democracy. Knowledge Society. E-Cognocracy. Multicriteria. AHP Criterion. Consensus.

AB This paper analyses a new framework for decision-making in e-democracies that exploits the power of Internet based public knowledge, which is called briefly e-cognocracy. This is not a procedure to improve technical aspects using the Internet (e.g., e-voting); it is rather a procedure to add a new quality to the democratic system by using the network. This proposed system of e-cognocracy would allow those who are interested to solve highly complex problems by participatory decision-making. Furthermore, we suggest the multicriteria framework for the modelling and resolution of such complex problems. Similarly, using the analytic hierarchy process (AHP) approach, we propose decisional (analytic and informatic) tools for searching the knowledge -- relevant for the decision-making process. This knowledge of patterns of behavior, trends, opportunities, decisions and stylized facts will be the starting point of a consensus-reaching process, which is aimed at effectively solving highly complex problems of the Internet society.

Moretti, Enrico

TI Credibility and Policy Convergence: Evidence from U.S. House Roll Call Voting Records. **AU** Lee, David S.; Moretti, Enrico; Butler, Matthew J.

PD October 2002. **TI** Human Capital Spillovers in Manufacturing: Evidence from Plant-Level Production Functions. **AA** UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 9316; 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** I21, J24, Q40. **KW** Human Capital Spillovers. Productivity Gains. Manufacturing. Plant-Level.

AB I assess the magnitude of human capital spillovers in US cities by estimating plant-level production functions. I use a unique firm worker matched dataset, obtained by combining the Census of Manufacturers with the Census of Population. After controlling for a plant's own human capital, plant fixed effects, and industry specific and state specific transitory shocks, I find that the output of plants located in cities that experience large increases in the share of college graduates rises more than the output of smaller plants located in cities that experience small increases in the share of college graduates. Several specification tests indicate that the estimated effect is unlikely to be completely spurious. First, within a city, spillovers between plants that rarely interact are zero, while spillovers between plants that often interact are significant. Second, the density of physical capital in a city outside a plant has no effect on a plant's productivity. Third, most of the estimated spillover comes from high-tech plants. For low-tech plants, the spillover is virtually zero. Consistent with a model that includes both

standard general equilibrium forces and spillovers, the productivity gains generated by human capital spillover are offset by increased labor costs.

Morley, James

TI Nonlinearity and the Permanent Effects of Recessions. **AU** Kim, Chang-Jin; Figer, Jeremy; Morley, James.

Morris, Stephen

PD February 2003. **TI** Catalytic Finance: When Does It Work? **AU** Morris, Stephen; Shin, Hyun Song. **AA** Morris: Yale University. Shin: London School of Economics. **SR** Yale Cowles Foundation Discussion Paper: 1400; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 19. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, D82, F33. **KW** Moral Hazard. Financial Crisis. Global Games.

AB In a simple model of currency crises caused by creditor coordination failure, we show that bailouts that reduce ex post inefficiency will sometimes create ex ante moral hazard but will sometimes enhance the incentives for governments to take preventative actions. This model helps us understand a debate about the role of the IMF in catalyzing lending to developing countries.

PD February 2003. **TI** Coordination, Communication and Common Knowledge: A Retrospective on the Electronic Mail Game. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1401; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 22. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, D81. **KW** Common Knowledge. Coordination. Communication.

AB Common knowledge plays an important role in coordination problems and coordination problems are central to many areas of economic policy. In this paper, I review some common knowledge puzzles culminating in the electronic mail game. These puzzles may seem distant from practical concerns. However, I then argue why insights derived from this literature are useful in interpreting empirical evidence of how people coordinate under uncertainty and in understanding the role of communication in coordinating behavior.

PD February 2003. **TI** Heterogeneity and Uniqueness in Interaction Games. **AU** Morris, Stephen; Shin, Hyun Song. **AA** Morris: Yale University. Shin: London School of Economics. **SR** Yale Cowles Foundation Discussion Paper: 1402; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 44. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, D82. **KW** Heterogeneity. Uniqueness. Global Games.

AB Incomplete information games, local interaction games and random matching games are all special cases of a general class of interaction games (Morris (1997)). In this paper, we use this equivalence to present a unified treatment of arguments generating uniqueness in games with strategic complementarities by introducing heterogeneity in these different settings. We also report on the relation between local and global heterogeneity, on the role of strategic multipliers and on purification in the three types of interaction game.

TI Communication and Monetary Policy. **AU** Amato, Jeffery D.; Morris, Stephen; Shin, Hyun Song.

TI Beauty Contests, Bubbles and Iterated Expectations in Asset Markets. **AU** Allen, Franklin; Morris, Stephen; Shin, Hyun Song.

TI Robust Mechanism Design. **AU** Bergemann, Dirk; Morris, Stephen.

TI Multidimensional Private Value Auctions. **AU** Fang, Hanming; Morris, Stephen.

TI Risk and Wealth in a Model of Self-Fulfilling Currency Attacks. **AU** Guimaraes, Bernardo; Morris, Stephen.

Morrison, Alan D.

PD February 2003. **TI** Making Money Out of Publicly Available Information. **AU** Morrison, Alan D.; Vulkan, Nir. **AA** Morrison: University of Oxford. Vulkan: University of Oxford and University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/065; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. **PG** 9. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** D82, G14. **KW** Market Maker Model. Beliefs. Information Acquisition.

AB It is received financial wisdom that when there is free entry by speculators, it is impossible to generate net profits on publicly available information. In this paper we study a version of the standard Kyle (85) model with endogenous information acquisition and we find that equilibria exist with free entry in which speculators make positive profits. Moreover, these equilibria are robust.

TI Multinational Bank Regulation with Deposit Insurance and Diversification Effects. **AU** Loranth, Gyoengyi; Morrison, Alan D.

Motta, Massimo

PD January 2004. **TI** Efficiency Gains and Myopic Antitrust Authority in a Dynamic Merger Game. **AU** Motta, Massimo; Vasconcelos, Helder. **AA** Motta: European University Institute, Universitat Pompeu and CEPR. Vasconcelos: Universita Bocconi. **SR** CEPR Discussion Paper: 4175; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4175.asp. **PG** 21. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D43, L13, L41. **KW** Endogenous Mergers. Foresight. Efficiency Offence.

AB This paper models a sequential merger formation game with endogenous efficiency gains in which every merger has to be submitted for approval to the Antitrust Authority (AA). Two different types of Antitrust Authority are studied: first, a myopic AA, which judges a given merger without considering that subsequent mergers may occur; and, second, a forward-looking AA, which anticipates the ultimate market structure a given merger will lead to. By contrasting the decisions of these two types of Antitrust Authority, merger policy implications can be drawn. In particular, the efficiency offence argument does not find any justification under a forward-looking AA.

Motto, Roberto

TI The Great Depression and the Friedman-Schwartz Hypothesis. **AU** Christiano, Lawrence J.; Motto, Roberto; Rostagno, Massimo.

Mullainathan, Sendhil

PD October 2002. **TI** Media Bias. **AU** Mullainathan, Sendhil; Shleifer, Andrei. **AA** Mullainathan: MIT and NBER. Shleifer: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 9295; 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** D23, L82. **KW** Ideology. Spin. Competition. Media Bias.

AB There are two different types of media bias. One bias, which we refer to as ideology, reflects a news outlet's desire to affect reader opinions in a particular direction. The second bias, which we refer to as spin, reflects the outlet's attempt to simply create a memorable story. We examine competition among media outlets in the presence of these biases. Whereas competition can eliminate the effect of ideological bias, it actually exaggerates the incentive to spin stories.

Mulligan, Casey B.

PD June 2003. **TI** Household vs. Personal Accounts of the U.S. Labor Market, 1967-97. **AU** Mulligan, Casey B.; Rubinstein, Yona. **AA** Mulligan: University of Chicago. Rubinstein: Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/15; Mrs. Stella Padch, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 33. **PR** no charge. **JE** D10, E30, J12, J22, J30. **KW** Labor Supply. Earnings Inequality. Gender Wage Gap. Family Structure. Business Cycles.

AB We construct household-based measures of labor supply by within household aggregating answers to the usual weeks and hours worked questionnaire items. Household (H) measures are substantially different than the more familiar person (P) measures: H employment rates are relatively higher, with little trend, and relatively little fluctuations. From the H point of view, essentially all aggregate hours trends and fluctuations can be attributed to changes on the "intensive" margin and not the "extensive" margin -- a characterization that is opposite of that derived from P measures. The cross-H distribution of hours is richer, and less spiked, than the cross-P distribution. We show how our H measures are consistent with a significant negative effect of one household member's hours on another's, and suggest that such an effect has important implications for interpreting business cycles, gender-specific labor market trends, importance of the "added worker effect" and the microeconomic modeling of labor supply. For example, the household accounts show that the gender wage gap has closed dramatically among married people and that most of that closing is associated with growing wage inequality in the P accounts.

Mullin, Charles H.

PD October 2002. **TI** The Timing of Childbearing Among Heterogeneous Women in Dynamic General Equilibrium. **AU** Mullin, Charles H.; Wang, Ping.

AA Mullin: Vanderbilt University. **Wang**: Vanderbilt University and NBER. **SR** National Bureau of Economic Research Working Paper: 9231; 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** D30, D90, J13, J24. **KW** Childbearing, Dynamic General Equilibrium. Economics of Gender.

AB We develop a tractable framework with a fully specified dynamic process of demographic and labor decisions over an individual female's life span to determine the timing of childbearing. Fertility affects women's behavior through three channels: its tradeoff with leisure, its interactions with human capital investment, and its cost in terms of lost market productivity. Instead of numerically solving a discrete-time version of the model, we propose an alternative solution technique that provides analytic, closed-form solutions for the continuous-time dynamic optimization problem with (discrete) time-line variables. The analytic results indicate that (i) increased impatience has an ambiguous effect on childbearing timing; (ii) the age at first birth rises at an increasing rate with the productivity loss from children; and (iii) women of greater ability have births at later ages and are more sensitive to parameter changes. Calibration exercises suggest that focusing on the median female's response to changes in the preference, cost, and technology parameters fails to capture their important distributional effects.

Mun, Sung-Bae

PD October 2002. **TI** Information Technology Externalities: Empirical Evidence from 42 U.S. Industries. **AU** Mun, Sung-Bae; Nadiri, M. Ishaq. **AA** Mun: New York University. Nadiri: New York University and NBER. **SR** National Bureau of Economic Research Working Paper: 9272; 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** D24, O47. **KW** Information Technology. Externalities.

AB Using interindustry transaction in input-output tables, we examine Information Technology (IT) externalities in U.S. private industries over the period 1984-2000. Our empirical results show that computerization of an industry's customer and supplier industries reduces both labor and material costs to the industry. Moreover, cost savings driven by supplier industries are larger than those driven by customer industries. We also find that industries in the services sector enjoy more benefits from IT spillovers than industries in other sectors because of their high IT capital intensity and composition of interindustry transaction. Decomposition of total factor productivity (TFP) suggests that IT externalities can explain considerable parts of TFP growth, although possible mismeasurement of output in services industries leads to exacerbated technical changes of services industries.

Myatt, David P.

PD March 2002. **TI** Adaptive Play by Idiosyncratic Agents. **AU** Myatt, David P.; Wallace, Chris. **AA** University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 89; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 17.

PR only available electronically through website. **JE** C72, C73. **KW** Adaptive Dynamics. Payoff Idiosyncrasy. Evolution. Equilibrium Selection.

AB Equilibrium selection in coordination games has generated a large literature. Kandori, Mailath and Rob (1993) and Young (1993) studied dynamic models of aggregate behavior in which agents choose best responses to observations of population play. Crucially, infrequent mistakes ("mutations") allow agents to take actions contrary to current trends and prevent initial configurations from determining long run play. An alternative approach is offered here: Harsanyian trembles are added to agents' payoffs so that with some probability it is optimal to act against the flow of play. The long run distribution of population behavior is characterized - modes correspond to stable Bayesian Nash equilibria. Allowing the variance of payoff trembles to vanish, via a purification process, a single equilibrium is played almost always in the long run. Kandori et al and Young show that the number of contrarian actions required to escape an equilibrium determines selection; here, the likelihood that such actions are taken is of equal importance.

PD March 2002. **TI** A Multinomial Probit Model of Stochastic Evolution. **AU** Myatt, David P.; Wallace, Chris. **AA** University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 90; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. **PG** 15. **PR** only available electronically through website. **JE** C72, C73. **KW** Multinomial Probit. Stochastic Evolution. Idiosyncrasy. Dominated Strategies.

AB A strategy revision process in symmetric normal form games is proposed. Following Kandori, Mailath, and Rob (1993), members of a population periodically revise their strategy choice, and choose a myopic best response to currently observed play. Their payoffs are perturbed by normally distributed Harsanyian (1973) trembles, so that strategies are chosen according to multinomial probit probabilities. As the variance of payoffs is allowed to vanish, the graph theoretic methods of the earlier literature continue to apply. The distributional assumption enables a convenient closed form characterization for the weights of the rooted trees. An illustration of the approach is offered, via a consideration of the role of dominated strategies in equilibrium selection.

Nadiri, M. Ishaq

TI Decomposing Productivity Growth in the U.S. Computer Industry. **AU** Chun, Hyunbae; Nadiri, M. Ishaq.

TI Information Technology Externalities: Empirical Evidence from 42 U.S. Industries. **AU** Mun, Sung-Bae; Nadiri, M. Ishaq.

Nagaev, Sergei A.

PD September 2003. **TI** A Diffusion Approximation for the Riskless Profit Under Selling of Discrete Time Call Options. **AA** Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 137; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 14. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** C61, G13, G24. **KW** Asymptotic Uniformity. Limit Distribution. Profit.

AB A discrete time model of a financial market is considered. We focus on the study of a guaranteed profit of an investor which arises when the stock price jumps are bounded. The limit distribution of the profit as the model becomes closer to the classical model of the geometric Brownian motion is established. It is of interest that in contrast with the discrete approximation, no guaranteed profit occurs in the approximated continuous time model.

Nauges, Celine

TI The French Tax on Air Pollution: Some Preliminary Results on its Effectiveness. **AU** Millock, Katrin; Nauges, Celine.

Neary, J. Peter

TI Absorptive Capacity, R&D Spillovers and Public Policy. **AU** Leahy, Dermot; Neary, J. Peter.

Neely, Christopher J.

TI Can Markov Switching Models Predict Excess Foreign Exchange Returns? **AU** Dueker, Michael; Neely, Christopher J.

PD March 2004. **TI** Forecasting Foreign Exchange Volatility: Why is Implied Volatility Biased and Inefficient? And Does it Matter? **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/017D; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 57. **PR** no charge. **JE** F31, G15. **KW** Exchange Rate. Option. Implied Volatility. GARCH. Long-Memory. ARIMA. High-Frequency. **AB** Research has consistently found that implied volatility is a conditionally biased predictor of realized volatility across asset markets. This paper evaluates explanations for this bias in the market for options on foreign exchange futures. No solution considered -- including a model of priced volatility risk -- explains the conditional bias found in implied volatility. Further, while implied volatility fails to subsume econometric forecasts in encompassing regressions, these forecasts do not significantly improve delta-hedging performance. Thus this paper deepens the implied volatility puzzle by rejecting popular explanations for forecast bias while demonstrating that statistical measures of bias and informational inefficiency should be treated cautiously.

Nelson, Charles R.

TI Business Cycle Detrending of Macroeconomic Data via a Latent Business Cycle Index. **AU** Dueker, Michael J.; Nelson, Charles R.

Nesterov, Yurii

TI Optimization Problems Over Non-Negative Polynomials With Interpolation Constraints. **AU** Hachez, Yvan; Nesterov, Yurii.

PD May 2003. **TI** Excessive Gap Technique in Non-Smooth Convex Minimization. **AA** Universite Catholique de Louvain. **SR** CORE Discussion Paper: 2003/35; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 16. **PR** \$5 per paper; \$100 per year. **JE** C60. **KW** Convex Optimization.

Non-Smooth Optimization. Complexity Theory. Black-Box Oracle. Optimal Methods.

AB In this paper we introduce a new primal-dual technique for convergence analysis of gradient schemes for non-smooth convex optimization. As an example of its application, we derive a primal-dual gradient method for a special class of structured non-smooth optimization problems, which ensures a rate of convergence of the order $O(1/k)$, where k is the iteration count. Another example is a gradient scheme which minimizes a non-smooth strongly convex function with known structure with the rate of convergence $O(1/k^2)$. In both cases the efficiency of the methods is higher than the corresponding black-box lower complexity bounds by an order of magnitude.

PD May 2003. **TI** Cubic Regularization of a Newton Scheme and Its Global Performance. **AU** Nesterov, Yurii; Polyak, Boris. **AA** Nesterov: Universite Catholique de Louvain. Polyak: Institute of Control Science, Moscow. **SR** CORE Discussion Paper: 2003/41; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 26. **PR** \$5 per paper; \$100 per year. **JE** C60. **KW** General Nonlinear Optimization. Unconstrained Optimization. Newton Method. Global Complexity Bounds. Global Rate of Convergence.

AB In this paper we suggest a cubic regularization for a Newton method as applied to unconstrained minimization problem. For this scheme we prove general convergence results. We analyze the behavior of this scheme on different problem classes, for which we get global and local worst-case complexity bounds. It is shown that the search direction can be computed by a standard linear algebra technique.

Netzer, Oded

TI Alternative Models for Capturing the Compromise Effect. **AU** Kivets, Ran; Netzer, Oded; Srinivasan, V.

Nielsen, Chantal Pohl

TI Golden Rice and the Looming GMO Trade Debate: Implications for the Poor. **AU** Anderson, Kym; Nielsen, Chantal Pohl.

Nocke, Volker

PD January 2004. **TI** Do Vertical Mergers Facilitate Upstream Collusion? **AU** Nocke, Volker; White, Lucy. **AA** Nocke: University of Pennsylvania. White: Harvard Business School and CEPR. **SR** CEPR Discussion Paper: 4186; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4186.asp. **PG** 34. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** L13, L42. **KW** Vertical Mergers. Collusion. **AB** In this paper we investigate the impact of vertical mergers on upstream firms' ability to sustain collusion. We show in a number of models that the net effect of vertical integration is to facilitate collusion. Several effects arise. When upstream offers are secret, vertical mergers facilitate collusion through the operation of an outlets effect: cheating, un-integrated firms can no longer profitably sell to the downstream affiliates of their integrated rivals. Vertical integration also facilitates collusion through a reaction effect: the vertically-integrated firm's contract with its downstream affiliate can be more flexible and thus allows a swifter reaction in punishing

defectors. Offsetting these two effects is a possible punishment effect that arises if the integrated structure is able to make more profits in the punishment phase than a disintegrated structure.

Nosal, Ed

PD September 2002. TI Life Cycle Wage and Job Changes. AU Nosal, Ed; Rupert, Peter. AA Federal Reserve Bank of Cleveland. SR Federal Reserve Bank of Cleveland Working Paper: 02/12; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website:

www.clevelandfed.org/research/workpaper/index.htm.

PG 23. PR no charge. JE J31, J64. KW Lifetime Wage Profile. Occupation Choice. Job Changes.

AB Evidence from the Panel Study of Income Dynamics shows that while the majority of job changers who state they were not fired or laid off choose jobs with wages that are higher than their previous jobs, a substantial proportion of these job changers choose jobs that have lower wages. A model is constructed that is consistent with workers choosing a career path that entails a job change to either a higher paying or lower paying job. In the model, a job consists of a tied wage and amenity package. Due to compensating wage differentials, higher wages are paid where other job amenities are unattractive. Given this, a worker chooses a career path that leads to a job change where the wage in the new job may be higher or lower than in the previous job, with the actual choice being determined by the rate of time preference.

PD May 2003. TI How Amenities Affect Job and Wage Choices over the Life Cycle. AU Nosal, Ed; Rupert, Peter. AA Federal Reserve Bank of Cleveland. SR Federal Reserve Bank of Cleveland Working Paper: 03/02; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website:

www.clevelandfed.org/research/workpaper/index.htm.

PG 27. PR no charge. JE J24, J31, J63. KW Job Changes. Amenities. Lifetime Wage Profile.

AB Observing the current wage at a job may not fully reflect the "value" of that job. For example, a job with a low starting wage may be preferred to a high starting wage job if the growth rate of wages in the former exceeds the latter. In fact, differences in wage growth can potentially explain why a worker might want to quit a high paying job for a job with a lower initial wage. Job amenities are shown to be another important factor that not only influences the value of a job but also provides an independent rationale for why workers change jobs. The inclusion of a job amenity as part of the "value" can also generate a move from either high-paying to low-paying or low-paying to high-paying jobs as part of an optimal consumption plan over the life cycle. Both the direction of movement and the timing of a job change are shown to depend critically on the relationship between the worker's rate of time preference and the market interest rate.

TI Near-Sighted Justice. AU Bernhardt, Dan; Nosal, Ed.

PD March 2004. TI A Model of (the Threat of) Counterfeiting. AU Nosal, Ed; Wallace, Neil. AA Nosal: Federal Reserve Bank of Cleveland. Wallace: Pennsylvania State University. SR Federal Reserve Bank of Cleveland Working Paper: 04/01; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. PG 12. PR no charge. JE E41, E42.

KW Counterfeiting. Matching Model. Cho-Kreps Refinement. AB A simple matching-model of money with the potential for counterfeiting is constructed. In contrast to the existing literature, counterfeiting, if it occurred, would be accompanied by two distortions: costly production of counterfeits and harmful effects on trade. However, application of the Cho-Kreps refinement is shown to imply that there is no equilibrium with counterfeiting. If the cost of producing counterfeits is low enough, then there is no monetary equilibrium. Otherwise, there is a monetary equilibrium without counterfeiting.

Noury, Abdul

TI Monopoly Practises and Competitive Behaviour in the French Satellite Pay-TV Market. AU Cincera, Michele; Noury, Abdul.

O'Shaughnessy, Terry

PD October 2001. TI Unemployment Hysteresis and Capacity. AA University of Oxford. SR University of Oxford, Department of Economics Discussion Paper Series: 82; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. PG 36. PR only available electronically through website. JE E22, E24, F41. KW Unemployment. Hysteresis. Capacity. Smooth Transition. Real Exchange Rate.

AB This paper examines an open economy model in which equilibrium unemployment depends on capacity in the traded-goods sector. The model is estimated using U.K. quarterly data and compared with alternative concepts of equilibrium unemployment based on labor market variables (as in Layard and Nickell, 1986) or on the price of oil and the real interest rate (as in Carruth, Hooker and Oswald, 1998). The capacity model displays a non-linear hysteresis mechanism through which capacity utilization and the degree of volatility of the real exchange rate interact to generate changes in equilibrium unemployment. This is modeled as logistic smooth transition autoregressive (LSTAR) process.

Obstfeld, Maurice

PD November 2002. TI Sovereign Risk, Credibility and the Gold Standard: 1870-1913 versus 1925-31. AU Obstfeld, Maurice; Taylor, Alan M. AA Obstfeld: University of California, Berkeley, NBER and CEPR. Taylor: University of California, Davis and NBER. SR National Bureau of Economic Research Working Paper: 9345; 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 F20, F30, F41, N10, N20. KW Sovereign Risk. Gold Standard. Credibility.

AB What determines sovereign risk? We study the London bond market from the 1870s to the 1930s. Our findings support conventional wisdom concerning the low credibility of the interwar gold standard. Before 1914 gold standard adherence effectively signaled credibility and shaved 40 to 60 basis points from country borrowing spreads. In the 1920s, however, simply resuming prewar gold parities was insufficient to secure such benefits. Countries that devalued before resumption were treated favorably, and markets scrutinized other signals. Public debt and British Empire membership were important determinants of spreads after World War One, but not before.

Olarreaga, Marcelo

TI Tariff Evasion and Customs Corruption: Does PSI Help?
AU Anson, Jose; Cadot, Olivier; Olarreaga, Marcelo.

TI India's Trade Policy For Sale: How Much? Who Buys?
AU Cadot, Olivier; Grether, Jean-Marie; Olarreaga, Marcelo.

Oliveras, Ester

TI Management Control in Non-Profit Organizations: The Case of the Associations of Economists in Spain.
AU Soldevila, Pilar; Oliveras, Ester.

Olivetti, Claudia

TI Marrying Your Mom: Preference Transmission and Women's Labor and Education Choices. **AU** Fernandez, Raquel; Fogli, Alessandra; Olivetti, Claudia.

Oreffice, Sonia

PD April 2003. **TI** Abortion and Female Power in the Household Evidence From Labor Supply. **AA** University of Chicago. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/41; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 20. **PR** no charge; available only on website. **JE** D12, J12, J13, J22. **KW** Abortion. Female Labor Supply. Bargaining Power.
AB Legalization of abortion in the 1970s represents a major cultural change: it gives women a higher degree of freedom to directly control their fertility, allowing them to decide upon children without a man's consent and to decrease uncertainty in their expected labor market returns. So far, this public policy has been analyzed through its direct consequences on fertility and fertility technology, primarily for women actually experiencing an abortion. However, it is relevant to evaluate its indirect effects on female bargaining power within the household, for all women that face abortion as an actual opportunity, without necessarily experiencing one. I focus on the indirect effect of abortion legalization in the United States on women's position in the household. My findings suggest that the legalization positively affected female bargaining power. I analyze the legalization of abortion as a distribution factor in a collective model of household behavior through its effects on female labor supply and find that, conditional on the number of children, the legalization significantly decreased labor supply of married women in their fertile age and significantly increased their husbands', while no such effect is found for older married women or for single and divorced women or men.

Ottaviano, Gianmarco I. P.

TI ICT, Clusters, and Regional Cohesion: A Summary of Theoretical and Empirical Research. **AU** Maignan, Carole; Pinelli, Dino; Ottaviano, Gianmarco I. P.

TI Special Interests and Technological Change.
AU Bellettini, Giorgio; Ottaviano, Gianmarco I. P.

Owen, Robert F.

TI Fundamental R&D Spillovers and the Internalization of a Firm's Research Activities. **AU** Franck, Bernard; Owen, Robert F.

Owyang, Michael T.

PD August 2002. **TI** Modeling Volcker as a Non-

Absorbing State: Agnostic Identification of a Markov-Switching VAR. **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/018A; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 18. **PR** no charge. **JE** C51, E52. **KW** Monetary Policy. Regime Switching. Vector Autoregression.

AB Recently, models of monetary policy have been constructed to include structural breaks to account for changes in policymaker preferences or operating procedures. These models typically assume that when changes occur, they happen once and for all. In this paper, we allow the policymaker and the economy to switch freely between regimes. We find that not only does the nature and effect of innovations to monetary policy change, but switching the policy rule and the economy's subsequent response can in and of itself alter the path of the economy. We find the switch itself can generate disinflationary dynamics.

TI Duration Dependence in Monetary Policy: International Evidence. **AU** Chiodo, Abigail J.; Owyang, Michael T.

TI Subjective Probabilities: Psychological Evidence and Economic Applications. **AU** Chiodo, Abigail J.; Guidolin, Massimo; Owyang, Michael T.; Shimoji, Makoto.

TI The Use of Long-Run Restrictions for the Identification of Technology Shocks. **AU** Francis, Neville R.; Owyang, Michael T.; Theodorou, Athena T.

PD November 2003. **TI** Regime Switching and Monetary Policy Measurement. **AU** Owyang, Michael T.; Ramey, Garcy. **AA** Owyang: Federal Reserve Bank of St. Louis. Ramey: University of California, San Diego. **SR** Federal Reserve Bank of St. Louis Working Paper: 2001/002B; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 35. **PR** no charge. **JE** C32, E52, E58. **KW** Markov Switching. Monetary Policy. Sacrifice Ratio.

AB This paper applies regime-switching methods to the problem of measuring monetary policy. Policy preferences and structural factors are specified parametrically as independent Markov processes. Interaction between the structural and preference parameters in the policy rule serves to identify the two processes. The estimates uncover policy episodes that are initiated by switches to "dove regimes," shown to Granger-cause both NBER recessions and the Romer dates. These episodes imply real effects of monetary policy that are smaller than those found in previous studies.

TI Monetary Policy in a Markov-Switching VECM: Implications for the Cost of Disinflation and the Price Puzzle. **AU** Francis, Neville R.; Owyang, Michael T.

PD June 2004. **TI** Structural Breaks and Regional Disparities in the Transmission of Monetary Policy. **AU** Owyang, Michael T.; Wall, Howard J. **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2003/008B; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 36. **PR** no charge. **JE** E52, R12. **KW** Monetary Policy. Regions. Credit Channel.

AB Using a regional VAR, we find large differences in the effects of monetary policy shocks across regions of the United

States. We also find that the regional effects of monetary policy differ substantially between the pre-Volcker and Volcker-Greenspan periods in terms of their depth and length. The two sample periods also yield very different rankings of the regions in terms of the effects of monetary policy. Our regional VAR also suggests that aggregate VARs that ignore regional variations can suffer from severe aggregation bias. We use the results of our regional VAR to find evidence that recession depth related to the banking concentration and that the total cost of recession is related to the industry mix. Finally, we demonstrate that the differences between the two sample periods are due to changes in the mechanism by which monetary policy shocks are propagated.

TI Explaining the Evolution of Pension Structure and Job Tenure. **AU** Friedberg, Leora; Owyang, Michael T.

PD July 2004. **TI** Business Cycle Phases in U.S. States. **AU** Owyang, Michael T.; Piger, Jeremy; Wall, Howard J. **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2003/011E; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 31. **PR** no charge. **JE** E32, R12. **KW** Business Fluctuation. Cycles. Regional Economic Activity.

AB The U.S. aggregate business cycle is often characterized as a series of distinct recession and expansion phases. We apply a regime-switching model to state-level coincident indexes to characterize state business cycles in this way. We find that states differ a great deal in the levels of growth that they experience in the two phases: Recession growth rates are related to industry mix, whereas expansion growth rates are related to education and age composition. Further, states differ significantly in the timing of switches between regimes, indicating large differences in the extent to which state business cycle phases are in synch with those of the aggregate economy.

Oyer, Paul

PD December 2003. **TI** Compensating Employees Below the Executive Ranks: A Comparison of Options, Restricted Stock, and Cash. **AU** Oyer, Paul; Schaefer, Scott. **AA** Oyer: Stanford University. Schaefer: Northwestern University. **SR** Stanford Graduate School of Business Research Paper: 1821(R); Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 30. **PR** no charge. **JE** J33. **KW** Employee Stock Options. Compensation Plans.

AB Using a detailed data set of employee stock option grants, we compare observed stock-option-based pay plans to hypothetical cash-only or restricted-stock-based plans. We make a variety of assumptions regarding the possible benefits of options relative to cash or stock, and then use observed option grants to make inferences regarding firms' decisions to issue options to lower-level employees. If the favorable accounting treatment is the sole reason underlying firms' choices of options over cash-only compensation, then we estimate that the median firm in our data set incurs \$0.64 in real costs in order to increase reported pre-tax income by \$1. This figure is several times larger than the willingness-to-pay for earnings reported by Erickson, Hanlon and Maydew (2002), who study firms that (allegedly) commit fraud in order to boost earnings. If, on the other hand, firms' option-granting decisions

are driven by economic-profit maximization, then observed stock option grants are most consistent with explanations involving attraction and retention of employees.

PD February 2004. **TI** Why Do Some Firms Give Stock Options to All Employees? An Empirical Examination of Alternative Theories. **AU** Oyer, Paul; Schaefer, Scott. **AA** Oyer: Stanford University. Schaefer: Northwestern University. **SR** Stanford Graduate School of Business Research Paper: 1772(R); Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 30. **PR** no charge. **JE** J33. **KW** Stock Options. Incentives.

AB Many firms issue stock options to all employees. We consider three potential economic justifications for this practice: providing incentives to employees, inducing employees to sort, and helping firms retain employees. We gather data on firms' stock option grant to middle managers from three distinct sources, and use two methods to assess which theories appear to explain observed granting behavior. First, we directly calibrate models of incentives, sorting and retention, and ask whether observed magnitudes of option grants are consistent with each potential explanation. Second, we conduct a cross-sectional regression analysis of firms' option-granting choices. We reject an incentives-based explanation for broad-based stock option plans, and conclude that sorting and retention explanations appear consistent with the data.

Pagliari, Mario

TI Does Responsive Pricing Increase Efficiency? Evidence from Pricing Experiments in an Internet Cafe. **AU** Courty, Pascal; Pagliari, Mario.

Pakko, Michael R.

PD November 2003. **TI** Substitution Elasticities and Investment Dynamics in Two-Country Business Cycle Models. **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/030B; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 26. **PR** no charge. **JE** E32, F32, F41. **KW** International Comovement. Adjustment Costs. J-curve. Net Exports. Terms of Trade.

AB Two country applications of equilibrium business cycle methodology have succeeded in matching some key features of international fluctuations. However, discrepancies between theory and data remain. This paper identifies an anomaly related to a basic property of typical models: The prediction of countercyclical net exports is fundamentally related to a counterfactual implication for negative cross-country investment correlations. The introduction of investment adjustment costs can induce positive investment comovement; however, this has the side-effect of reversing the cyclical behavior of net exports. The calibration of a low elasticity of substitution between domestic goods and imports is shown to be a more robust specification with regard to this and other puzzles that have arisen in the international business cycle literature.

Pande, Rohini

TI Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment. **AU** Burgess, Robin; Pande, Rohini.

Parlakturk, Ali

TI Self-Interested Routing in Queuing Networks.
AU Kumar, Sunil; Parlakturk, Ali.

Parrino, Robert

TI Horses and Rabbits? Optimal Dynamic Capital Structure from Shareholder and Manager Perspectives. **AU** Ju, Nengjiu; Parrino, Robert; Poteshman, Allen M.; Weisbach, Michael S.

Pastor, Lubos

TI Judging Fund Managers by the Company They Keep.
AU Cohen, Randolph; Coval, Joshua; Pastor, Lubos.

Pauly, Mark V.

TI Is Health Insurance Affordable for the Uninsured?
AU Bundorf, M. Kate; Pauly, Mark V.

PD October 2002. **TI** Health Insurance on the Internet and the Economics of Search. **AU** Pauly, Mark V.; Herring, Bradley; Song, David. **AA** Pauly: University of Pennsylvania and NBER. Herring: Emory University. Song: University of Pennsylvania. **SR** National Bureau of Economic Research Working Paper: 9299; 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** D83, G22, I10. **KW** Health Insurance. Internet. Search Theory.

AB This paper explores the level and dispersion of premiums paid for individual health insurance by comparing "asking price" data posted on an electronic insurance exchange with survey data on premiums actually paid in the period just before the advent of electronic exchanges. The primary theoretical question is whether the pattern of differences between asking prices and transactions prices can be explained using a simple search theory. We hypothesize, following suggestions of Stigler and Rothschild, that higher risks who expect to pay higher premiums for a given policy will engage in more intensive search than lower risks, given the same distribution of asking prices. As a result, for a given distribution of asking prices, the dispersion of premiums actually paid (transactions prices) will be smaller for higher risks. Therefore, the introduction of an electronic exchange should have a larger potential influence on the dispersion and level of premiums paid for lower risks than for higher risks. We find evidence consistent with each of these hypotheses.

Pecchenino, Rowena A.

PD October 2003. **TI** Aging, Myopia, and the Pay-As-You-Go Public Pension Systems of the G7: A Bright Future? **AU** Pecchenino, Rowena A.; Pollard, Patricia S. **AA** Pecchenino: Michigan State University. Pollard: Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2000/015C; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 33. **PR** no charge. **JE** E62, H24, J14. **KW** Myopia. Public Pension. Endogenous Growth.

AB The public pension systems of the G7 countries were established in an era when the number of contributors far outweighed the number of beneficiaries. Now, for each beneficiary there are fewer contributors, and this trend is projected to accelerate. To evaluate the prospects for these

economies we develop an overlapping generations model where growth is endogenously fueled by investments in physical and human capital. We analyze individuals' behavior when their expectations over their length of life are rational or myopic and examine whether policies exist that can offset the effects of aging, should they be adverse. We find that while perfectly anticipated aging is welfare improving and does not threaten the solvency of public pension systems, myopia worsens welfare, puts pension systems at risk, and cannot be easily remedied by public policy.

Pelz, Eduard

TI Do Energy-Price Shocks Affect Core-Price Measures?
AU Humpage, Owen; Pelz, Eduard.

Perotti, Enrico C.

TI Confidence Building on Euro Conversion: Theory and Evidence from Currency Options. **AU** Driessen, Joost; Perotti, Enrico C.

PD January 2004. **TI** Enterprise Finance and Investment in Listed Hungarian Firms. **AU** Perotti, Enrico C.; Vesnaver, Luka. **AA** Perotti: University of Amsterdam and CEPR. Vesnaver: University of Amsterdam. **SR** CEPR Discussion Paper: 4194; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4194.asp. **PG** 19. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G31, P23. **KW** Financial Constraints. Transition. Foreign Investment. Governance.

AB This paper studies the financing of enterprise investment in listed Hungarian firms during the first years of transition. These firms were selected for listing on the exchange and presumably had better access to external capital. In particular, we look for evidence of financial constraints that limit real investment and attempt to identify the effect of different ownership and governance structures. The empirical results indicate significant financial constraints even among the better-known firms in the period from 1992 to 1998. Consistent with studies from other countries, we find evidence that foreign-owned firms do not suffer from limited external finance. Previous leverage can strain investment, suggesting that hard budget constraints are binding. State ownership does not alleviate capital constraints and larger firms do not appear to be less constrained than the smaller firms, which contrasts with the evidence in Western countries.

Perri, Fabrizio

TI Financial Globalization and Real Regionalization.
AU Heathcote, Jonathan; Perri, Fabrizio.

Pestieau, Pierre

TI Intergenerational Transfer of Human Capital and Optimal Education Policy. **AU** Cremer, Helmuth; Pestieau, Pierre.

Pfaffermayr, Michael

TI Sectoral Adjustment of Employment: The Impact of Outsourcing and Trade at the Micro Level. **AU** Egger, Peter; Pfaffermayr, Michael; Weber, Andrea.

Philipson, Tomas J.

TI The Dual Effects of Intellectual Property Regulations: Within- and Between- Patent Competition in the US

Pharmaceuticals Industry. AU Lichtenberg, Frank R.; Philipson, Tomas J.

Phillips, Gordon

TI Firm-Specific Resources, Financial-Market Development and the Growth of U.S. Multinationals. AU Feinberg, Susan; Phillips, Gordon.

Phillips, Peter C. B.

PD February 2003. TI Laws and Limits of Econometrics. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1397; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 32. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C10, C52, C87. KW Automated Modeling. Nearly Unidentified Models. Nonstationarity. Online Econometrics. Policy Analysis. Prediction. Quantitative Bounds. Trends. Unit Roots. Weak Instruments.

AB We start by discussing some general weaknesses and limitations of the econometric approach. A template from sociology is used to formulate six laws that characterize mainstream activities of econometrics and the scientific limits of those activities. Next, we discuss some proximity theorems that quantify by means of explicit bounds how close we can get to the generating mechanism of the data and the optimal forecasts of next period observations using a finite number of observations. The results show that trends are more elusive to model than stationary processes in the sense that the proximity bounds are larger. By contrast, the bounds are of smaller order for models that are unidentified or nearly unidentified, so that lack or near lack of identification may not be as fatal to the use of a model in practice as some recent results on inference suggest. Finally, we look at one possible future of econometrics that involves the use of advanced econometric methods interactively by way of a web browser. With these methods users may access a suite of econometric methods and data sets online.

PD February 2003. TI The Elusive Empirical Shadow of Growth Convergence. AU Phillips, Peter C. B.; Sul, Donggyu. AA Phillips: Yale University. Sul: University of Auckland. SR Yale Cowles Foundation Discussion Paper: 1398; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 36. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C32, C33, O40. KW Convergence Parameter. Conditional Convergence. Economic Growth. Growth Convergence. Heterogeneity. Neoclassical Economics. Transition Measures.

AB Two groups of applied econometricians have figured prominently in empirical studies of growth convergence. One group believes it has found evidence for growth convergence in the dark room of economic growth, even though the task may be futile. A second group believes it has found evidence against growth convergence even though the empirical reality, including the nature of growth divergence, is ever more complex than the models used to characterize it. The present paper carefully examines these two schools of thought on regional and multi-country economic growth. We find that applied econometrics is not powerful enough to clearly distinguish evidence favouring convergence. However, in our theoretical model, we find an important new role for

heterogeneity over time and across economies in the transitional dynamics of economic growth; and, in our empirical work, these transitional dynamics reveal an elusive shadow of the conditional convergence hypothesis in both US regional and inter-country OEGD growth patterns.

TI Consistent HAC Estimation and Robust Regression Testing Using Sharp Origin Kernels with No Truncation. AU Jin, Sainan; Phillips, Peter C. B.; Sun, Yixiao.

Piccione, Michele

PD April 2003. TI Two Tales of Power and Distribution of Wealth in the Jungle. AU Piccione, Michele; Rubinstein, Ariel. AA Piccione: London School of Economics. Rubinstein: Tel Aviv University and Princeton University. SR Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/09; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. PG 16. PR no charge. JE C70, D40. KW Power. Involuntary Exchange. Jungle Equilibrium. Competitive Equilibrium.

AB In the jungle, power and coercion govern the exchange of resources. We study two simple, stylized models of the jungle. The first model mirrors an exchange economy. We define the notion of jungle equilibrium and demonstrate that standard results of competitive markets hold in the jungle as well. The second model is game theoretic. We show that being more powerful does not necessarily imply being wealthier.

TI Equilibrium in the Jungle. AU Rubinstein, Ariel; Piccione, Michele.

PD May 2004. TI Luxury Prices: An Expository Note. AU Piccione, Michele; Rubinstein, Ariel. AA Piccione: London School of Economics. Rubinstein: Tel Aviv University and New York University. SR Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/19; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. PG 9. PR no charge. JE D30. KW Luxury Goods. Redistribution.

AB We study a model in which "useless" luxury goods are a mechanism for redistribution.

Piger, Jeremy

TI Is the Response of Output to Monetary Policy Asymmetric? Evidence From a Regime-Switching Coefficients Model. AU Lo, Ming Chien; Piger, Jeremy.

TI The Dynamic Relationship Between Permanent and Transitory Components of U.S. Business Cycles. AU Kim, Chang-Jin; Piger, Jeremy; Startz, Richard.

TI Is Inflation Persistence Intrinsic in Industrial Economies? AU Levin, Andrew T.; Piger, Jeremy.

TI Nonlinearity and the Permanent Effects of Recessions. AU Kim, Chang-Jin; Piger, Jeremy; Morley, James.

TI Business Cycle Phases in U.S. States. AU Owyang, Michael T.; Piger, Jeremy; Wall, Howard J.

Piketty, Thomas

PD December 2003. **TI** The Impact of Divorce on School Performance: Evidence from France, 1968-2002. **AA** CEPREMAP. **SR** CEPR Discussion Paper: 4146; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4146.asp. **PG** 23. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** I20, J12. **KW** Divorce. Educational Performance.

AB For given observable parental characteristics, children with divorced or separated parents tend to perform less well at school than children living with their two parents. This result has been used to argue that softening divorce legislation might be bad for children. This might, however, just reflect a selection effect: parents who decide to separate are presumably parents who fight with each other, etc., and it is unclear whether children growing up in a high-conflict, two-parent family are better off than children with separated parents. This paper develops two identification strategies suggesting that the selection hypothesis is indeed relevant. The paper first looks at the school performance of children a couple of years before their parents separate, and shows that they are doing as bad as children already living with only one of their parents. Next, the paper exploits the large increase in separation rates following the 1975 divorce law reform to show that the performance gap of single-parent children is a declining function of the separation rate. Taken together, the results suggest that parental conflicts (rather than separation per se) are bad for children, and that the distribution of conflict intensity between couples has been fairly stable over time.

Pinelli, Dino

TI ICT, Clusters, and Regional Cohesion: A Summary of Theoretical and Empirical Research. **AU** Maignan, Carole; Pinelli, Dino; Ottaviano, Gianmarco I. P.

Pines, David

TI Population Growth and its Distribution Between Cities: Positive and Normative Aspects. **AU** Hadar, Yossi; Pines, David.

TI On the Market Failure in a Dixit-Stiglitz Setup with Two Trading Cities. **AU** Hadar, Yossi; Pines, David.

Pinotti, Paolo

TI The Political Economy of Privatization. **AU** Bortolotti, Bernardo; Pinotti, Paolo.

Pissarides, Francesca

PD December 2003. **TI** Objectives and Constraints of Entrepreneurs: Evidence from Small and Medium-Size Enterprises in Russia and Bulgaria. **AU** Pissarides, Francesca; Singer, Miroslav; Svejnar, Jan. **AA** Pissarides: EBRD. Singer: Expandia and CERGE-EI. Svejnar: University of Michigan. **SR** CEPR Discussion Paper: 4142; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4142.asp. **PG** 34. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D20, G30, L20, L50, P20. **KW** Entrepreneurs. Constraints. Small and Medium Enterprises.

AB We analyze the principal objectives and constraints of

small and medium enterprises (SMEs), using data from a survey of 437 top managers (CEOs) of SMEs in Russia and Bulgaria. The CEOs display similar views and identify a small number of specific constraints as being the most important ones. The constraint on external financing is a particularly serious one, while payments for licenses or government services (insecure property rights) are not. Our analysis indicates that characteristics of the entrepreneur, the firm and the firm's environment are important but determinants of which constraints are most important vary. The nature of both the disruption of production and the financial constraints after the fall of planning also appears to have been more ubiquitous in Russia than in Bulgaria.

Polasek, Wolfgang

PD July 2003. **TI** The Maastricht Criteria and the Euro: Has the Convergence Continued? **AU** Polasek, Wolfgang; Amplatz, Christian. **AA** Polasek: Institute for Advanced Studies. Amplatz: Free University of Bozen-Bolzano. **SR** Institute for Advanced Studies (IHS), Economics Series: 133; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 31. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** C22, E61, F41. **KW** EMU Convergence. Maastricht Criteria. Heteroskedastic Spline. ARCH Regime Shifts. Inflation. Public Deficits.

AB We analyze the performance of the Maastricht convergence criteria (inflation, long-term interest rate, annual and overall public debt) of the European Monetary Union (EMU) that led to the introduction of the Euro on Jan. 1st 1999 as book currency. Defining 3 regimes, 1992-97, 1997-1999 and 2000-2001, we analyze convergence properties, like a smooth or a rough transition in the mean or variance shifts between these 3 regimes. Given the regimes, we test the convergence in econometric models to see if the first and second moments of the convergence process are time dependent. Furthermore, we check for a smooth transition process between the regimes and if the convergence process has stabilized around a target path. We find that the speed of the convergence processes for the monetary authority controlled variables (inflation and interest rates) were very different from the government controlled variables, annual deficit and the public debt.

PD September 2003. **TI** Multivariate Regression and ANOVA Models with Outliers: A Comparative Approach. **AA** Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 136; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 20. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** C11, C39. **KW** Multivariate Regression. Multivariate One-Way ANOVA. Outliers. Gibbs Sampling. Marginal Likelihoods. Sensitivity Analysis.

AB Assuming a normal-Wishart modeling framework we compare two methods for finding outliers in a multivariate regression (MR) system. One method is the add-1-dummy approach which needs fewer parameters and a model choice criterion while the other method estimates the outlier probability for each observation by a Bernoulli mixing outlier location shift model. For the simple add-1-dummy model the Bayes factors and the posterior probabilities can be calculated explicitly. In the probabilistic mixing model we show how the posterior distribution can be obtained by a Gibbs sampling algorithm. The number of outliers is determined using the

marginal likelihood criterion. The methods are compared for test scores of language examination data of Fuller (1987): The results are similar but differ in their strength of their empirical evidence.

TI E-Democracy and Knowledge: A Multicriteria Framework for the New Democratic Era. AU Moreno-Jimenez, Jose Mariz; Polasek, Wolfgang.

Pollak, Robert A.

PD October 2002. **TI** Gary Becker's Contributions to Family and Household Economics. AA Washington University in St. Louis and NBER. **SR** National Bureau of Economic Research Working Paper: 9232; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 42. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D11, D13, D70. **KW** Household Economics. Family. Gary Becker. Auxiliary Assumptions.

AB Gary Becker's influence on the economics of the family has been pervasive. His ideas have dominated research in the economics of the family, shaping the tools we use, the questions we ask, and the answers we give. The foundational assumptions of Becker's economic approach to the family -- maximizing behavior and equilibrium -- as well as such primary auxiliary assumptions as household production and interdependent preferences, are now widely accepted not only by economists but also by family sociologists, demographers, and others who study the family. Yet the interesting and provocative implications of Becker's economic approach to the family do not follow from the foundational assumptions or from the primary auxiliary assumptions. Instead they depend on contested auxiliary assumptions to which neoclassical economics has no commitment and which lack empirical support. This paper discusses the crucial role of auxiliary assumptions in Becker's analysis of the family, first in the context of preferences, then in the context of household production, and finally in the context of family or household collective choice.

Pollard, Patricia S.

TI Pass-Through Estimates and the Choice of an Exchange Rate Index. AU Coughlin, Cletus C.; Pollard, Patricia S.

TI Aging, Myopia, and the Pay-As-You-Go Public Pension Systems of the G7: A Bright Future? AU Pecchenino, Rowena A.; Pollard, Patricia S.

Polyak, Boris

TI Cubic Regularization of a Newton Scheme and Its Global Performance. AU Nesterov, Yurii; Polyak, Boris.

Portrait, France

TI Individual Mortality and Macroeconomic Conditions from Birth to Death. AU Lindeboom, Maarten; Portrait, France; van den Berg, Gerard J.

Postel-Vinay, Fabien

TI Wage Bargaining with On-The-Job Search: Theory and Evidence. AU Cahuc, Pierre; Postel-Vinay, Fabien; Robin, Jean-Marc.

Postlewaite, Andrew

TI Should Courts Always Enforce What Contracting Parties

Write? AU Anderlini, Luca; Felli, Leonardo; Postlewaite, Andrew.

TI Fact-Free Learning. AU Aragonés, Enriqueta; Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David.

TI Fact-Free Learning. AU Aragonés, Enriqueta; Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David.

TI Rationality of Belief or: Why Bayesianism is Neither Necessary nor Sufficient for Rationality. AU Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David.

Poterba, James

TI Asset Allocation and Asset Location: Household Evidence from the Survey of Consumer Finances. AU Bergstresser, Daniel; Poterba, James.

Potesman, Allen M.

TI Horses and Rabbits? Optimal Dynamic Capital Structure from Shareholder and Manager Perspectives. AU Ju, Nengjiu; Parrino, Robert; Potesman, Allen M.; Weisbach, Michael S.

Povel, Paul E. M.

TI The U-Shaped Investment Curve: Theory and Evidence. AU Cleary, Sean; Povel, Paul E. M.; Raith, Michael.

Powers, Michael R.

PD April 2003. **TI** Market Bubbles and Wasteful Avoidance: Tax and Regulatory Constraints on Short Sales. AU Powers, Michael R.; Schizer, David M.; Shubik, Martin. AA Powers: Temple University. Schizer: Columbia University Law School. Shubik: Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1413; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 54. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** G11, G12, F18, K23, K34. **KW** Short Sales. Momentum Traders. Value Investors.

AB Although short sales make an important contribution to financial markets, this transaction faces legal constraints that do not govern long positions. In evaluating these constraints, other commentators have not carefully examined the precise contours of current law. Some short sale constraints are mischaracterized, while others are omitted entirely. Likewise, the existing literature neglects many strategies in which well advised investors circumvent these constraints. To fill these gaps in the literature, this paper offers a careful look at current law and draws three conclusions. First, while there may be plausible reasons to regulate short sales -- most notably, concerns about market manipulation and panics -- current law is very poorly tailored to these goals. Second, investor self-help can ease some of the harm from this poor tailoring, but at a cost. Third, relatively straightforward reforms can eliminate the need for self-help while accommodating legitimate regulatory goals. In making these points, we focus primarily on a burden that other commentators have neglected: profits from short sales generally are ineligible for the reduced tax rate on long-term capital gains, even if the short sale is in place for more than one year.

Prat, Andrea

TI Codes in Organizations. AU Cremer, Jacques;

Garicano, Luis; Prat, Andrea.

Propper, Carol

TI Does Performance Monitoring Work? A Review of the Evidence From the UK Public Sector, Excluding Health Care. **AU** Burgess, Simon; Propper, Carol; Wilson, Deborah.

TJ Maternity Rights and Mother's Return to Work. **AU** Burgess, Simon; Gregg, Paul; Propper, Carol; Washbrook, Elizabeth; ALSPAC Study Team.

Quint, Thomas

PD April 2003. **TI** On Local and Network Games. **AU** Quint, Thomas; Shubik, Martin. **AA** Quint: University of Nevada. Shubik: Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1414; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 23. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, D89, M39. **KW** Local Games. Network Games. Advertising.

AB The knowledge constraints and transactions costs imposed by geographical distance, network connections and time conspire to justify local behavior as a good approximation for global rationality. We consider a class of games to illustrate this relationship and raise some questions as to what constitutes a satisfactory solution concept.

PD May 2003. **TI** On Houseswapping, the Strict Core, Segmentation, and Linear Programming. **AU** Quint, Thomas; Wako, Jun. **AA** Quint: University of Nevada and Yale University. Wako: Gakushuin University. **SR** Yale Cowles Foundation Discussion Paper: 1416; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 28. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C60, C71, C78. **KW** Shapley-Scarf Economy. Strict Core. Linear Inequality System. Extreme Points.

AB We consider the n -player houseswapping game of Shapley-Scarf (1974), with indifferences in preferences allowed. It is well-known that the strict core of such a game may be empty, single-valued, or multi-valued. We define a condition on such games called "segmentability", which means that the set of players can be partitioned into a "top trading segmentation". It generalizes Gale's well-known idea of the partition of players into "top trading cycles" (which is used to find the unique strict core allocation in the model with no indifference). We prove that a game has a nonempty strict core if and only if it is segmentable. We then use this result to devise an $O(n^3)$ algorithm which takes as input any houseswapping game, and returns either a strict core allocation or a report that the strict core is empty. Finally, we are also able to construct a linear inequality system whose feasible region's extreme points precisely correspond to the allocations of the strict core. This last result parallels the results of Vande Vate (1989) and Rothblum (1991) for the marriage game of Gale and Shapley (1962).

Rahi, Rohit

PD January 2004. **TI** Strategic Financial Innovation in Segmented Markets. **AU** Rahi, Rohit; Zigrand, Jean-Pierre. **AA** Rahi: London School of Economics and CEPR. Zigrand: London School of Economics. **SR** CEPR Discussion Paper:

4176; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4176.asp. **PG** 28. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C72, G20. **KW** Asset Innovation. Arbitrage. Restricted Participation. Innovation Games.

AB We analyze an equilibrium model with restricted investor participation in which strategic arbitrageurs play an innovation game and exploit the resulting mis-pricings by reaping trading profits. Since the equilibrium asset structure is not chosen by a social planner, it is chosen to maximize arbitrage profits and depends therefore realistically upon considerations such as depth, liquidity and gains from trade. In addition, the welfare properties of the resulting asset structure are studied. It is shown that the degree of inefficiency depends upon the heterogeneity of investors. The conjecture of the optimality of "Macro Markets" is analyzed formally in this framework.

Raith, Michael

TI The U-Shaped Investment Curve: Theory and Evidence. **AU** Cleary, Sean; Povel, Paul E. M.; Raith, Michael.

Ramey, Garey

TI Regime Switching and Monetary Policy Measurement. **AU** Owyang, Michael T.; Ramey, Garey.

Ramezzana, Paolo

TI Labor Market Frictions, Job Insecurity and the Flexibility of the Employment Relationship. **AU** Matouschek, Niko; Ramezzana, Paolo; Robert-Nicoud, Frederic.

Rangel, Antonio

TI Addiction and Cue-Conditioned Cognitive Processes. **AU** Bernheim, B. Douglas; Rangel, Antonio.

Ranis, Gustav

PD May 2004. **TI** The Evolution of Development Thinking: Theory and Policy. **AA** Yale University. **SR** Yale Economic Growth Center Discussion Paper: 886; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egedisp.html. **PG** 38. **PR** \$2.00 plus postage. **JE** O11, O20. **KW** Development Theory. Development Policy.

AB This paper makes an effort to trace the course of development thinking and associated development policy over the past six decades. Section I focuses on the early Post-War Consensus, with theory focused on extensions of classical dualism theory and policy concentrating on creating the pre-conditions for development. Section II traces the increasing awareness of the role of prices and an increased reliance on structural adjustment lending associated with IFI conditionality. Section III illuminates the search for "silver bullets" which can be identified as key to the achievement of success. Finally, Section IV presents the author's assessment of where we are now and where we will, or should be, heading in the effort to achieve the third world's basic development objectives.

Ratto, Marisa

PD December 2002. **TI** Optimal Audit Policy and Heterogenous Agents. **AU** Ratto, Marisa; Verge, Thibaud. **AA** Ratto: University of Bristol. Verge: University of

Southampton and University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 02/054; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmipo/publications.html. **PG** 25. **PR** no charge; hardcopies can be obtained from cmipo-office@bristol.ac.uk. **JE** D81, G22, H26, K42, M42. **KW** Fraud. Audit. Opportunities. Budget Allocation.

AB Frauds can be explained not only in terms of individual willingness to cheat, but may also be driven by opportunities to behave dishonestly. The audit policy should therefore be different for different categories of agents. This paper focuses on the optimal audit policy when there are two categories of agents and shows that the auditor adopts different policies depending on its budget. When resources are quite limited, the auditor sets identical audit probabilities for both types. On the other hand, in most of the cases, the authority should first ensure that people with lower opportunities choose not to commit an offence.

Ravn, Morten O.

TI The HP-Filter in Cross-Country Comparisons. **AU** Marcell, Albert; Ravn, Morten O.

Razin, Assaf

TI The Role of Information in Driving FDI: Theory and Evidence. **AU** Mody, Ashoka; Razin, Assaf; Sadka, Efraim.

PD October 2002. **TI** The Stability and Growth Pact as an Impediment to Privatizing Social Security. **AU** Razin, Assaf; Sadka, Efraim. **AA** Razin; Tel Aviv University, Cornell University, and NBER. Sadka; Tel Aviv University. **SR** National Bureau of Economic Research Working Paper: 9278; 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** H55, P16. **KW** Stability and Growth Pact. Social Security. Privatization. Political Economy. **AB** The aging of the population shakes the confidence in the economic viability of pay-as-you-go social security systems. We demonstrate how, in a political economy framework, the shaken confidence leads to the downsizing of the social security system, and to the emergence of supplemental individual retirement programs. Lifting the Stability-Pact type ceiling on fiscal deficits is shown to facilitate the transition from a national to a private pension system, through an endogenously determined shift in the median voter.

PD November 2002. **TI** Trade Openness, Investment Instability and Terms-of-Trade Volatility. **AU** Razin, Assaf; Sadka, Efraim; Cury, Tarek. **AA** Razin; Cornell University and NBER. Sadka; Tel Aviv University. Cury; Cornell University. **SR** National Bureau of Economic Research Working Paper: 9332; 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** E22, F19. **KW** Terms-of-Trade Volatility. Investment Instability. Trade Openness.

AB In the presence of economies of scale in the investment technology, trade openness may have non-conventional effects on the level of investment, its cyclical behavior, and the volatility of the terms of trade. Trade openness may lead to

boom-bust cycles of investment supported by self-fulfilling expectations. The economy may oscillate between "optimistic" expectations, "good" terms-of-trade and investment boom to "pessimistic" expectations, "bad" terms-of-trade and investment bust. We also suggest that the likelihood of such oscillations is higher for developing than for developed economies, because the former may typically incur higher setup costs of investment. This phenomenon may help to explain the excessive volatility of the terms of trade of developing countries, relative to industrial countries.

PD February 2003. **TI** Privatizing Social Security Under Balanced-Budget Constraints: A Political-Economy Approach. **AU** Razin, Assaf; Sadka, Efraim. **AA** Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/05; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 19.

PR no charge. **JE** E62, H55. **KW** Stability and Growth Pact. Individual Retirement Accounts. Pay-as- You-Go Social Security System. Political-Economy Transition.

AB The aging of the population shakes the public finances of pay-as- you-go social security systems. We develop a political-economy framework in which this demographic change leads to the downsizing of the social security system, and to the emergence of supplemental individual retirement programs. Making the balanced-budget rule (of the type of the Stability and Growth Pact in the EU) more flexible, to accommodate the social security reforms, is shown to facilitate the political-economy transition from a national to a private pension system, through an endogenously determined shift in the political-economy equilibrium.

PD February 2003. **TI** A Brazilian-Type Debt Crisis: Simple Analytics. **AU** Razin, Assaf; Sadka, Efraim. **AA** Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/06; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 5. **PR** no charge. **JE** E60, F30, F34. **KW** Credit Ratings. Self-Fulfilling Expectations. Debt Crises. Fiscal Rectitude.

AB We develop a model that captures important features of debt crises of the Brazilian type. Its applicability to Brazil lies in the fact that (1) macro fundamentals were sound in the wake of the crisis (e.g., a non-negligible primary surplus, a relatively low debt/GDP ratio, low inflation, etc.); and (2) the trigger for the crisis appears to be the forthcoming elections, with an expected regime change.

PD January 2004. **TI** Which Countries Export FDI, and How Much? **AU** Razin, Assaf; Rubinstein, Yona; Sadka, Efraim. **AA** Razin; Cornell University, Tel Aviv University and CEPR. Rubinstein and Sadka; Tel Aviv University. **SR** CEPR Discussion Paper: 4204; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4204.asp. **PG** 23. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F10, F30. **KW** Foreign Direct Investment.

AB The paper provides a reconciliation of Lucas' paradox, based on fixed setup costs of new investments. With such costs,

it does not pay a firm to make a "small" investment, even though such an investment is called for by marginal productivity conditions. Using a sample of 45 developed and developing countries we estimate jointly the participation equation (the decision whether to invest at all) and the FDI flow equation (the decision how much to invest). We find that countries which are more likely to serve as source for FDI exports than their characteristics project export lower flow of FDI than is predicted by their characteristics. This negative correlation suggests that the source countries with relatively low setup costs are also those with high marginal productivity of capital.

Redding, Stephen

TI Relative Wage Variation and Industry Location. AU Bernard, Andrew; Redding, Stephen; Schott, Peter; Simpson, Helen.

Reed, Robert R., III.

TI Rational Addiction, Peer Externalities and Long Run Effects of Public Policy. AU Kenkel, Donald S.; Reed, Robert R., III.; Wang, Ping.

Reichelstein, Stefan

TI External and Internal Pricing in Multidivisional Firms. AU Baldenius, Tim; Reichelstein, Stefan.

Reinikka, Ritva

PD January 2004. TI Working for God? AU Reinikka, Ritva; Svensson, Jakob. AA Reinikka: World Bank. Svensson: Stockholm University, World Bank and CEPR. SR CEPR Discussion Paper: 4214; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4214.asp. PG 27. PR 5 pounds, \$5 or 8 euros + postage and handling. JE H39, I11, L31. KW Religious Not-for-Profit Health Care Providers. Altruism. Natural Experiment. Financial Aid.

AB This paper exploits a unique micro-level data set on primary health care facilities in Uganda to address the question: What motivates religious not-for-profit (RNFP) health care providers? We use two approaches to identify whether an altruistic (religious) effect exists in the data. First, exploiting the cross-section variation, we show that RNFP facilities hire qualified medical staff below the market wage; are more likely to provide pro-poor services and services with a public good element; and charge lower prices for services than for-profit facilities, although they provide a similar (observable) quality of care. RNFP and for-profit facilities both provide better quality care than their government counterparts, although government facilities have better equipment. These findings are consistent with the view that RNFP are driven (partly) by altruistic (religious) concerns and that these preferences matter quantitatively. Second, we exploit a near natural experiment in which the government initiated a program of financial aid for the RNFP sector, and show that financial aid leads to more laboratory testing of suspected malaria and intestinal worm cases, and hence higher quality of service, and to lower user charges. These findings suggest that working for God matters.

Reiss, Peter C.

PD June 2002. TI Household Electricity Demand, Revisited. AU Reiss, Peter C.; White, Matthew W.

AA Reiss: Stanford University and NBER. White: University of Pennsylvania and NBER. SR Stanford Graduate School of Business Research Paper: 1830; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. PG 56. PR no charge. JE D12, L94. KW Electricity Demand. Price Changes.

AB Recent efforts to restructure electricity markets have renewed interest in assessing how consumers respond to price changes. This paper develops a model for evaluating the effects of alternative tariff designs on residential electricity use. The model concurrently addresses several inter-related difficulties posed by nonlinear pricing, heterogeneity in consumer price sensitivity, and consumption aggregation over time. We estimate the model using extensive data for a representative sample of 1,300 California households. The results imply a strikingly skewed distribution of household electricity price elasticities in the population, with a small fraction of households accounting for most aggregate demand response. We then estimate the aggregate and distributional consequences of recent tariff structure changes in California, the consumption effects of which have been the subject of considerable debate.

PD September 2003. TI Demand and Pricing in Electricity Markets: Evidence from San Diego During California's Energy Crisis. AU Reiss, Peter C.; White, Matthew W. AA Reiss: Stanford University and NBER. White: University of Pennsylvania and NBER. SR Stanford Graduate School of Business Research Paper: 1829; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. PG 54. PR no charge. JE D12, L94. KW Utility Markets. Energy Crisis. Electricity Prices.

AB We study the electricity consumption of San Diego-area households following a series of price changes and related events during California's energy crisis in 2000-01. The analysis uses a five-year panel of disaggregate billing and weather data for a random sample of 70,000 households. In contrast to prior work, these data allow us to proceed without behavioral assumptions regarding a consumer's knowledge of energy prices. We find that after a rapid price increase in summer 2000, consumption fell substantially over about 60 days, averaging 12 to 13% per household; consumption then rebounded to within 3% of pre-crisis levels after a price cap was imposed. Under the price cap, public appeals for energy conservation and a remunerative voluntary conservation program had significant, but transitory, effects. Further, a large share of households reduced electricity consumption substantially (over 10%) but saved small monetary amounts (\$10 or less). Overall, the results indicate consumers may be far more responsive to pecuniary and non-pecuniary incentives for altering their energy use than is commonly believed.

PD December 2003. TI Structural Econometric Modeling: Rationales and Examples from Industrial Organization. AU Reiss, Peter C.; Wolak, Frank A. AA Reiss: Stanford University and NBER. Wolak: Stanford University. SR Stanford Graduate School of Business Research Paper: 1831; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. PG 156. PR no charge. JE C50, C51, C52, D40. KW Structural Econometric Models. Market Power. Auctions. Regulation. Entry.

AB This chapter explains the logic of structural econometric models and compares them to other types of econometric models. We provide a framework researchers can use to develop and evaluate structural econometric models. This framework pays particular attention to describing different sources of unobservables in structural models. We use our framework to evaluate several literatures in industrial organization economics, including the literatures dealing with market power, product differentiation, auctions, regulation and entry.

Renstroem, Thomas I.

TI Optimal Dynamic Taxation with Indivisible Labor.

AU Basu, Parantap; Marsiliani, Laura; Renstroem, Thomas I.

Rey, Helene

TI Financial Globalization and Emerging Markets: With or Without Crash? **AU** Martin, Philippe; Rey, Helene.

Rey, Patrick

PD February 2002. **TI** Resale Price Maintenance and Horizontal Cartel. **AU** Rey, Patrick; Verge, Thibaud. **AA** Rey: University of Toulouse. Verge: University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 02/047; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. **PG** 19. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** D40, L13, L41, L42. **KW** Resale Price Maintenance. Collusion. Successive Duopoly.

AB Whereas non-price restrictions such as exclusive territories are often tolerated while Resale Price Maintenance (RPM) is rather unanimously forbidden, the economic analysis shows so far that both types of restraints have positive and negative effects on welfare, in such a way that the balance is not clearly in favor of non-price restrictions. An often expressed idea to justify the courts' decisions against RPM is that it can limit both inter- and intra-brand competition. This paper analyses this argument in a context where manufacturers and retailers have interlocking relationships. It is shown that even as part of purely bilateral vertical contracts, RPM indeed limits the exercise of both inter- an intra-brand competition and can even generate industry-wide monopoly pricing. The final impact on prices depends on the substitutability between retailers and between manufacturers, and on the extent of potential competition at the retail level.

PD February 2002. **TI** A Note on Vertical Control With Bilateral Contracts. **AU** Rey, Patrick; Verge, Thibaud. **AA** Rey: University of Toulouse. Verge: University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 02/048; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. **PG** 12. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** D40, L14, L42. **KW** Secret Contracts. Passive Beliefs. Wary Beliefs. Resale Price Maintenance.

AB When a manufacturer contracts secretly with competing retailers he is subject to opportunism, and linear or non-linear

tariffs may not allow the manufacturer to maintain monopoly prices. To analyze the effects of RPM, O'Brien-Shaffer (1992) use a concept of contract equilibrium which concentrates on pairwise deviations thereby questioning the robustness of the analysis. This paper emphasizes the distinction between the contract equilibrium and standard non-cooperative concepts. We advocate for some caution in the use of the former concept, as it overlooks an inexistence problem. We then confirm the intuition that RPM can help solve the manufacturer's commitment problem. This confirms that O'Brien-Shaffer's insight is robust and validates the courts' reluctance against RPM.

Riphahn, Regina

TI Temporary Contracts and Employee Effort.

AU Engellandt, Axel; Riphahn, Regina.

Ritchken, Peter H.

TI Getting the Most Out of a Mandatory Subordinated Debt Requirement. **AU** Fan, Rong; Haubrich, Joseph G.; Ritchken, Peter H.; Thomson, James B.

TI Monitoring and Controlling Bank Risk: Does Risky Debt Serve any Purpose? **AU** Krishnan, C. N. V.; Ritchken, Peter H.; Thomson, James B.

TI On Credit Spread Slopes and Predicting Bank Risk. **AU** Krishnan, C. N. V.; Ritchken, Peter H.; Thomson, James B.

Ritzberger, Klaus

TI Trees and Decisions. **AU** Alos-Ferrer, Carlos; Ritzberger, Klaus.

Robert-Nicoud, Frederic

TI Agglomeration and Welfare: The Core-Periphery Model in the Light of Bentham, Kaldor, and Rawls. **AU** Charlot, Sylvie; Gaigne, Carl; Robert-Nicoud, Frederic; Thisse, Jacques-Francois.

TI Agglomeration and Welfare: The Core-Periphery Model in the Light of Bentham, Kaldor, and Rawls. **AU** Charlot, Sylvie; Gaigne, Carl; Robert-Nicoud, Frederic; Thisse, Jacques-Francois.

TI Labor Market Frictions, Job Insecurity and the Flexibility of the Employment Relationship. **AU** Matouschek, Niko; Ramezzana, Paolo; Robert-Nicoud, Frederic.

Robin, Jean-Marc

TI Wage Bargaining with On-The-Job Search: Theory and Evidence. **AU** Cahuc, Pierre; Postel-Vinay, Fabien; Robin, Jean-Marc.

Robinson, David T.

TI What is the Price of Hubris? Using Takeover Battles to Infer Overpayments and Synergies. **AU** Hietala, Pekka; Kaplan, Steven N.; Robinson, David T.

Rodriguez, Jorge

TI Strategic Asset Allocation in a Continuous Time VAR Model. **AU** Campbell, John Y.; Chacko, George; Rodriguez, Jorge; Viceira, Luis M.

Rodrik, Dani

PD October 2002. TI Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development. AU Rodrik, Dani; Subramanian, Arvind; Trebbi, Francesco. AA Rodrik: Harvard University and NBER. Subramanian: International Monetary Fund. Trebbi: Harvard University. SR National Bureau of Economic Research Working Paper: 9305; 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 O10, O40. KW Institutions. Trade. Income Levels. Economic Development.

AB We estimate the respective contributions of institutions, geography, and trade in determining income levels around the world, using recently developed instruments for institutions and trade. Our results indicate that the quality of institutions "trumps" everything else. Once institutions are controlled for, measures of geography have at best weak direct effects on incomes, although they have a strong indirect effect by influencing the quality of institutions. Similarly, once institutions are controlled for, trade is almost always insignificant, and often enters the income equation with the "wrong" (i.e., negative) sign, although trade too has a positive effect on institutional quality. We relate our results to recent literature, and where differences exist, trace their origins to choices on samples, specification, and instrumentation.

Roemer, John E.

PD March 2003. TI Eclectic Distributional Ethics. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1408; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 26. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE Z13, Z19. KW Distributive Justice. Ethics. Axiomatic Social Choice.

AB Utilitarians, egalitarians, prioritarians, and sufficientarians each provide examples of situations demonstrating, often compellingly, that a sensible ethical observer must adopt their view and reject the others. We argue, to the contrary, that an attractive ethic is eclectic, in the sense of coinciding with these apparently different views in different regions of the space of social states.

PD March 2003. TI Political Equilibrium with Private or/and Public Campaign Finance: A Comparison of Institutions. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1409; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 60. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE D72, P16. KW Political Equilibrium. Representation. Campaign Finance.

AB We propose a theory of party competition (two parties, single-issue) where citizens acquire party membership by contributing money to a party, and where a member's influence on the policy taken by her party is proportional to her campaign contribution. The polity consists of informed and uninformed voters: only informed voters join parties, and the party campaign chest, the sum of its received contributions, is used to advertise and reach uninformed voters. Parties compete with each other strategically with respect to policy choice and advertising. We propose a definition of political equilibrium, in

which party membership, citizen contributions, and parties' policies are simultaneously determined, for each of four financing institutions, running a gamut between a purely private, unconstrained system, to a public system in which all citizens have equal financial input. We compare the representation and welfare properties of these four institutions.

PD March 2003. TI Indeterminacy of Citizen-Candidate Equilibrium. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1410; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 8. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE D72, P16. KW Political Equilibrium. Citizen-Candidate Equilibrium.

AB In a citizen candidate equilibrium, there are n candidates each of whom announces a policy in a policy space of dimension d . Thus the policy equilibrium lives in a space of dimension nd . We show, in a canonical example, that the equilibrium manifold is generically of dimension nd . In particular, the set of equilibria contains an open set in Tn .

Roldos, Jorge

TI Monetary Policy in a Financial Crisis. AU Christiano, Lawrence J.; Gust, Christopher; Roldos, Jorge.

Romano, Richard

TI Educational Vouchers and Cream Skimming. AU Epple, Dennis; Romano, Richard.

Romer, Christina D.

PD October 2002. TI The Evolution of Economic Understanding and Postwar Stabilization Policy. AU Romer, Christina D.; Romer, David H. AA University of California, Berkeley and NBER. SR National Bureau of Economic Research Working Paper: 9274; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 52. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E32, E52, E61, E63, N12. KW Stabilization. Business Cycles. Postwar Period. Evaluation of Policy.

AB There have been large changes in the conduct of aggregate demand policy in the United States over the past fifty years. This paper shows that these changes in policy have resulted largely from changes in policymakers' beliefs about the functioning of the economy and the effects of policy. We document the changes in beliefs using contemporaneous discussions of the economy and policy by monetary and fiscal policymakers and, for the period since the late 1960s, using the Federal Reserve's internal forecasts. We find that policymakers' understanding of the economy has not exhibited steady improvement. Instead, the evidence reveals an evolution from a fairly crude but basically sound worldview in the 1950s, to a more sophisticated but deeply flawed model in the 1960s, to uncertainty and fluctuating beliefs in the 1970s, and finally to the modern worldview of the 1980s and 1990s. We establish a link between policymakers' beliefs and aggregate demand policy by examining narrative evidence on the motivation for key policy choices. We also compare monetary policymakers' choices with the implications of a modern estimated policy rule and show that the main differences are consistent with the changes in beliefs that we observe.

Romer, David H.

TI The Evolution of Economic Understanding and Postwar Stabilization Policy. AU Romer, Christina D.; Romer, David H.

Rose, Andrew K.

PD October 2002. TI Do We Really Know that the WTO Increases Trade? AA University of California, Berkeley and NBER. SR National Bureau of Economic Research Working Paper: 9273; 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 F13, F15. KW WTO. GATT. GSP. Trade Patterns. Effect on Trade.

AB This paper estimates the effect on international trade of multilateral trade agreements: the World Trade Organization (WTO), its predecessor the Generalized Agreement on Tariffs and Trade (GATT), and the Generalized System of Preferences (GSP) extended from rich countries to developing countries. I use a standard "gravity" model of bilateral merchandise trade and a large panel data set covering over fifty years and 175 countries. An extensive search reveals little evidence that countries joining or belonging to the GATT/WTO have different trade patterns than outsiders. The GSP does seem to have a strong effect, and is associated with an approximate doubling of trade.

PD October 2002. TI A Gravity Model of Sovereign Lending: Trade, Default and Credit. AU Rose, Andrew K.; Spiegel, Mark M. AA Rose: University of California, Berkeley and NBER. Spiegel: Federal Reserve Bank of San Francisco. SR National Bureau of Economic Research Working Paper: 9285; Working Papers, NBER, 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 U.S.). JE F15, F33. KW Gravity Model. Trade. Default. Debt.

AB One reason why countries service their external debts is the fear that default might lead to shrinkage of international trade. If so, then creditors should systematically lend more to countries with which they share closer trade links. We develop a simple theoretical model to capture this intuition, then test and corroborate this idea.

PD November 2002. TI Do WTO Members have More Liberal Trade Policy? AA University of California, Berkeley and NBER. SR National Bureau of Economic Research Working Paper: 9347; 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 F13, F15. KW World Trade Organization. Trade Policy. Trade Liberalization.

AB This paper uses 68 measures of trade policy and trade liberalization to ask if membership in the World Trade Organization (WTO) and its predecessor the General Agreement on Tariffs and Trade (GATT) is associated with more liberal trade policy. Almost no measures of trade policy are significantly correlated with GATT/WTO membership. Trade liberalizations, when they occur, usually lag GATT entry by many years, and the GATT/WTO often admits countries that are closed and remain closed for years. The exception to the negative rule is that WTO members tend to have slightly more freedom as judged by the Heritage Foundation's index of

economic freedom.

Rostagno, Massimo

TI The Great Depression and the Friedman-Schwartz Hypothesis. AU Christiano, Lawrence J.; Motto, Roberto; Rostagno, Massimo.

Rousseau, Peter L.

TI Mergers as Reallocation. AU Jovanovic, Boyan; Rousseau, Peter L.

PD November 2002. TI Historical Perspectives on Financial Development and Economic Growth. AA Vanderbilt University and NBER. SR National Bureau of Economic Research Working Paper: 9333; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 40. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E44, G10, N11, N21. KW Financial Revolutions. Economic Growth. Financial Markets.

AB This paper uses standard tools of empirical macro economics to examine how well the existing historical time series support a role for financial factors in real sector activity in four economies that experienced what are widely considered to be "financial revolutions" over the past 400 years. The evidence presented for the Dutch Republic (1600-1794), England (1700-1850), the United States (1790-1850), and Japan (1880-1913) suggests that the emergence of financial instruments, institutions, and markets played a central role in promoting trade, commerce, and industrialization. Cross-section regressions with a wider set of countries for the post-1850 period offer additional support for the Schumpeterian view of finance in growth. Though limitations of the available data argue for a cautious interpretation, the findings are consistent with the traditional and more descriptive analyses of these events in the economic history literature, and with results obtained for the post-1960 period by modern macro economists.

Rowthorn, Robert

TI Convergence and Stability in US Regional Employment. AU Glyn, Andrew; Rowthorn, Robert.

Rubinstein, Ariel

TI Two Tales of Power and Distribution of Wealth in the Jungle. AU Piccione, Michele; Rubinstein, Ariel.

TI A Model of Optimal Persuasion Rules. AU Glazer, Jacob; Rubinstein, Ariel.

PD August 2003. TI Equilibrium in the Jungle. AU Rubinstein, Ariel; Piccione, Michele. AA Rubinstein: Tel Aviv University and Princeton University. Piccione: London School of Economics. SR Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/18; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. PG 18. PR no charge. JE C70, D40. KW Power. Involuntary Exchange. Jungle Equilibrium. Competitive Equilibrium.

AB In the jungle, power and coercion govern the exchange of resources. We study a simple, stylized model of the jungle that mirrors an exchange economy. We define the notion of jungle

equilibrium and demonstrate that a number of standard results of competitive markets hold in the jungle.

PD May 2004. **TI** Instinctive and Cognitive Reasoning: Response Times Study. **AA** Tel Aviv University and New York University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2004/09; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 55. **PR** no charge. **JE** C90. **KW** Response Times. Instinctive Action. Cognitive Action. Reasoning. Experimental Game Theory.

AB The hypothesis of this research project is that actions which are instinctive and derived from emotional responses should require less response time than actions which require the use of cognitive power. Thousands of data observations were collected from students and lecture audiences through the site gametheory.tau.ac.il. The subjects were asked to respond to virtual decision and game situations. In certain examples (such as the beauty contest game), where there is a clear distinction between the instinctive and cognitive actions, the data support the hypothesis. In other examples (such as the dictator game), the data is helpful in identifying the instinctive action.

TI Luxury Prices: An Expository Note. **AU** Piccione, Michele; Rubinstein, Ariel.

PD June 2004. **TI** A Skeptic's Comment on the Studies of Economics. **AA** Tel Aviv University and New York University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 18/2004; Mrs. Stella Padch, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. **PG** 12. **PR** no charge. **JE** A22, Z11. **KW** Profit Maximizing. Teaching Economics. Indoctrination.

AB A survey questionnaire was presented to two groups of undergraduate economics students and to four groups of students in mathematics, law, philosophy and business studies. Significant differences were found in their approach to the dilemma of maximizing profits and laying off workers. It is argued that the formal method of teaching economics encourages students to adopt unethical profit maximizing positions.

Rubinstein, Yona

TI Household vs. Personal Accounts of the U.S. Labor Market, 1967-97. **AU** Mulligan, Casey B.; Rubinstein, Yona.

TI Which Countries Export FDI, and How Much? **AU** Razin, Assaf; Rubinstein, Yona; Sadka, Efraim.

Rubio, Santiago

PD June 2003. **TI** An Infinite-Horizon Model of Dynamic Membership of International Environmental Agreements. **AU** Rubio, Santiago; Ulph, Alistair. **AA** Rubio: University of Valencia. Ulph: University of Southampton. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/57; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 26. **PR** no charge; available only on website. **JE** Q53, Q58. **KW** Self-Enforcing IEAs.

Internal Stability. External Stability. Stock Pollutant.

AB Much of the literature on international environmental agreements uses static models, although most important trans-boundary pollution problems involve stock pollutants. The few papers that study IEAs using models of stock pollutants do not allow for the possibility that membership of the IEA may change endogenously over time. In this paper we analyze a simple infinite-horizon version of the Barrett (1994) model, in which unit damage costs increase with the stock of pollution, and countries decide each period whether to join an IEA. We show that there exists a steady-state stock of pollution with corresponding steady-state IEA membership, and that if the initial stock of pollution is below (above) steady-state then membership of the IEA declines (rises) as the stock of pollution tends to steady-state. As we increase the parameter linking damage costs to the pollution stock, initial and steady-state membership decline; in the limit, membership is small and constant over time.

Rueben, Kim

TI Residential Segregation in General Equilibrium. **AU** Bayer, Patrick; McMillan, Robert; Rueben, Kim.

Ruhm, Christopher J.

TI Deaths Rise in Good Economic Times: Evidence From the OECD. **AU** Gerdtham, Ulf-G.; Ruhm, Christopher J.

Rupert, Peter

TI Life Cycle Wage and Job Changes. **AU** Nosal, Ed; Rupert, Peter.

TI How Amenities Affect Job and Wage Choices over the Life Cycle. **AU** Nosal, Ed; Rupert, Peter.

Rydqvist, Kristian

TI Do Shareholders Vote Strategically? Evidence on the Advisory Role of Annual General Meetings. **AU** Maug, Ernst; Rydqvist, Kristian.

Ryun Chang, Dae

TI An Approach to the Measurement, Analysis, and Prediction of Brand Equity and its Sources. **AU** Srinivasan, V.; Su Park, Chan; Ryun Chang, Dae.

Sadka, Efraim

TI The Role of Information in Driving FDI: Theory and Evidence. **AU** Mody, Ashoka; Razin, Assaf; Sadka, Efraim.

TI The Stability and Growth Pact as an Impediment to Privatizing Social Security. **AU** Razin, Assaf; Sadka, Efraim.

TI Trade Openness, Investment Instability and Terms-of-Trade Volatility. **AU** Razin, Assaf; Sadka, Efraim; Coury, Tarek.

TI Privatizing Social Security Under Balanced-Budget Constraints: A Political-Economy Approach. **AU** Razin, Assaf; Sadka, Efraim.

TI A Brazilian-Type Debt Crisis: Simple Analytics. **AU** Razin, Assaf; Sadka, Efraim.

TI Income Taxation with Intergenerational Mobility: Can Higher Inequality Lead to Less Progression? **AU** Blumkin, Tomer; Sadka, Efraim.

TI Which Countries Export FDI, and How Much?
AU Razin, Assaf; Rubinstein, Yona; Sadka, Efraim.

Saez, Marc

TI A Multilevel Analysis on the Determinants of Regional Health Care Expenditure. A Note. **AU** Lopez-Casasnovas, Guillem; Saez, Marc.

Saffer, Henry

TI An Economic Analysis of Adult Obesity: Results from the Behavioral Risk Factor Surveillance System. **AU** Chou, Shin-Yi; Grossman, Michael; Saffer, Henry.

Salvanes, Kjell G.

TI Why the Apple Doesn't Fall: Understanding Intergenerational Transmission of Human Capital. **AU** Black, Sandra E.; Devereux, Paul; Salvanes, Kjell G.

Samet, Dov

TI Probabilities: Frequencies Viewed in Perspective. **AU** Billot, Antoine; Gilboa, Itzhak; Samet, Dov; Schmeidler, David.

Sanford, Andrew D.

PD September 2003. **TI** Simulation-Based Bayesian Estimation of Affine Term Structure Models. **AU** Sanford, Andrew D.; Martin, Gael M. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/15; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 41. **PR** no charge. **JE** C11, C15, E43. **KW** Interest Rate Models. Markov Chain Monte Carlo. Data Augmentation. Nonlinear State Space Models. Kalman Filtering.

AB This paper demonstrates the application of Bayesian simulation-based estimation to a class of interest rate models known as Affine Term Structure (ATS) models. The technique used is based on a Markov Chain Monte Carlo algorithm, with the discrete observations on yields augmented by additional higher frequency latent data. The introduction of augmented yield data reduces the bias associated with estimating a continuous time model using discretely observed data. The technique is demonstrated using a one-factor ATS model, with the latent factor process that underlies the yields sampled via a single-move algorithm. Numerical application of the method is demonstrated using both simulated and empirical data. Extension of the method to a three-factor ATS model is also discussed, as well as the application of a multi-move sampler based on a Kalman Filtering and Smoothing algorithm.

Santa-Clara, Pedro

TI Flexible Multivariate GARCH Modeling with an Application to International Stock Markets. **AU** Ledoit, Olivier; Santa-Clara, Pedro; Wolf, Michael.

Sapienza, Paola

TI People's Opium? Religion and Economic Attitudes. **AU** Guiso, Luigi; Sapienza, Paola; Zingales, Luigi.

Sargent, Thomas J.

TI European Unemployment and Turbulence Revisited in a

Matching Model. **AU** Ljungqvist, Lars; Sargent, Thomas J.

Sarno, Lucio

PD November 2002. **TI** What's Unique About the Federal Funds Rate? Evidence From a Spectral Perspective. **AU** Sarno, Lucio; Thornton, Daniel L.; Wen, Yi. **AA** Sarno: University of Warwick and CEPR. Thornton: Federal Reserve Bank of St. Louis. Wen: Cornell University. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/029A; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 17. **PR** no charge. **JE** E43, E52. **KW** Interest Rates. Federal Funds Rate. Term Structure.

AB A large empirical literature attempts to identify US monetary policy shocks using the effective federal funds rate. This paper compares the time series behavior of the effective federal funds rate to 10 US interest rates with maturities ranging from overnight to 10 years. Using a spectral estimation procedure that is particularly suitable and novel in the context, we identify idiosyncratic shocks to the federal funds rate and provide evidence on their impact on other US interest rates at various frequencies. Our results suggest that, while all of the interest rates examined have common shocks at low frequency, the federal funds rate contains some unique information at high frequency, although this information appears to be relevant only at the short end of the term structure of interest rates. These results are open to various alternative interpretations.

Scarf, Herbert E.

TI Two New Proofs of Afriat's Theorem. **AU** Fostel, A.; Scarf, Herbert E.; Todd, Michael J.

PD July 2003. **TI** Uniqueness of Equilibrium in the Multi-Country Ricardo Model. **AU** Scarf, Herbert E.; Wilson, Charles A. **AA** Scarf: Yale University. Wilson: New York University. **SR** Yale Cowles Foundation Discussion Paper: 1431; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 22. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** D51, F11. **KW** Ricardo Model. Gross Substitutes. Uniqueness.

AB We present two arguments, one based on index theory, demonstrating that the multi-country Ricardo model has a unique competitive equilibrium if the aggregate demand functions exhibit gross substitutability. The result is somewhat surprising because the assumption of gross substitutability is sufficient for uniqueness in a model of exchange but not, in general, when production is included in the model.

Schaefer, Scott

TI Compensating Employees Below the Executive Ranks: A Comparison of Options, Restricted Stock, and Cash. **AU** Oyer, Paul; Schaefer, Scott.

TI Why Do Some Firms Give Stock Options to All Employees? An Empirical Examination of Alternative Theories. **AU** Oyer, Paul; Schaefer, Scott.

Schaller, Huntley

TI A Revealed Preference Approach To Understanding Corporate Governance Problems: Evidence From Canada. **AU** Chirinko, Robert S.; Schaller, Huntley.

Scheiche, Martin

TI The Forecasting Performance of German Stock Option Densities. **AU** Craig, Ben R.; Glatzer, Ernst; Keller, Joachim G.; Scheiche, Martin.

Scheve, Kenneth

PD November 2002. **TI** Economic Insecurity and the Globalization of Production. **AU** Scheve, Kenneth; Slaughter, Matthew. **AA** Scheve: Yale University. Slaughter: Dartmouth College and NBER. **SR** National Bureau of Economic Research Working Paper: 9339; 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** F20, J30. **KW** Economic Integration. Worker Insecurity. Foreign Direct Investment.

AB A common claim in debates about globalization is that economic integration increases worker insecurity. Although this idea is central to both political and academic debates about international economic integration, the theoretical basis of the claim is often not clear. There is also no empirical research that has directly tested the relationship. In this paper, we argue that economic insecurity among workers may be related to riskier employment and/or wage outcomes, and that foreign direct investment may be a key factor contributing to this increased risk by making labor demands more elastic. We present new empirical evidence, based on the analysis of panel data from Great Britain collected from 1991-1999, that FDI activity in the industries in which individuals work is positively correlated with individual perceptions of economic insecurity. This relationship holds in yearly cross-sections, in a panel accounting for individual-specific effects, and in a dynamic panel model also accounting for individual-specific effects.

Schipper, Burkhard C.

TI Interactive Unawareness and Speculative Trade. **AU** Heifetz, Aviad; Meier, Martin; Schipper, Burkhard C.

Schizer, David M.

TI Market Bubbles and Wasteful Avoidance: Tax and Regulatory Constraints on Short Sales. **AU** Powers, Michael R.; Schizer, David M.; Shubik, Martin.

Schjelderup, Guttorm

TI Why Europe Should Love Tax Competition -- and the U.S. Even More So. **AU** Janeba, Eckhard; Schjelderup, Guttorm.

Schmeidler, David

TI Probabilities: Frequencies Viewed in Perspective. **AU** Billot, Antoine; Gilboa, Itzhak; Samet, Dov; Schmeidler, David.

TI Axiomatization of an Exponential Similarity Function. **AU** Billot, Antoine; Gilboa, Itzhak; Schmeidler, David.

TI Rationality of Belief or: Why Bayesianism is Neither Necessary nor Sufficient for Rationality. **AU** Gilboa, Itzhak; Postlewaite, Andrew; Schmeidler, David.

TI Empirical Similarity. **AU** Gilboa, Itzhak; Lieberman, Offer; Schmeidler, David.

Schmid, Frank A.

TI Cracks in the Facade: American Economic and Financial Structures After the Boom. **AU** Emmons, William R.; Schmid, Frank A.

PD November 2002. **TI** Mergers and Acquisitions in Germany. **AU** Schmid, Frank A.; Wahrenburg, Mark. **AA** Schmid: Federal Reserve Bank of St. Louis. Wahrenburg: Johann Wolfgang Goethe-Universität Frankfurt. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/027A; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 35. **PR** no charge.

JE F36, G34. **KW** Mergers. Acquisitions. Germany.

AB National differences in corporate governance practices in Europe, such as board structures, shareholder structures, and labor participation rights, make it difficult to operate in the European cross-border mergers and acquisitions environment. Particularly thorny issues are "golden shares" and labor participation in corporate decision-making. The widespread use of golden shares among its European neighbors was critical for Germany in causing the collapse of the proposed takeover directive in the European parliament in July 2001. Another area in which the harmonization efforts of the European Union were struggling is labor participation in company decisions. On October 8, 2001, after 31 years of negotiation, the European Union gave birth to the Societas Europea, or SE. The legislation, which is set to enter into force in 2004, allows companies that operate in more than one state of the European Union to establish as a single company under European Union law. European harmonization efforts notwithstanding, to date, individual country law dominates in both domestic and cross-border mergers and acquisitions in Europe. This paper reviews the social setting and the regulatory framework for mergers and acquisitions or, more generally, for the transfer of cash flow rights on complex assets in Germany.

Schmitt-Grohe, Stephanie

PD October 2002. **TI** Closing Small Open Economy Models. **AU** Schmitt-Grohe, Stephanie; Uribe, Martin. **AA** Schmitt-Grohe: Rutgers University, CEPR, and NBER. Uribe: University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 9270; Working Papers, NBER, 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 U.S.). **JE** E32, F41. **KW** Small Open Economy. Incomplete Asset Markets. Comparison of Dynamics.

AB The small open economy model with incomplete asset markets features a steady state that depends on initial conditions and equilibrium dynamics that possess a random walk component. A number of modifications to the standard model have been proposed to induce stationarity. This paper presents a quantitative comparison of these alternative approaches. Five different specifications are considered: (1) A model with an endogenous discount factor (Uzawa-type preferences); (2) A model with a debt-elastic interest-rate premium; (3) A model with convex portfolio adjustment costs; (4) A model with complete asset markets; and (5) A model without stationarity-inducing features. The main finding of the paper is that all models deliver virtually identical dynamics at business-cycle frequencies, as measured by unconditional second moments and impulse response functions. The only noticeable difference among the alternative specifications is

that the complete-asset-market model induces smoother consumption dynamics.

Schnedler, Wendelin

PD April 2003. TI On the Prudence of Rewarding A While Hoping for B. AA University of Bristol. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/067; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. PG 19. PR no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. JE D82, M41, M52. KW Multitasking. LEN-Model. Hidden-Action. Moral Hazard.

AB In multiple-task hidden-action models, the (mis-)allocation of effort may play an important role for benefit creation. Signals which capture this benefit and which are used in incentive schemes should thus not only be judged by the noise and the associated costs but also by the mis-allocation which they induce. How can mis-allocation be measured? This article presents two requirements for such a measure (invariance and monotonicity) and analyses whether they are met by proposed measures of mis-allocation. All examined measures assert that an unbiased signal for benefit leads to the lowest mis-allocation. Here, the signal leading to the lowest mis-allocation is computed and shown to be unbiased for the benefit only under restrictive assumptions on the cost function (equal marginal costs for different tasks). Generally, using an unbiased signal does not imply the lowest mis-allocation.

Schoeb, Ronnie

PD June 2003. TI The Double Dividend Hypothesis of Environmental Taxes: A Survey. AA Otto-von-Guericke-University Magdeburg and CESifo. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/60; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 49. PR no charge; available only on website. JE H21, H23, Q58. KW Environmental Taxation. Double-Dividend Hypothesis. Full-Employment Models. Unemployment Models. International Coordination.

AB This survey reviews the recent literature on the double-dividend hypothesis of environmental taxes and discusses some extensions of the standard model such as the distributional consequences and the importance of the non-separability assumption between consumption goods and environmental quality for the optimal design of environmental policies. Turning to a model with imperfect labor markets we then show under which circumstances environmental taxes on polluting inputs in production and on polluting consumption goods can reap a second dividend in the form of an employment dividend and discuss the welfare implications. Finally, we turn to international aspects of environmental taxation. When environmental problems are tied to the use of exhaustible resources, resource-consuming countries can appropriate resource rents at the cost of resource-owning countries by levying environmental taxes strategically.

Schott, Peter

TI Relative Wage Variation and Industry Location. AU Bernard, Andrew; Redding, Stephen; Schott, Peter; Simpson, Helen.

Schulte, Elisabeth

TI Speed and Quality of Collective Decision-Making, I: Imperfect Information Processing. AU Gruener, Hans Peter; Schulte, Elisabeth.

Schwartz, Anna J.

PD November 2002. TI Asset Price Inflation and Monetary Policy. AA NBER. SR National Bureau of Economic Research Working Paper: 9321; 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 E44, E52, G28. KW Asset Price Inflation. Monetary Policy.

AB It is crucial that central banks and regulatory authorities be aware of effects of asset price inflation on the stability of the financial system. Lending activity based on asset collateral during the boom is hazardous to the health of lenders when the boom collapses. One way that authorities can curb the distortion of lenders' portfolios during asset price booms is to have in place capital requirements that increase with the growth of credit extensions collateralized by assets whose prices have escalated. If financial institutions avoid this pitfall, their soundness will not be impaired when assets backing loans fall in value. Rather than trying to gauge the effects of asset prices on core inflation, central banks may be better advised to be alert to the weakening of financial balance sheets in the aftermath of a fall in the value of asset-collateral backing loans.

Schweitzer, Mark

PD June 2003. TI Ready, Willing, and Able? Measuring Labour Availability in the UK. AA Federal Reserve Bank of Cleveland. SR Federal Reserve Bank of Cleveland Working Paper: 03/03; Federal Reserve Bank of Cleveland, Research Department, P.O. Box 6387, Cleveland, OH 44101-1387. Website: www.clevelandfed.org/research/workpaper/index.htm. PG 48. PR no charge. JE E24, J21, J64. KW Unemployment Incidence. Labor Force.

AB The unemployment rate is commonly assumed to measure labor availability, but this ignores the fact that potential workers frequently come from outside the current set of labor market participants, the so-called inactive. The UK Longitudinal Labor Force Survey includes information that can be used to predict impending employment transitions. Using this unique dataset, new measures of labor availability, and indicators based on the more familiar unemployment rate alternatives, can be constructed and are reported here. The micro and macroeconomic performance of these labor force availability measures is compared. Two simplified models, which include several categories of reasons for not working as well as demographic variables, perform particularly well in all of the tests. The implications of these preferred models are further studied in the context of regional regressions and comparisons with alternative data sources. These results together illustrate the important role that some groups of the inactive can play as a source of potential workers.

Schwert, G. William

PD October 2002. TI Anomalies and Market Efficiency. AA University of Rochester and NBER. SR National Bureau of Economic Research Working Paper: 9277; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 48. PR \$10.00

per copy (plus \$10.00 per order for shipping outside U.S.).
JE G12, G14, G32, G34. **KW** Anomalies. Market Efficiency. Size Effect. Value Effect. Weekend Effect. Dividend Yield Effect.

AB Anomalies are empirical results that seem to be inconsistent with maintained theories of asset-pricing behavior. They indicate either market inefficiency (profit opportunities) or inadequacies in the underlying asset-pricing model. The evidence in this paper shows that the size, value, weekend, and dividend yields effect seem to have weakened or disappeared after the papers that highlighted them were published. At about the same time, practitioners began investment vehicles that implemented the strategies implied by some of these academic papers. The small-firm turn-of-the-year effect became weaker in the years after it was first documented in the academic literature, although there is some evidence that it still exists. Interestingly, however, it does not seem to exist in the portfolio returns of practitioners who focus on small-capitalization firms.

Scutella, Rosanna

TI Employment Polarization in Australia. **AU** Dawkins, Peter; Gregg, Paul; Scutella, Rosanna.

Segerstrom, Paul

PD December 2003. **TI** Naomi Klein and the Anti-Globalization Movement. **AA** Stockholm School of Economics. **SR** CEPR Discussion Paper: 4141; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4141.asp. **PG** 15. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F00, F10, O10. **KW** Anti-Globalization. Free Trade. Economic Growth. Income Inequality.

AB How should economists be responding to the arguments made by anti-globalization activists? This paper examines the writings of Naomi Klein, one of the leaders in the anti-globalization movement. The contents of her influential book *No Logo* are summarized and some problems with her analysis of globalization are discussed. Among the topics covered are the facts about poverty and income inequality, the facts about trade liberalization and economic growth, the experience of Mexico following trade liberalization, and the implication of protest rallies for farmers in developing countries.

Selvaggi, Mariano

TI Please Hold Me Up: Why Firms Grant Exclusive-Dealing Contracts. **AU** de Meza, David; Selvaggi, Mariano.

Shachmurove, Yochanan

TI What Makes an Entrepreneur and Does it Pay? Native Men, Turks and Other Migrants in Germany. **AU** Constant, Amelie; Shachmurove, Yochanan; Zimmermann, Klaus F.

Shackelford, Douglas A.

TI Employee Stock Options, Corporate Taxes and Debt Policy. **AU** Graham, John R.; Lang, Mark H.; Shackelford, Douglas A.

Shami, Roland

TI Association Between Markov Regime-Switching Market Volatility and Beta Risk: Evidence from Dow Jones Industrial Securities. **AU** Galagedera, Don U. A.; Shami, Roland.

Shapiro, Jesse M.

TI The Benefits of the Home Mortgage Interest Deduction. **AU** Glaeser, Edward L.; Shapiro, Jesse M.

Shapiro, Matthew D.

PD October 2002. **TI** Did the 2001 Tax Rebate Stimulate Spending? Evidence from Taxpayer Surveys. **AU** Shapiro, Matthew D.; Slemrod, Joel. **AA** University of Michigan and NBER. **SR** National Bureau of Economic Research Working Paper: 9308; 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** E21, E65, H31. **KW** Presidential Economics. Fiscal Policy. Tax Rebate. Fiscal Stimulus.

AB In 2001, many households received rebate checks as advanced payments of the benefit of the new, 10 percent federal income tax bracket. A survey conducted at the time the rebates were mailed finds that few households said that the rebate led them mostly to increase spending. A follow-up survey in 2002, as well as a similar survey conducted after the attacks of 9/11, also indicates low spending rates. This paper investigates the robustness of these survey responses and assesses whether such surveys are useful for policy evaluation. It also draws lessons from the surveys for macroeconomic analysis of the tax rebate.

Shavell, Steven

PD November 2002. **TI** Minimum Asset Requirements. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 9335; Working Papers, NBER, 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 U.S.). **JE** G28, K13, K20, L51. **KW** Minimum Asset Requirements. Economics of Regulation.

AB Requirements that parties have assets of at least a minimum level in order to participate in an activity are frequently imposed. A principal rationale for minimum asset requirements is considered in this article -- potential injurers have stronger incentives to prevent harm, or not to engage in harmful activities, provided that they have at least the required level of assets at stake if they are sued for causing harm. The optimal minimum asset requirement generally reflects a tradeoff between this advantage and the disadvantage that some parties with assets below a required level ought to engage in the activity (because the benefits they would obtain exceed the expected harm they would cause). Additionally, it is emphasized that minimum asset requirements are socially desirable only when the victims of harm are not customers of firms. When victims of harm are customers of firms, minimum asset requirements are socially undesirable.

Shenstone, Lydia

PD February 2003. **TI** Stochastic Models Underlying Croston's Method for Intermittent Demand Forecasting. **AU** Shenstone, Lydia; Hyndman, Rob J. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/01; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 17. **PR** no charge. **JE** C22, C51, C53. **KW** Croston's Method. Exponential Smoothing. Forecasting. Intermittent Demand.

AB Intermittent demand commonly occurs with inventory data, with many time periods having no demand and small demand in the other periods. Croston's method is a widely used procedure for intermittent demand forecasting. However, it is an ad hoc method with no properly formulated underlying stochastic model. In this paper, we explore possible models underlying Croston's method and three related methods, and we show that any underlying model will be inconsistent with the properties of intermittent demand data. However, we find that the point forecasts and prediction intervals based on such underlying models may still be useful.

Shephard, Neil

TI Econometric Analysis of Realized Volatility and its Use in Estimating Stochastic Volatility Models. **AU** Barndorff-Nielsen, Ole E.; Shephard, Neil.

TI Normal Modified Stable Processes. **AU** Barndorff-Nielsen, Ole E.; Shephard, Neil.

Shiller, Robert J.

TI One Simple Test of Samuelson's Dictum for the Stock Market. **AU** Jung, Jeeman; Shiller, Robert J.

Shimoji, Makoto

TI Subjective Probabilities: Psychological Evidence and Economic Applications. **AU** Chiodo, Abigail J.; Guidolin, Massimo; Owyang, Michael T.; Shimoji, Makoto.

Shin, Hyun Song

TI Catalytic Finance: When Does It Work? **AU** Morris, Stephen; Shin, Hyun Song.

TI Heterogeneity and Uniqueness in Interaction Games. **AU** Morris, Stephen; Shin, Hyun Song.

TI Communication and Monetary Policy. **AU** Amato, Jeffery D.; Morris, Stephen; Shin, Hyun Song.

TI Beauty Contests, Bubbles and Iterated Expectations in Asset Markets. **AU** Allen, Franklin; Morris, Stephen; Shin, Hyun Song.

Shiue, Carol

TI The Origins of Spatial Interaction. **AU** Keller, Wolfgang; Shiue, Carol.

Shleifer, Andrei

TI Media Bias. **AU** Mullainathan, Sendhil; Shleifer, Andrei.

Shorish, Jamsheed

TI Dynamic Modeling of the Demographic Prisoner's Dilemma. **AU** Dorofeenko, Victor; Shorish, Jamsheed.

Shubik, Martin

TI Who Refers to Whom: A Study of Research Reference and the Relationship between Research Reports and Final Publication. **AU** McCarthy, Samuel; Shubik, Martin; Yu, Jianfeng.

TI Default and Punishment in General Equilibrium. **AU** Dubey, Pradeep; Geanakoplos, John; Shubik, Martin.

TI Market Bubbles and Wasteful Avoidance: Tax and

Regulatory Constraints on Short Sales. **AU** Powers, Michael R.; Schizer, David M.; Shubik, Martin.

TI On Local and Network Games. **AU** Quint, Thomas; Shubik, Martin.

PD May 2003. **TI** Structure, Clearinghouses and Symmetry. **AU** Shubik, Martin; Smith, Eric. **AA** Shubik: Yale University. Smith: Santa Fe Institute. **SR** Yale Cowles Foundation Discussion Paper: 1419; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 24. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, D40, G12, G20. **KW** Strategic Market Games. Clearinghouses. Credit Evaluation. Default.

AB We introduce and justify a taxonomy for the structure of markets and minimal institutions which appear in constructing minimally complex trading structures to perform the functions of price formation, settlement, and payments. Each structure is presented as a playable strategic market game and is examined for its efficiency, the number of degrees of freedom, and the symmetry properties of the structure.

PD May 2003. **TI** Strategic Freedom, Constraint, and Symmetry in One-period Markets with Cash and Credit Payment. **AU** Shubik, Martin; Smith, Eric. **AA** Shubik: Yale University. Smith: Santa Fe Institute. **SR** Yale Cowles Foundation Discussion Paper: 1420; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 26. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, D40, G12, G20. **KW** Strategic Market Games. Clearinghouses. Credit Evaluation. Default.

AB To explain in a systematic way why certain combinations of market, financial, and legal structures may be intrinsic to certain capabilities to exchange real goods, we introduce criteria for abstracting the qualitative functions of markets. The criteria involve the number of strategic freedoms the combined institutions, considered as formalized strategic games, present to traders, the constraints they impose, and the symmetry with which those constraints are applied to the traders. We pay particular attention to what is required to make these "strategic market games" well-defined, and to make various solutions computable by the agents within the bounds on information and control they are assumed to have. As an application of these criteria, we present a complete taxonomy of the minimal one-period exchange economies with symmetric information and inside money. A natural hierarchy of market forms is observed to emerge, in which institutionally simpler markets are often found to be more suitable to fewer and less-diversified traders, while the institutionally richer markets only become functional as the size and diversity of their users gets large.

TI The Harmonic Fisher Equation and the Inflationary Bias of Real Uncertainty. **AU** Karatzas, Ioannis; Shubik, Martin; Sudderth, William; Geanakoplos, John.

TI Default and Punishment in General Equilibrium. **AU** Dubey, Pradeep; Geanakoplos, John; Shubik, Martin.

Sialm, Clemens

PD October 2002. **TI** Stochastic Taxation and Asset Pricing in Dynamic General Equilibrium. **AA** University of Michigan and NBER. **SR** National Bureau of Economic Research Working Paper: 9301; 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 E40, G12, H20. KW Taxation. Dynamic General Equilibrium Model.

AB Tax rates have fluctuated considerably since federal income taxes were introduced in the United States in 1913. This paper analyzes the effects of stochastic taxation on asset prices in a dynamic general equilibrium model. Stochastic taxation affects the after-tax returns of both risky and safe assets. Whenever taxes change, bond and equity prices adjust to clear the asset markets. These price adjustments affect assets with long durations, such as equities and long-term bonds, more than short-term assets. Under plausible conditions, investors require higher term and equity premia as compensation for the risk introduced by tax changes.

Sibert, Anne

TI Cross-Border Tax Externalities: Are Budget Deficits too Small? AU Buitert, Willem H.; Sibert, Anne.

Simonov, Andrei

TI Does Prestige Matter More than Profits? Evidence from Entrepreneurial Choice. AU Giannetti, Mariassunta; Simonov, Andrei.

Simpson, Helen

TI Relative Wage Variation and Industry Location. AU Bernard, Andrew; Redding, Stephen; Schott, Peter; Simpson, Helen.

Singer, Miroslav

TI Objectives and Constraints of Entrepreneurs: Evidence from Small and Medium-Size Enterprises in Russia and Bulgaria. AU Pissarides, Francesca; Singer, Miroslav; Svejnar, Jan.

Slaughter, Matthew

TI Economic Insecurity and the Globalization of Production. AU Scheve, Kenneth; Slaughter, Matthew.

Slemrod, Joel

TI Did the 2001 Tax Rebate Stimulate Spending? Evidence from Taxpayer Surveys. AU Shapiro, Matthew D.; Slemrod, Joel.

Sluchynsky, Alexi

TI Does It Pay to Work? AU Gokhale, Jagadeesh; Kotlikoff, Laurence J.; Sluchynsky, Alexi.

Smith, Eric

TI Structure, Clearinghouses and Symmetry. AU Shubik, Martin; Smith, Eric.

TI Strategic Freedom, Constraint, and Symmetry in One-period Markets with Cash and Credit Payment. AU Shubik, Martin; Smith, Eric.

Smith, Katherine A.

TI Margin Calls, Trading Costs, and Asset Prices in Emerging Markets: The Financial Mechanics of the "Sudden Stop" Phenomenon. AU Mendoza, Enrique G.; Smith, Katherine A.

Smith, Peter

TI The Effects of Budgets on Doctor Behavior: Evidence From a Natural Experiment. AU Dusheiko, Mark; Gravelle, Hugh; Jacobs, Rowena; Smith, Peter.

Snyder, Edward A.

TI "Napsterizing" Pharmaceuticals: Access, Innovation, and Consumer Welfare. AU Hughes, James W.; Moore, Michael J.; Snyder, Edward A.

Snyder, Lori D.

TI The Effects of Environmental Regulation on Technology Diffusion: The Case of Chlorine Manufacturing. AU Miller, Nolan; Snyder, Lori D.; Stavins, Robert.

PD June 2003. TI Private Options to Use Public Goods Exploiting Revealed Preferences to Estimate Environmental Benefits. AU Snyder, Lori D.; Stavins, Robert; Wagner, Alexander F. AA Snyder and Wagner: Harvard University. Stavins: Harvard University and Resources for the Future. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/49; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.fcem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 13. PR no charge; available only on website. JE H41, Q21, Q22, Q26. KW Environmental Amenity. Fishing License. Valuation.

AB We develop and apply a new method for estimating the economic benefits of an environmental amenity. The method fits within the household production framework (Becker 1965), and is based upon the notion of estimating the derived demand for a privately traded option to utilize a freely-available public good. In particular, the demand for state fishing licenses is used to infer the benefits of recreational fishing. Using panel data on state fishing license sales and prices for the continental United States over a fifteen-year period, combined with data on substitute prices and demographic variables, a license demand function is estimated with instrumental variable procedures to allow for the potential endogeneity of administered prices. The econometric results lead to estimates of the benefits of a fishing license, and subsequently to the expected benefits of a recreational fishing day. In contrast with previous studies, which have utilized travel cost or hypothetical market methods, our approach provides estimates that are directly comparable across geographic areas. Further, our results suggest that the benefits of recreational fishing days are generally less than previously estimated.

Sobel, Russell S.

TI The Political Economy of FEMA Disaster Payments. AU Garrett, Thomas A.; Sobel, Russell S.

Sokoloff, Kenneth L.

TI Factor Endowments, Inequality, and Paths of Development Among New World Economies. AU Engerman, Stanley L.; Sokoloff, Kenneth L.

Sola, Martin

TI On Model Selection and Markov Switching: An Empirical Examination of Term Structure Models with Regime Shifts. AU Driffill, John; Kenc, Turalay; Sola, Martin; Spagnolo, Fabio.

Soldevila, Pilar

PD November 2001. TI Management Control in Non-Profit Organizations: The Case of the Associations of Economists in Spain. AU Soldevila, Pilar; Oliveras, Ester. AA Universitat Pompeu Fabra. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 583; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php.

PG 16. PR papers only available on web page; no hard copies. JE M41. KW Non-Profit Organizations. Management Control. Economists. Professional Bodies.

AB The number of non-profit organizations has grown considerably over the last decades, however management control techniques are not being introduced with the same frequency as in lucrative organizations. The increased competition in this sector has created a growing interest in management control techniques but with little empirical research in the area. With the aim to throw some light over the uses of management control in professional associations we have focused in the associations for economists in Spain as a particular case of a non-lucrative body. Specifically, the paper comprises three surveys addressed to the following sectors: 1) To the 30 Spanish associations of economists; 2) To associations related to the business and/or economics area operating in the United Kingdom; 3) To members of the association of economists in Catalonia (Collegi d'Economistes de Catalunya). Results indicate that management accounting tools are used exceptionally, many times only the minimum legal requirements. The critical situation of the associations of economists in Spain requires the implementation of information systems, specially taking into account the different specialties of economists and offering to its members, services and products that are not available through profit organizations.

Song, David

TI Health Insurance on the Internet and the Economics of Search. AU Pauly, Mark V.; Herring, Bradley; Song, David.

Sood, Neeraj

TI The Link Between Public and Private Insurance and HIV-Related Mortality. AU Bhattacharya, Jay; Goldman, Dana; Sood, Neeraj.

Spagnolo, Fabio

TI On Model Selection and Markov Switching: An Empirical Examination of Term Structure Models with Regime Shifts. AU Driffill, John; Kenc, Turalay; Sola, Martin; Spagnolo, Fabio.

Spiegel, Mark M.

TI A Gravity Model of Sovereign Lending: Trade, Default and Credit. AU Rose, Andrew K.; Spiegel, Mark M.

TI Institutional Efficiency, Monitoring Costs, and the Investment Share of FDI. AU Aizenman, Joshua; Spiegel, Mark M.

Spilimbergo, Antonio

TI What Happened to Asian Exports During the Crisis? AU Duttgupta, Rupa; Spilimbergo, Antonio.

Srinivasan, V.

TI Alternative Models for Capturing the Compromise Effect. AU Kivets, Ran; Netzer, Oded; Srinivasan, V.

PD January 2004. TI An Approach to the Measurement, Analysis, and Prediction of Brand Equity and its Sources. AU Srinivasan, V.; Su Park, Chan; Ryun Chang, Dae. AA Srinivasan: Stanford University. Su Park: Korea University. Ryun Chang: Yonsei University. SR Stanford Graduate School of Business Research Paper: 1685(R1); Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. PG 34. PR no charge. JE M30. KW Brand Choice. Cellular Telephones. Brand Equity.

AB The authors propose a new approach for measuring, analyzing, and predicting a brand's equity in a product market. Brand equity is defined as the incremental contribution (\$) per year obtained by the brand in comparison to the underlying product with no brand-building efforts. The incremental contribution is driven by the individual customer's incremental choice probability for the brand in comparison to his or her choice probability for the underlying product with no brand-building efforts. The approach takes into account three sources of brand equity -- brand awareness, attribute perception biases, and non-attribute preference -- and reveals how much each of the three sources contributes to brand equity. This is done by taking into account not only the direct effects of these three sources on choice probabilities, but also the indirect effects through enhancing the brand's availability. The method provides what-if analysis capabilities to predict the likely impacts of alternative approaches to enhance a brand's equity. The survey-based results from applying the method to the digital cellular phone market in Korea show that the proposed approach has good face validity and convergent validity, with brand awareness playing the largest role, followed by non-attribute preference.

Stark, Oded

PD October 2002. TI Cooperation and Wealth. AA University of Bonn and University of Vienna. SR Institute for Advanced Studies (IHS), Economics Series: 123; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. PG 10. PR EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. JE C70, C71, C72. KW Cooperators. Wealth Level. Prisoner's Dilemma. Defectors.

AB We calculate the equilibrium fraction of cooperators in a population in which payoffs accrue from playing a one-shot prisoner's dilemma game. Individuals who are hardwired as cooperators or defectors are randomly matched into pairs, and cooperators are able to perfectly observe the type of partner in a game by incurring a recognition cost. We show that the equilibrium fraction of cooperators relates negatively to the population's level of wealth.

PD July 2003. TI On the Economics of Refugee Flows. AA University of Bonn and University of Vienna. SR Institute for Advanced Studies (IHS), Economics Series: 134; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. PG 10. PR EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. JE J24, J61.

KW Refugee Flows. Group Movements. Impoverishment and Fear.

AB This note illustrates how economic analysis can be brought to bear on three key aspects of refugee flows: fear, poverty, and group movement.

PD September 2003. **TI** On the Evolutionary Edge of Altruism: A Game-Theoretic Proof of Hamilton's Rule for a Simple Case of Siblings. **AU** Stark, Oded; Wang, You Qiang. **AA** Stark: University of Bonn and University of Vienna. Wang: Tsinghua University. **SR** Institute for Advanced Studies (IHS), Economics Series: 139; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 8. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** A13, C72, D64. **KW** Evolution of Altruism. Hamilton's Rule. Prisoner's Dilemma.

AB We offer a game-theoretic proof of Hamilton's rule for the spread of altruism. For a simple case of siblings, we show that the rule can be derived as the outcome of a one-shot prisoner's dilemma game between siblings.

Startz, Richard

TI The Dynamic Relationship Between Permanent and Transitory Components of U.S. Business Cycles. **AU** Kim, Chang-Jin; Piger, Jeremy; Startz, Richard.

Stavins, Robert

TI The Effects of Environmental Regulation on Technology Diffusion: The Case of Chlorine Manufacturing. **AU** Miller, Nolan; Snyder, Lori D.; Stavins, Robert.

TI Private Options to Use Public Goods Exploiting Revealed Preferences to Estimate Environmental Benefits. **AU** Snyder, Lori D.; Stavins, Robert; Wagner, Alexander F.

Steinberger, Thomas

TI Occupational Choice and the Private Equity Premium Puzzle. **AU** Hintermaier, Thomas; Steinberger, Thomas.

Stephens, Melvin, Jr.

PD November 2002. **TI** Paycheck Receipt and the Timing of Consumption. **AA** Carnegie Mellon University and NBER. **SR** National Bureau of Economic Research Working Paper: 9356; 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** D91, E21. **KW** Consumer Economics. Fluctuations.

AB This paper examines the consumption response to monthly paycheck receipt. Since the amount and arrival date of paychecks are known in advance, the receipt of a paycheck does not coincide with the receipt of new information. Under the basic rational expectations Life-Cycle/Permanent Income Hypothesis, household consumption should not respond to paycheck arrival. Using data from the United Kingdom's Family Expenditure Survey, this paper finds that household consumption is excessively sensitive to paycheck receipt. The results cannot be explained by any underlying monthly expenditure fluctuations common to all households. The presence of liquidity constraints as measured by wealth can account for the excess sensitivity results although the availability of credit cards cannot.

Stevenson, Betsey

PD November 2003. **TI** Bargaining in the Shadow of the Law: Divorce Laws and Family Distress. **AU** Stevenson, Betsey; Wolfers, Justin. **AA** Stevenson: Harvard University. Wolfers: Stanford University and NBER. **SR** Stanford Graduate School of Business Research Paper: 1828; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. **PG** 34. **PR** no charge. **JE** J12, K00. **KW** Divorce Law. Domestic Violence. Suicide. Family Distress.

AB Over the past thirty years changes in divorce law have significantly increased access to divorce. The different timing of divorce law reform across states provides a useful quasi-experiment with which to examine the effects of this change. We analyze state panel data to estimate changes in suicide, domestic violence, and spousal murder rates arising from the change in divorce law. Suicide rates are used as a quantifiable measure of wellbeing, albeit one that focuses on the extreme lower tail of the distribution. We find a large, statistically significant, and econometrically robust decline in the number of women committing suicide following the introduction of unilateral divorce. No significant effect is found for men. Domestic violence is analyzed using data on both family conflict resolution and intimate homicide rates. The results indicate a large decline in domestic violence for both men and women in states that adopted unilateral divorce. We find suggestive evidence that unilateral divorce led to a decline in females murdered by their partners, while the data revealed no discernible effects for men murdered. In sum, we find strong evidence that legal institutions have profound real effects on outcomes within families.

Stiglitz, Joseph E.

TI After the Big Bang? Obstacles to the Emergence of the Rule of Law in Post-Communist Societies. **AU** Hoff, Karla; Stiglitz, Joseph E.

Stoughton, Neal

PD January 2004. **TI** Optimal Capital Allocation Using RAROC(tm) and EVA. **AU** Stoughton, Neal; Zechner, Josef. **AA** Stoughton: University of California, Irvine. Zechner: Universitat Wien and CEPR. **SR** CEPR Discussion Paper: 4169; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4169.asp. **PG** 28. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G20, G21, G31. **KW** Financial Institutions. Banking. Capital Budgeting. Investment Policy.

AB This paper analyses firms' capital allocation decisions when optimal capital structure is linked to the risk of underlying assets and when equity capital is costly and cannot be raised instantaneously. In the model, division managers receive private information and authority is delegated to them over risky project choices. The optimal mechanisms are related to EVA compensation and RAROC performance measurement systems. In the optimal mechanism, position limits will be employed but are not always completely utilized. Hurdle rates reflect capital allocation through a division-specific capital structure. In the multidivisional context the optimal capital allocation mechanism incorporates valuable externalities leading to overall firm EVA maximization.

Strickland, Chris M.

PD August 2003. **TI** Bayesian Analysis of the Stochastic Conditional Duration Model. **AU** Strickland, Chris M.; Forbes, Catherine S.; Martin, Gael M. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/14; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. **Website:** www.buseco.monash.edu.au/depts/ebs/. **PG** 28. **PR** no charge. **JE** C11, C15, C41. **KW** Transaction Data. Latent Factor Model. Non-Gaussian State Space Model. Kalman Filter. Simulation Smoother.

AB A Bayesian Markov Chain Monte Carlo methodology is developed for estimating the stochastic conditional duration model. The conditional mean of durations between trades is modeled as a latent stochastic process, with the conditional distribution of durations having positive support. The sampling scheme employed is a hybrid of the Gibbs and Metropolis Hastings algorithms, with the latent vector sampled in blocks. The suggested approach is shown to be preferable to the quasi-maximum likelihood approach, and its mixing speed faster than that of an alternative single-move algorithm. The methodology is illustrated with an application to Australian intraday stock market data.

Strobl, Eric

TI Geographic Concentration and Establishment Scale: Can Panel Data Tell Us More? **AU** Barrios, Salvador; Bertinelli, Luisito; Strobl, Eric.

TI Industry Mobility and Geographic Concentration in the European Union. **AU** Barrios, Salvador; Strobl, Eric.

Stroemberg, Per Johan

TI How Do Legal Differences and Learning Affect Financial Contracts? **AU** Kaplan, Steven N.; Martel, Frederic; Stroemberg, Per Johan.

Stuetzle, Thomas

TI Exploiting Fitness Distance Correlation of Set Covering Problems. **AU** Finger, Markus; Stuetzle, Thomas; Lourenco, Helena R.

Su Park, Chan

TI An Approach to the Measurement, Analysis, and Prediction of Brand Equity and its Sources. **AU** Srinivasan, V.; Su Park, Chan; Ryun Chang, Dae.

Suarez, Javier

TI Stakeholders, Transparency and Capital Structure. **AU** Almazan, Andres; Suarez, Javier; Titman, Sheridan.

Subramanian, Arvind

TI Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development. **AU** Rodrik, Dani; Subramanian, Arvind; Trebbi, Francesco.

Sudderth, William

TI The Harmonic Fisher Equation and the Inflationary Bias of Real Uncertainty. **AU** Karatzas, Ioannis; Shubik, Martin; Sudderth, William; Geanakoplos, John.

Sufi, Amir

TI Who Goes to College? Differential Enrollment by Race and Family Background. **AU** Black, Sandra E.; Sufi, Amir.

Sul, Donggyu

TI The Elusive Empirical Shadow of Growth Convergence. **AU** Phillips, Peter C. B.; Sul, Donggyu.

Sun, Yixiao

TI Consistent HAC Estimation and Robust Regression Testing Using Sharp Origin Kernels with No Truncation. **AU** Jin, Sainan; Phillips, Peter C. B.; Sun, Yixiao.

Svejnar, Jan

TI Objectives and Constraints of Entrepreneurs: Evidence from Small and Medium-Size Enterprises in Russia and Bulgaria. **AU** Pissarides, Francesca; Singer, Miroslav; Svejnar, Jan.

TI Ownership and Firm Performance After Large-Scale Privatization. **AU** Kocenda, Evzen; Svejnar, Jan.

Svensson, Jakob

TI Working for God? **AU** Reinikka, Ritva; Svensson, Jakob.

Swanson, Norman R.

TI Consistent Estimation with a Large Number of Weak Instruments. **AU** Chao, John C.; Swanson, Norman R.

TI Alternative Approximations of the Bias and MSE of the IV Estimator Under Weak Identification with an Application to Bias Correction. **AU** Chao, John C.; Swanson, Norman R.

Swanson, Timothy

TI On Biology and Technology: The Economics of Managing Biotechnologies. **AU** Goeschl, Timo; Swanson, Timothy.

Taber, Christopher R.

TI An Evaluation of Instrumental Variable Strategies for Estimating the Effects of Catholic Schools. **AU** Altonji, Joseph G.; Elder, Todd E.; Taber, Christopher R.

Tate, Geoffrey

TI Who Makes Acquisitions? CEO Overconfidence and the Market's Reaction. **AU** Malmendier, Ulrike; Tate, Geoffrey.

Taylor, Alan M.

TI The Rise and Fall of World Trade, 1870-1939. **AU** Esteveadeordal, Antoni; Frantz, Brian; Taylor, Alan M.

PD November 2002. **TI** Globalization, Trade, and Development: Some Lessons from History. **AA** University of California, Davis and NBER. **SR** National Bureau of Economic Research Working Paper: 9326; 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, F15, N70, O19. **KW** Globalization. Trade. Development. History.

AB Recent research in international economic history has opened up new lines of inquiry on the origins of globalization,

as well as its causes and consequences. Such findings have the potential to inform contemporary debates and this paper considers what lessons this body of historical work has for our current understanding of the linkages between trade and development.

TI Sovereign Risk, Credibility and the Gold Standard: 1870-1913 versus 1925-31. **AU** Obstfeld, Maurice; Taylor, Alan M.

Teulings, Coen N.

TI Generational Accounting, Solidarity and Pension Losses. **AU** de Vries, Casper G.; Teulings, Coen N.

Theodorou, Athena T.

TI The Use of Long-Run Restrictions for the Identification of Technology Shocks. **AU** Francis, Neville R.; Owyang, Michael T.; Theodorou, Athena T.

Thisse, Jacques-Francois

TI Globalization and the Evolution of the Supply Chain: Who Gains and Who Loses? **AU** Fujita, Masahisa; Thisse, Jacques-Francois.

Thomson, James B.

TI Getting the Most Out of a Mandatory Subordinated Debt Requirement. **AU** Fan, Rong; Haubrich, Joseph G.; Ritchken, Peter H.; Thomson, James B.

TI Monitoring and Controlling Bank Risk: Does Risky Debt Serve any Purpose? **AU** Krishnan, C. N. V.; Ritchken, Peter H.; Thomson, James B.

TI On Credit Spread Slopes and Predicting Bank Risk. **AU** Krishnan, C. N. V.; Ritchken, Peter H.; Thomson, James B.

Thornton, Daniel L.

TI What's Unique About the Federal Funds Rate? Evidence From a Spectral Perspective. **AU** Sarno, Lucio; Thornton, Daniel L.; Wen, Yi.

PD May 2003. **TI** Monetary Policy Transparency: Transparent About What? **AA** Federal Reserve Bank of St. Louis. **SR** Federal Reserve Bank of St. Louis Working Paper: 2002/28B; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 26. **PR** no charge. **JE** E52, E58. **KW** Transparency. Expectations Hypothesis. Taylor Rule. Phillips Curve.

AB This paper puts the issue of monetary policy transparency into a broad economic perspective. In so doing, it narrows the focus from that which frequently appears in this literature. I argue that the sole economic argument for transparency is policy effectiveness. Transparency is desirable if it enhances the effectiveness of policy and is not if it does not. In cases where transparency neither enhances nor impairs the effectiveness of policy, the case for transparency must be argued on non-economic grounds. The degree to which policymakers should be transparent depends on the data-generating process for the economy -- which determines the feasible objectives that policymakers can pursue -- and on the policy goal that policymakers select from the feasible set. If secrecy enhances the effectiveness of policy, policymakers would have an obligation to be secretive. This analysis has

implications for other important policy/transparency issues. Important among these is the assumption in this literature that inflation and output must be viewed as substitutes by policymakers. I suggest that policymakers might generate a better inflation/output outcome if they work from the assumption that their inflation and output objectives are complements rather than substitutes.

PD November 2003. **TI** A Note on the Expectations Hypothesis at the Founding of the Fed. **AU** Thornton, Daniel L.; Kool, Clemens J. M. **AA** Thornton: Federal Reserve Bank of St. Louis. Kool: University of Utrecht. **SR** Federal Reserve Bank of St. Louis Working Paper: 2000/004C; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 21. **PR** no charge. **JE** E40, E47, E52. **KW** Expectations Hypothesis. Power of the Test. Fed's Founding. Measurement Error.

AB One of the most influential tests of the expectations hypothesis is Mankiw and Miron (1986), who found that the spread between the long-term and short-term rates provided predictive power for the short-term rate before the Fed's founding but not after. They suggested that the failure of the expectations hypothesis after the Fed's founding was due to the Fed's practice of smoothing short-term interest rates. We show that their finding that the expectations hypothesis fares better prior to the Fed's founding is due to the fact that the test they employ tends to generate results that are more favorable to the expectations hypothesis during periods when there is extreme volatility in the short-term rate.

Titman, Sheridan

TI Stakeholders, Transparency and Capital Structure. **AU** Almazan, Andres; Suarez, Javier; Titman, Sheridan.

Todd, Michael J.

TI Two New Proofs of Afriat's Theorem. **AU** Fostel, A.; Scarf, Herbert E.; Todd, Michael J.

Tomala, Tristan

TI Entropy and Codification in Repeated Games With Imperfect Monitoring. **AU** Gossner, Olivier; Tomala, Tristan.

Tonks, Ian

TI Annuity Prices, Money's Worth and Replacement Ratios: UK Experience 1972-2002. **AU** Cannon, Edmund; Tonks, Ian.

Tornell, Aaron

PD November 2002. **TI** The Credit Channel in Middle Income Countries. **AU** Tornell, Aaron; Westermann, Frank. **AA** Tornell: UCLA and NBER. Westermann: CESifo and University of Munich. **SR** National Bureau of Economic Research Working Paper: 9355; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 52. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E32, F32, G15, O16. **KW** Credit Market. Real Exchange Rate. Shocks.

AB Credit market conditions play a key role in propagating shocks in middle income countries (MICs). In particular, shocks to the spread between domestic and international interest rates have a strong effect on GDP, and an even stronger effect on domestic credit. This strong credit channel is

associated with a sharp sectorial asymmetry: the output of the bank-dependent nontradables (N) sector reacts more strongly than tradables (T) output. This asymmetry, in turn, is associated with a strong reaction of the real exchange rate. We present a model that reconciles these facts and leads to a well specified estimation framework. From the equilibrium we derive structural VARs that allow us to identify shocks to credit market conditions and trace their effects on the economy. We estimate these structural VARs for a group of MICs and find evidence of a strong credit channel. We argue that at the heart of the MIC credit channel are a deep asymmetry in financing opportunities across N and T sectors, and a severe currency mismatch. This makes movements in the real exchange rate the driving element in the amplification of shocks.

Torres, Anna

PD August 2001. TI Correspondence Analysis and Categorical Conjoint Measurement. AA Universitat Pompeu Fabra. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 569; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.ccon.upf.es/eng/research/research2.php. PG 30. PR papers only available on web page; no hard copies. JE C19, C88. KW Correspondence Analysis. Conjoint Analysis. Canonical Correlation. Categorical Data. AB We show the equivalence between the use of correspondence analysis (CA) of concatenated tables and the application of a particular version of conjoint analysis called categorical conjoint measurement (CCM). The connection is established using canonical correlation (CC). The second part introduces the interaction effects in all three variants of the analysis and shows how to pass between the results of each analysis.

Trajtenberg, Manuel

PD May 2003. TI Defense R&D in the Anti-Terrorist Era. AA Tel Aviv University, NBER and CEPR. SR Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/11; Mrs. Stella Padch, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp. PG 45. PR no charge. JE H40, H56, O30. KW Terrorism. Defense R&D. Public Goods. Intelligence. Dual-Use. AB This paper seeks to analyze the nature of the terrorist threat following 9/11, and to explore the implications for defense R&D policy. First it reviews the defining trends of defense R&D since the cold war, and brings in pertinent empirical evidence: The US accumulated during the 1990s a defense R&D stock 10 times larger than any other country; big weapon systems, key during the cold war but of dubious significance since then still figure prominently. The second part of the paper lays out a simple model of terrorism, cast in a nested discrete choice framework, and examines the role of uncertainty, the lack of deterrence, externalities, and the extent to which providing security against terrorism is (still) a public good. The model focuses on two strategies: fighting terrorism at its source, and protecting individual targets. A key result of the analysis is that the government should spend enough on fighting terrorism at its source, so as to nullify the incentives of private targets to invest in their own security. Intelligence

emerges as the central aspect of the war against terrorism and, accordingly, R&D aimed at providing advanced technological means for intelligence is viewed as the cornerstone of defense R&D.

Trebbi, Francesco

TI Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development. AU Rodrik, Dani; Subramanian, Arvind; Trebbi, Francesco.

Tremayne, Andrew R.

TI Persistence and Nonstationary Models. AU McCabe, Brendan P. M.; Martin, Gael M.; Tremayne, Andrew R.

Tse, Y. K.

PD March 2003. TI A Monte Carlo Investigation of Some Tests for Stochastic Dominance. AU Tse, Y. K.; Zhang, Xibin. AA Tse: Singapore University. Zhang: Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 2003/07; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. PG 28. PR no charge. JE C12, C15, D31, G11. KW Burr Distribution. Income Distribution. Monte Carlo Method. Portfolio Investment. Stochastic Dominance.

AB This paper compares the performance of several tests for stochastic dominance up to order three using Monte Carlo methods. The tests considered are the Davidson and Duclos (2000) test, the Anderson test (1996) and the Kaur, Rao and Singh (1994) test. Only unpaired samples of independent observations are considered, as this is a restriction for both the Anderson and Kaur-Rao-Singh tests. We find that the Davidson-Duclos test appears to be the best. The Kaur-Rao-Singh test is overly conservative and does not compare favorably against the Davidson-Duclos and Anderson tests in terms of power.

Tsiddon, Daniel

TI Macroeconomic Consequences of Terror: Theory and the Case of Israel. AU Eckstein, Zvi; Tsiddon, Daniel.

TI Earnings Inequality and the Business Cycle. AU Barlevy, Gadi; Tsiddon, Daniel.

Udry, Christopher R.

PD May 2004. TI Social Networks in Ghana. AU Udry, Christopher R.; Conley, Timothy G. AA Udry: Yale University. Conley: University of Chicago. SR Yale Economic Growth Center Discussion Paper: 888; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 34. PR \$2.00 plus postage. JE D85, O12. KW Endogenous Networks. Informal Credit. Social Learning. AB In this chapter we examine social networks among farmers in a developing country. We use detailed data on economic activities and social interactions between people living in four study villages in Ghana. It is clear that economic development in this region is being shaped by the networks of information, capital and influence that permeate these communities. This chapter explores the determinants of these important economic networks. We first describe the patterns of

information, capital, labor and land transaction connections that are apparent in these villages. We then discuss the interconnections between the various economic networks. We relate the functional economic networks to more fundamental social relationships between people in a reduced form analysis. Finally, we propose an equilibrium model of multi-dimensional network formation that can provide a foundation for further data collection and empirical research.

Uhlig, Harald

TI Competitive Risk Sharing Contracts with One-Sided Commitment. AU Krueger, Dirk; Uhlig, Harald.

Ulph, Alistair

TI An Infinite-Horizon Model of Dynamic Membership of International Environmental Agreements. AU Rubio, Santiago; Ulph, Alistair.

Uribe, Martin

TI Closing Small Open Economy Models. AU Schmitt-Grohe, Stephanie; Uribe, Martin.

PD October 2002. TI Real Exchange Rate Targeting and Macroeconomic Instability. AA University of Pennsylvania and NBER. SR National Bureau of Economic Research Working Paper: 9294; 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 F31, F41. KW Purchasing Power Parity. Devaluation. Aggregate Fluctuations.

AB Using an optimizing model of a small open economy, this paper studies the macroeconomic effects of PPP rules whereby the government increases the devaluation rate when the real exchange rate -- defined as the price of tradables in terms of nontradables -- is below its long-run level and reduces the devaluation rate when the real exchange rate is above its long-run level. The paper shows that the mere existence of such a rule can generate aggregate fluctuations due to self-fulfilling revisions in expectations. The result is shown to obtain in both flexible- and sticky-price environments.

Utkus, Stephen P.

TI The Role of Company Stock in Defined Contribution Plans. AU Mitchell, Olivia S.; Utkus, Stephen P.

Vadim, Moroz

TI Pricing the Global Industry Portfolios. AU Cavaglia, Stefano; Hodrick, Robert J.; Vadim, Moroz; Zhang, Xiaoyan.

Vahid, Farshid

TI Nonlinear Correlograms and Partial Autocorrelograms. AU Anderson, Heather; Vahid, Farshid.

TI The Decline in Income Growth Volatility in the United States: Evidence from Regional Data. AU Anderson, Heather; Vahid, Farshid.

Valentinyi, Akos

TI Independence and Heterogeneity in Games of Incomplete Information. AU Mason, Robin; Valentinyi, Akos.

Valimaki, Juuso

TI Dynamic Price Competition. AU Bergemann, Dirk; Valimaki, Juuso.

van Damme, Eric

PD November 2001. TI Endogenous Price Leadership. AU van Damme, Eric; Hurkens, Sjaak. AA van Damme: Tilburg University. Hurkens: Universitat Pompeu Fabra. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 581; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. PG 30. PR papers only available on web page; no hard copies. JE C72, D43. KW Price Leadership. Endogenous Timing. Risk Dominance.

AB We consider a linear price setting duopoly game with differentiated products and determine endogenously which of the players will lead and which will follow. While the follower role is most attractive for each firm, we show that waiting is more risky for the low cost firm so that, consequently, risk dominance considerations, as in Harsanyi and Selten (1988), allow the conclusion that only the high cost firm will choose to wait. Hence, the low cost firm will emerge as the endogenous price leader.

van den Berg, Gerard J.

TI Empirical Labor Search: A Survey. AU Eckstein, Zvi; van den Berg, Gerard J.

TI Individual Mortality and Macroeconomic Conditions from Birth to Death. AU Lindeboom, Maarten; Portrait, France; van den Berg, Gerard J.

van Ierland, Ekko

TI Stability of Climate Coalitions in a Cartel Formation Game. AU Finus, Michael; van Ierland, Ekko; Dellink, Rob.

Van Wassenhove, Luk N.

TI The Domain and Interpretation of Utility Functions: An Exploration. AU Le Menestrel, Marc; Van Wassenhove, Luk N.

van Wincoop, Eric

TI Why Do Consumer Prices React less than Import Prices to Exchange Rates? AU Bacchetta, Philippe; van Wincoop, Eric.

Vannetelbosch, Vincent

TI Farsightedness and Cautiousness in Coalition Formation. AU Mauleon, Ana; Vannetelbosch, Vincent.

Vasconcelos, Helder

TI Efficiency Gains and Myopic Antitrust Authority in a Dynamic Merger Game. AU Motta, Massimo; Vasconcelos, Helder.

Vega-Redondo, Fernando

PD June 2003. TI Building Up Social Capital in a Changing World: A Network Approach. AA Universidad de Alicante and Universitat Pompeu Fabra. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/53; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.

PG 32. PR no charge; available only on website. JE C72, D74, D83. KW Social Capital. Prisoner's Dilemma. Search. Social Networks. Volatility.

AB This paper models the dynamic process through which a large society may succeed in building up its "social capital" by establishing a stable and dense pattern of interaction among its members. In the model, agents interact according to a collection of infinitely repeated Prisoner's Dilemmas played on the current social network. This network not only specifies the playing partners but, crucially, also determines how relevant strategic information diffuses or new cooperation opportunities are found. Over time, the underlying payoffs randomly change, i.e., display some "volatility", which leads agents to react by creating new links and removing others. The process is ergodic, so we use numerical simulations to "compute" its long-run invariant behavior and obtain the following conclusions: (a) Only if payoff volatility is not too high can the society sustain a dense social network. (b) The social architecture endogenously responds to increased volatility by becoming more cohesive. (c) Network-based strategic effects are essential buffers that preclude the abrupt collapse of the social network in the face of growing volatility. These conclusions, largely in tune with those of the social-capital literature, are further studied analytically in a companion paper through the use of mean-field techniques.

Velasco, Andres

TI IS-LM-BP in the Pampas. AU Cespedes, Luis Felipe; Chang, Roberto; Velasco, Andres.

Ventura, Jaume

PD October 2002. TI Bubbles and Capital Flows. AA MIT and NBER. SR National Bureau of Economic Research Working Paper: 9304; 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 F15, F36, F43. KW Asset Price Bubbles. International Trade. Financial Crises.

AB This paper presents a stylized model of international trade and asset price bubbles. Its central insight is that bubbles tend to appear and expand in countries where productivity is low relative to the rest of the world. These bubbles absorb local savings, eliminating inefficient investments and liberating resources that are in part used to invest in high productivity countries. Through this channel, bubbles act as substitute for international capital flows, improving the international allocation of investment and reducing rate-of-return differentials across countries. This view of asset price bubbles has important implications for the way we think about economic growth and fluctuations. It also provides a simple account of some real world phenomena that have been difficult to model before, such as the recurrence and depth of financial crises or their puzzling tendency to propagate across countries.

Verge, Thibaud

PD February 2002. TI Portfolio Analysis in European Merger Control: An Economic Analysis. AA University of Bristol. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 02/046; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website:

www.bris.ac.uk/cmipo/publications.html. PG 33. PR no charge; hardcopies can be obtained from cmipo-office@bristol.ac.uk. JE L13, L42. KW Full-Line Forcing. Entry Deterrence. Predatory Pricing.

AB The year 1997 saw the emergence of a new game theory in European merger control called the "portfolio power theory". The European Commission argues that the holder of a comprehensive portfolio of brands may obtain a stronger position vis-a-vis its customers, and can therefore more easily impose restrictions, such as full-line forcing. The objective of this paper is to analyze this argument from a theoretical point of view. We show that tie-in sales allow the incumbent to deter entry and to eliminate the retailer's rent when the downstream sector is monopolized. When the producers compete directly for consumers, the second brand provides a new predation tool. This allows the incumbent to deter entry more easily, but it can also limit price distortion. In both cases, the welfare impact is not clear-cut.

TI Resale Price Maintenance and Horizontal Cartel. AU Rey, Patrick; Verge, Thibaud.

TI A Note on Vertical Control With Bilateral Contracts. AU Rey, Patrick; Verge, Thibaud.

TI Optimal Audit Policy and Heterogenous Agents. AU Ratto, Marisa; Verge, Thibaud.

Vesnaver, Luka

TI Enterprise Finance and Investment in Listed Hungarian Firms. AU Perotti, Enrico C.; Vesnaver, Luka.

Viard, B. Brian

PD July 2003. TI Do-Switching Costs Make Markets More or Less Competitive? The Case of 800-Number Portability. AA Stanford University. SR Stanford Graduate School of Business Research Paper: 1773(R1); Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. PG 50. PR no charge. JE D43, L13, L96. KW Switching Costs. Number Portability. Telecommunications. Lock-In.

AB Do switching costs reduce or intensify price competition in markets where firms charge the same price to old and new consumers? The answer is theoretically ambiguous because a firm prefers to charge a higher price to previous purchasers who are "locked-in" and a lower price to unattached consumers who offer higher future profitability. 800-number portability provides empirical evidence to determine whether switching costs reduce or intensify price competition under a single price regime. Before portability, a customer had to change toll-free numbers in order to change service providers. In May 1993, 800-numbers became portable, under a regulatory regime that precluded price discrimination between old and new consumers. This paper tests how AT&T and MCI adjusted their toll-free services prices in response to portability. It is found that the firms reduced prices with portability, implying that the switching costs arising from non-portability made the market less competitive. Thus, despite rapid growth in toll-free services, the firms' incentives to charge a higher price to "locked-in" consumers exceeded their incentive to capture new consumers.

Viceira, Luis

TI Strategic Asset Allocation in a Continuous Time VAR

Model. AU Campbell, John Y.; Chacko, George; Rodriguez, Jorge; Viceira, Luis M.

Vieille, Nicolas

TI Majority Vote Following a Debate. AU Gilboa, Itzhak; Vieille, Nicolas.

Villanueva, Ernesto

PD September 2001. TI Parental Altruism under Imperfect Information: Theory and Evidence. AA Universitat Pompeu Fabra. SR Universitat Pompeu Fabra, Economics and Business Working Paper: 566; Department of Economics and Business, Universitat Pompeu Fabra, Ramon Trias Fargas 25-27, 08005 Barcelona, Spain. Website: www.econ.upf.es/eng/research/research2.php. PG 56. PR papers only available on web page; no hard copies. JE D64. KW Altruism. Intergenerational Transfers. Private Information.

AB Can we reconcile the predictions of the altruism model of the family with the evidence on parental monetary transfers in the US? This paper provides a new assessment of this question. It expands the altruism model by introducing effort of the child and by relaxing the assumption of perfect information of the parent about the labor market opportunities of the child. First, the paper solves and simulates a model of altruism and labor supply under imperfect information. Second, it uses cross-sectional data to test the following prediction of the model: Are parental transfers especially responsive to the income variations of children who are very attached to the labor market? The results of the analysis suggest that imperfect information accounts for many of the patterns of intergenerational transfers in the US.

Virabhak, Suchin

TI Pharmaceutical-Embodied Technical Progress, Longevity, and Quality of Life: Drugs as "Equipment For Your Health". AU Lichtenberg, Frank R.; Virabhak, Suchin.

Vollebergh, Herman R. J.

TI Bum or Bury? A Social Cost Comparison of Final Waste Disposal Methods. AU Dijkgraaf, Elbert; Vollebergh, Herman R. J.

Vulkan, Nir

TI Making Money Out of Publicly Available Information. AU Morrison, Alan D.; Vulkan, Nir.

Wacziarg, Romain

PD November 2003. TI Trade Liberalization and Growth: New Evidence. AU Wacziarg, Romain; Welch, Karen Horn. AA Wacziarg: Stanford University and NBER. Welch: Stanford University. SR Stanford Graduate School of Business Research Paper: 1826; Research Papers, Stanford Business School, Stanford University, Stanford, CA 94305-5015. Website: gobi.stanford.edu/ResearchPapers/. PG 91. PR no charge. JE F15, F43, O40. KW Trade Liberalization. Growth. Investment.

AB This paper revisits the empirical evidence on the relationship between economic integration and economic growth. First, we present an updated dataset of openness indicators and trade liberalization dates for a wide cross-section of countries in the 1990s. Second, we extend the Sachs and Warner (1995) study of the relationship between trade openness

and economic growth to the 1990s, discussing recent criticisms of their measurement and estimation framework. Our results suggest that the cross-sectional findings of Sachs and Warner are sensitive to the period under consideration. In particular, an updated version of their dichotomous trade policy openness indicator does not enter significantly in growth regressions for the 1990s. Third, and most importantly, we present new evidence on the time paths of economic growth, physical capital investment and openness around episodes of trade policy liberalization. In sharp contrast to our cross-sectional results, we find that liberalization has, on average, robust positive effects on growth, openness and investment rates within countries. We illustrate these large sample findings with detailed case studies in a subsample of representative countries.

TI A Monte Carlo Study of Growth Regressions. AU Hauk, William R., Jr.; Wacziarg, Romain.

Wagner, Alexander F.

TI Private Options to Use Public Goods Exploiting Revealed Preferences to Estimate Environmental Benefits. AU Snyder, Lori D.; Stavins, Robert; Wagner, Alexander F.

Wahrenburg, Mark

TI Mergers and Acquisitions in Germany. AU Schmid, Frank A.; Wahrenburg, Mark.

Wako, Jun

TI On Houseswapping, the Strict Core, Segmentation, and Linear Programming. AU Quint, Thomas; Wako, Jun.

Waldfoegel, Jane

TI The Impact of Welfare Benefits on Single Motherhood and Headship of Young Women: Evidence from the Census. AU Blau, Francine D.; Kahn, Lawrence M.; Waldfoegel, Jane.

Wall, Howard J.

PD August 2003. TI Entrepreneurship and the Deregulation of Banking. AA Federal Reserve Bank of St. Louis. SR Federal Reserve Bank of St. Louis Working Paper: 2002/32C; Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. PG 8. PR no charge. JE G28, R12. KW Banking Deregulation. Entrepreneurship.

AB This paper presents evidence that banking deregulation led to decreases in entrepreneurship in some U.S. regions, and to increases in others. This is contrary to recent research that found an unambiguous positive relationship.

PD March 2004. TI Gender Differences in Self-Employment. AU Wall, Howard J.; Georgellis, Yannis. AA Wall: Federal Reserve Bank of St. Louis. Georgellis: Brunel University. SR Federal Reserve Bank of St. Louis Working Paper: 1999/008C; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. PG 34. PR no charge. JE J16, J23. KW Self-Employment. Gender Differences. Entrepreneurship. German Labor Market.

AB This paper examines the factors that influence transitions into self-employment, paying particular attention to gender differences. We find that: (i) men are more responsive to the wage differential between wage/salaried employment and self-employment; (ii) liquidity constraints are more important for

men, and (iii) the link between father's self-employment status and the probability of self-employment is stronger for men. Taken together, these results suggest that, for women, self-employment is a closer substitute for part-time work and labor market inactivity than it is for men. We attribute such differences to the different labor market opportunities and occupational strategies of women.

TI Entrepreneurship and the Policy Environment. AU Georgellis, Yannis; Wall, Howard J.

TI Structural Breaks and Regional Disparities in the Transmission of Monetary Policy. AU Owyang, Michael T.; Wall, Howard J.

PD July 2004. **TI** Controlling for Heterogeneity in Gravity Models of Trade and Integration. AU Wall, Howard J.; Cheng, I-Hui. AA Wall: Federal Reserve Bank of St. Louis. Cheng: National University of Kaohsiung. **SR** Federal Reserve Bank of St. Louis Working Paper: 1999/010E; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. **PG** 29. **PR** no charge. **JE** F15, F17. **KW** Gravity Model. International Trade.

AB This paper compares various specifications of the gravity model of trade as nested versions of a general specification that uses bilateral country-pair fixed effects to control for heterogeneity. For each specification, we show that the atheoretic restrictions to obtain them from the general model are not supported statistically. Because the gravity model has become the "workhorse" baseline model for estimating the effects of international integration, this has important empirical implications. In particular, we show that, unless heterogeneity is accounted for correctly, gravity models can greatly overestimate the effects of integration on the volume of trade.

TI Business Cycle Phases in U.S. States. AU Owyang, Michael T.; Piger, Jeremy; Wall, Howard J.

Wallace, Chris

TI Adaptive Play by Idiosyncratic Agents. AU Myatt, David P.; Wallace, Chris.

TI A Multinomial Probit Model of Stochastic Evolution. AU Myatt, David P.; Wallace, Chris.

Wallace, Neil

TI Resolving the National Banking System Note-Issue Puzzle. AU Champ, Bruce; Wallace, Neil.

TI A Model of (the Threat of) Counterfeiting. AU Nosal, Ed; Wallace, Neil.

Waller, Christopher J.

TI Currency Competition in a Fundamental Model of Money. AU Camera, Gabriele; Craig, Ben R.; Waller, Christopher J.

Wandsworth, Jonathan

TI Why We Should (Also) Measure Worklessness at the Household Level. Theory and Evidence From Britain, Spain, Germany and the United States. AU Gregg, Paul; Wandsworth, Jonathan.

Wang, Ping

TI The Timing of Childbearing Among Heterogeneous

Women in Dynamic General Equilibrium. AU Mullin, Charles H.; Wang, Ping.

TI Optimal Drug Policy in Low-Income Neighborhoods. AU Chang, Sheng-Wen; Coulson, N. Edward; Wang, Ping.

TI Rational Addiction, Peer Externalities and Long Run Effects of Public Policy. AU Kenkel, Donald S.; Reed, Robert R., III.; Wang, Ping.

Wang, You Qiang

TI On the Evolutionary Edge of Altruism: A Game-Theoretic Proof of Hamilton's Rule for a Simple Case of Siblings. AU Stark, Oded; Wang, You Qiang.

Washbrook, Elizabeth

TI Maternity Rights and Mother's Return to Work. AU Burgess, Simon; Gregg, Paul; Propper, Carol; Washbrook, Elizabeth; ALSPAC Study Team.

TI Maternity Rights and Mother's Return to Work. AU Burgess, Simon; Gregg, Paul; Propper, Carol; Washbrook, Elizabeth; ALSPAC Study Team.

TI The Effects of Early Maternal Employment on Child Development in the UK. AU Gregg, Paul; Washbrook, Elizabeth.

Weber, Andrea

PD November 2002. **TI** Choice and Success of Job Search Methods. AU Weber, Andrea; Mahringer, Helmut. AA Weber: Institute for Advanced Studies. Mahringer: Austrian Institute of Economic Research. **SR** Institute for Advanced Studies (IHS), Economics Series: 125; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 29. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** J31, J64. **KW** Job Search. Search Channels. Selection Bias.

AB Job seekers can influence the arrival rate of job offers by the choice of search effort and the search methods they use. In this paper we empirically investigate the contribution of the use of different search methods on the outcome of search. Using unique data on the search behavior of job seekers sampled from the inflow into employment during the year 1997 in Austria we analyze the quality of job matches in terms of wages and job durations. We find evidence of endogenous selection to the job matching channels. Persons with few social contacts or lower unobserved ability are more likely to be matched by the public employment service. Hence we conclude that selection may contribute to the unfavorable wage outcomes for jobs generated by the public employment service.

PD May 2003. **TI** Active Job-Search Programs a Promising Tool? A Microeconomic Evaluation for Austria. AU Weber, Andrea; Hofer, Helmut. AA Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 131; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 30. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** C14, C41, J64, J68. **KW** Active Labor Market Policy. Treatment Effect. Duration Model.

AB In Austria active job-search programs were introduced on a large scale in 1999. These programs aim at activating unemployed at an early stage and bringing them back to work

by training job-search related skills. We evaluate the impact of active labor market programs in Austria on individual unemployment durations, and allow program effects to vary between active job-search programs and formal training programs. We use the timing-of-events method which estimates the program effect as a shift in the transition rate from unemployment to jobs at the moment of program entry. We find that participation in active job-search programs significantly reduces unemployment durations, whereas formal training programs have a negative effect on unemployment durations. For women all programs have positive effects.

TI Sectoral Adjustment of Employment: The Impact of Outsourcing and Trade at the Micro Level. **AU** Egger, Peter; Pfaffermayr, Michael; Weber, Andrea.

Weder, Mark

PD January 2004. **TI** A Heliocentric Journey into Germany's Great Depression. **AA** Humboldt University and CEPR. **SR** CEPR Discussion Paper: 4191; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4191.asp. **PG** 26. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E32, N14. **KW** Indeterminacy. Great Depression. Germany. Applied Dynamic General Equilibrium.

AB The paper finds empirical evidence on the ripple effect of sunspots on the interwar German economy. It identifies a sequence of negative shocks to expectations for the 1927-32 period. The artificial economy predicts the 1928-32 depression and a long boom from 1933 onwards. Overall, a tangible fraction of interwar output volatility is attributed for by sunspots.

Wei, Shang-Jin

TI Transparency and International Investor Behavior. **AU** Gelos, R. Gaston; Wei, Shang-Jin.

Weichselbaumer, Doris

PD September 2003. **TI** The Effects of Competition and Equal Treatment Laws on the Gender Wage Differential. **AU** Weichselbaumer, Doris; Winter-Ebmer, Rudolf. **AA** Weichselbaumer: University of Linz. Winter-Ebmer: University of Linz and Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 138; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 21. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** J16, J31, J71. **KW** Gender Wage Gap. Competition. Equal Treatment Law.

AB This paper evaluates the impact of economic and legal variables on wage differentials between men and women. Since Becker (1957) economists have argued that competitive markets eliminate discrimination in the long run. On the other hand, practically all countries have enacted some sort of law mandating equal treatment of men and women. This paper uses a new international data set on the gender wage gap, which is constructed via a meta-analysis of existing studies. The findings show that both increased competition and the enactment of equal treatment laws reduce the gender wage gap.

PD November 2003. **TI** A Meta-Analysis of the International Gender Wage Gap. **AU** Weichselbaumer, Doris; Winter-Ebmer, Rudolf. **AA** Weichselbaumer:

University of Linz. Winter-Ebmer: University of Linz and Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 143; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 15. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** J16, J31, J71. **KW** Gender Wage Differential. Meta-Analysis.

AB Since the early seventies, hundreds of authors have calculated gender wage differentials between women and men of equal productivity. This meta-study provides a quantitative review of this vast empirical literature on gender wage discrimination as it concerns differences in methodology, data, countries, and time periods. We place particular emphasis on a proper consideration of the quality of the underlying study which is done by a weighting with quality indicators. The results show that data restrictions have the biggest impact on the resulting gender wage gap. Moreover, we are able to show what effect a misspecification of the underlying wage equation -- like the frequent use of potential experience -- has on the calculated gender wage gap. Over time, raw wage differentials world-wide have fallen substantially; however, most of this decrease is due to increased labor market productivity of females.

PD November 2003. **TI** Rhetoric in Economic Research: The Case of Gender Wage Differentials. **AU** Weichselbaumer, Doris; Winter-Ebmer, Rudolf. **AA** Weichselbaumer: University of Linz. Winter-Ebmer: University of Linz and Institute for Advanced Studies. **SR** Institute for Advanced Studies (IHS), Economics Series: 144; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at. **PG** 14. **PR** EUR 6,00 individuals; EUR 20,00 institutions; prices subject to change without notice. **JE** B41, J16, J71. **KW** Rhetoric. Gender Wage Differential. Discrimination.

AB Scientific rhetoric can have a profound impact on the perception of research; it can also drive and direct further research efforts. What determines whether results are discussed in a neutral or a judgmental way? How convincing must results be so that authors call for significant policy changes? These questions are difficult to answer, because rhetoric and content and methodology of research cannot be separated easily. We use a unique example to examine this question empirically: the analysis of gender wage differentials. The Blinder-Oaxaca decomposition represents a standard research method that compares male and female earnings, holding productivity constant. We analyze the wording in these studies and their prevalence to ask for policy intervention. Furthermore, we examine whether the rhetoric used reveals an author's prejudice on the topic which may also be reflected in data selection and thereby his or her findings.

PD December 2003. **TI** A Meta-Analysis of the International Gender Wage Gap. **AU** Weichselbaumer, Doris; Winter-Ebmer, Rudolph. **AA** University of Linz. **SR** CEPR Discussion Paper: 4127; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4127.asp. **PG** 16. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J16, J31, J71. **KW** Gender Wage Differential. Meta-Analysis.

AB See the abstract for Weichselbaumer, Doris; Winter-Ebmer, Rudolf. November 2003, "A Meta-Analysis of the International Gender Wage Gap". Institute for Advanced

Studies (IHS), Economics Series: 143; Institute for Advanced Studies, Library, Stumpergasse 56, A-1060 Vienna, Austria. Website: www.ihs.ac.at.

Weidenmier, Marc D.

PD October 2002. TI Suppressing Asset Price Inflation: The Confederate Experience, 1861-1865. AU Weidenmier, Marc D.; Burdekin, Richard C. K. AA Weidenmier: Claremont McKenna College and NBER. Burdekin: Claremont McKenna College. SR National Bureau of Economic Research Working Paper: 9230; Working Papers, NBER, 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 U.S.). JE E52, N21. KW Asset Prices. Inflation. Monetary Reforms. Stabilization. AB Confederate monetary reforms encouraged holders of Treasury notes to exchange these notes for bonds by imposing deadlines on their convertibility. We show that Confederate funding acts aimed at precipitating the conversion of currency into bonds did temporarily suppress currency depreciation. These acts also triggered upsurges in commodity prices, however, as note holders rushed to spend the currency before their exchange rights were reduced. Asset price stabilization policies seem to have increased the velocity of circulation and counterproductively channeled inflationary pressures into other areas of the economy.

Weinberger, Simon

TI The Day-of-the-Week Effect Revisited: An Alternative Testing Approach. AU Alt, Raimund; Fortin, Ines; Weinberger, Simon.

Weisbach, Michael S.

TI Corporate Demand for Liquidity. AU Almeida, Heitor; Campello, Murillo; Weisbach, Michael S.

TI Horses and Rabbits? Optimal Dynamic Capital Structure from Shareholder and Manager Perspectives. AU Ju, Nengjiu; Parrino, Robert; Potoshman, Allen M.; Weisbach, Michael S.

Weiss, Yoram

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

TI On the Wage Growth of Immigrants: Israel, 1990-2000. AU Eckstein, Zvi; Weiss, Yoram.

Welch, Ivo

TI Financial Market Runs. AU Bernardo, Antonio E.; Welch, Ivo.

Welch, Karen Horn

TI Trade Liberalization and Growth: New Evidence. AU Wacziarg, Romain; Welch, Karen Horn.

Wen, Yi

TI What's Unique About the Federal Funds Rate? Evidence From a Spectral Perspective. AU Sarno, Lucio; Thornton, Daniel L.; Wen, Yi.

Westermann, Frank

TI The Credit Channel in Middle Income Countries. AU Tornell, Aaron; Westermann, Frank.

Whalley, John

PD October 2002. TI Short and Long Run Decompositions of OECD Wage Inequality Changes. AU Whalley, John; Edwards, T. Huw. AA Whalley: University of Western Ontario and NBER. Edwards: University of Warwick. SR National Bureau of Economic Research Working Paper: 9265; 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 C68, F16, J31. KW Wage Inequality. Trade. Technological Change.

AB This paper focuses on the causes of increased wage inequality in OECD countries in recent years and its decomposition into the component factors of trade surges in low wage products and technological change. It argues that the length of production run and degree of fixity of factors is crucial in such analyses. In particular, if the observed wage inequality response to price and technology shocks reflects a short-run response in which factors and output have not adjusted fully across industries, then decomposition analysis of the causes of the observed increases in inequality is substantially altered relative to a long-run factors mobile world. This conclusion applies both when one type of labor has mobility costs and in the Ricardo-Viner case where there is an additional, sectorally immobile factor. Furthermore, only small departures from the fully mobile model can greatly change decompositions. This finding is important because most data used in earlier work are interpreted as reflective of a long-run full mobility response, when this may not be the case. Incorrect conclusions as to how trade surges and technology contribute to wage inequality can be easily drawn, if the data are in fact generated by a short-run adjustment process.

Wheelock, David C.

TI New Evidence on the Fed's Productivity in Providing Payments Services. AU Gilbert, R. Alton; Wheelock, David C.; Wilson, Paul W.

PD December 2002. TI Consolidation in US Banking: Which Banks Engage in Mergers? AU Wheelock, David C.; Wilson, Paul W. AA Wheelock: Federal Reserve Bank of St. Louis. Wilson: University of Texas. SR Federal Reserve Bank of St. Louis Working Paper: 2001/003C; Research Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442. Website: research.stlouisfed.org/wp/. PG 46. PR no charge. JE G21, G28, L13, L84. KW Bank Mergers. Regulation. Market Structure. Count Data Models.

AB The number of U.S. commercial banks has declined by some 40 percent since 1984, primarily through mergers of solvent institutions. The relaxation of legal impediments to branching has enabled this consolidation, but specific characteristics of banks that engage in mergers reflect the regulatory process and market structure, as well as the bank's own condition. This paper seeks to quantify the regulatory, market, and financial characteristics that affect the probability of a bank engaging in mergers and the volume of banks it absorbs over time. We examine separately consolidation within holding companies and mergers of independent banks.

White, Lucy

TI Do Vertical Mergers Facilitate Upstream Collusion?
AU Nocke, Volker; White, Lucy.

White, Matthew W.

TI Household Electricity Demand, Revisited. **AU** Reiss, Peter C.; White, Matthew W.

TI Demand and Pricing in Electricity Markets: Evidence from San Diego During California's Energy Crisis.
AU Reiss, Peter C.; White, Matthew W.

White, Michelle J.

PD October 2002. **TI** The "Arms Race" on American Roads: The Effect of Heavy Vehicles on Traffic Safety and the Failure of Liability Rules. **AA** UCSD and NBER. **SR** National Bureau of Economic Research Working Paper: 9302; 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** K10, R40. **KW** Heavy Vehicles. Negative External Effects. Traffic Laws.

AB Drivers have been running an "arms race" on American roads by buying increasingly heavy vehicles such as SUVs, vans and light trucks. Families view large vehicles as providing better protection to their own occupants if a crash occurs, but these vehicles pose an increased danger to occupants of smaller vehicles and to pedestrians and bicyclists. This paper measures both the beneficial internal effect and the negative external effect of heavier vehicles. The main result is that when drivers replace cars with light trucks, 3,700 additional crashes per year involving fatalities of smaller vehicle occupants, pedestrians and bicyclists occur, while only 1,400 crashes involving fatalities of light truck occupants are avoided, i.e., the ratio of negative external effects to positive internal effects is 2 and a half to 1. The paper argues that none of the existing traffic laws or institutions forces drivers of heavy vehicles to take account of their negative external effects.

TI Personal Bankruptcy and the Level of Entrepreneurial Activity. **AU** Fan, Wei; White, Michelle J.

Wilhelm, William J., Jr.

TI Competing for Securities Underwriting Mandates: Banking Relationships and Analyst Recommendations. **AU** Ljungqvist, Alexander P.; Marston, Felicia; Wilhelm, William J., Jr..

Willen, Paul

TI Borrowing Costs and the Demand for Equity Over the Life Cycle. **AU** Davis, Steven J.; Kubler, Felix; Willen, Paul.

Williams, Robertson

PD October 2002. **TI** Prices vs. Quantities vs. Tradable Quantities. **AA** University of Texas and NBER. **SR** National Bureau of Economic Research Working Paper: 9283; 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** D81, L51, Q20. **KW** Regulation. Pollution. Tradable Quantities.

AB This paper extends Weitzman's (1974) seminal paper comparing price and quantity instruments for regulation to consider a third option: tradable quantity regulations, such as

tradable permits. Contrary to what prior work has suggested fixed quantities may be more efficient than tradable quantities if the regulated goods are not perfect substitutes, even when trading ratios are based on the ratio of expected marginal benefits between goods, not simply one-for-one. Indeed, when benefits are independent across goods, or when the goods are complements, tradable quantities are never the most efficient instrument. This theory is applied to dynamic pollution problems, and suggests that permit banking should be allowed for stock pollutants, but not for flow pollutants. These results indicate that many regulations, including the current sulfur dioxide trading program and proposed greenhouse gas regulations, are inefficient.

Wilson, Charles A.

TI Uniqueness of Equilibrium in the Multi-Country Ricardo Model. **AU** Scarf, Herbert E.; Wilson, Charles A.

Wilson, Deborah

TI Does Performance Monitoring Work? A Review of the Evidence From the UK Public Sector, Excluding Health Care. **AU** Burgess, Simon; Propper, Carol; Wilson, Deborah.

PD January 2003. **TI** Which Ranking? The Use of Alternative Performance Indicators in the English Secondary Education Market. **AA** University of Bristol and University of Bath. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 03/058; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www.bris.ac.uk/cmppo/publications.html. **PG** 23. **PR** no charge; hardcopies can be obtained from cmppo-office@bristol.ac.uk. **JE** H40, I21, L33. **KW** Performance Measures. Value Added. Education.

AB This paper analyses the impact of a value-added performance indicator (PI) on the rankings of schools in the UK league tables. We use government data on the results of pupils who sat Key Stage 3 (KS3) exams in 1997, and GCSE exams in 1999. We focus on the key pre-2002 PI, the percentage of pupils gaining at least five GCSEs at grade C or above (%5A*-C), and the new value-added indicator (VAcap). We find a low degree of correlation between %5A*-C and VAcap and the resulting rankings, both at national and local level. This is reflected in the degree to which schools' ranking positions change when different PIs are employed. We conclude that value-added does provide a more accurate measure of school performance and hence should help parental choice. We provide evidence, however, which suggests that a single PI, representing a school average value-added score, may not be sufficiently informative.

TI Measuring Pupil Attainment in English Secondary Schools: A Preliminary Analysis. **AU** Atkinson, Adele; Wilson, Deborah.

Wilson, Paul W.

TI New Evidence on the Fed's Productivity in Providing Payments Services. **AU** Gilbert, R. Alton; Wheelock, David C.; Wilson, Paul W.

TI Consolidation in US Banking: Which Banks Engage in Mergers? **AU** Wheelock, David C.; Wilson, Paul W.

Winicki, Joshua

TI Food for Thought: The Effects of School Accountability Plans on School Nutrition. **AU** Figlio, David N.; Winicki, Joshua.

Winter-Ebmer, Rudolf

TI The Effects of Competition and Equal Treatment Laws on the Gender Wage Differential. **AU** Weichselbaumer, Doris; Winter-Ebmer, Rudolf.

TI A Meta-Analysis of the International Gender Wage Gap. **AU** Weichselbaumer, Doris; Winter-Ebmer, Rudolf.

TI Rhetoric in Economic Research: The Case of Gender Wage Differentials. **AU** Weichselbaumer, Doris; Winter-Ebmer, Rudolf.

TI Reducing Start-Up Costs for New Firms: The Double Dividend on the Labor Market. **AU** Dulleck, Uwe; Frijters, Paul; Winter-Ebmer, Rudolf.

TI Reducing Start-Up Costs for New Firms: The Double Dividend on the Labour Market. **AU** Dulleck, Uwe; Frijters, Paul; Winter-Ebmer, Rudolf.

Winter-Ebmer, Rudolph

TI A Meta-Analysis of the International Gender Wage Gap. **AU** Weichselbaumer, Doris; Winter-Ebmer, Rudolph.

Wolak, Frank A.

TI Structural Econometric Modeling: Rationales and Examples from Industrial Organization. **AU** Reiss, Peter C.; Wolak, Frank A.

Wolf, Michael

TI Subsampling Inference in Threshold Autoregressive Models. **AU** Gonzalo, Jesus; Wolf, Michael.

TI Some Hypothesis Tests for the Covariance Matrix when the Dimension is Large Compared to the Sample Size. **AU** Ledoit, Olivier; Wolf, Michael.

TI Flexible Multivariate GARCH Modeling with an Application to International Stock Markets. **AU** Ledoit, Olivier; Santa-Clara, Pedro; Wolf, Michael.

TI Improved Estimation of the Covariance Matrix of Stock Returns With an Application to Portfolio Selection. **AU** Ledoit, Olivier; Wolf, Michael.

Wolfers, Justin

TI Bargaining in the Shadow of the Law: Divorce Laws and Family Distress. **AU** Stevenson, Betsey; Wolfers, Justin.

Wolinsky, Asher

TI Vote Buying. **AU** Dekel, Eddie; Jackson, Matthew O.; Wolinsky, Asher.

Woodward, George

PD April 2003. **TI** Does Beta React to Market Conditions? Estimates of Bull and Bear Betas Using a Nonlinear Market Model with an Endogenous Threshold Parameter. **AU** Woodward, George; Anderson, Heather. **AA** Monash University. **SR** Monash Department of Econometrics and Business Statistics Working Paper: 2003/09; Department of Econometrics and Business Statistics, Monash

University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. **PG** 30. **PR** no charge. **JE** C50, C51, G12, G14. **KW** Logistic Smooth Transition Market Model (LSTM). Sequential Conditional Least Squares (SCLS). Linearity Tests. Bull/Bear Betas.

AB We apply a logistic smooth transition market model (LSTM) to a sample of returns on Australian industry portfolios to investigate whether bull and bear market betas differ. Unlike other studies, our LSTM model allows for smooth transition between bull and bear states and allows the data to determine the threshold value. The estimated value of the smoothness parameter was very large for all industries implying that transition is abrupt. Therefore we estimated the threshold as a parameter along with the two betas in a dual beta market (DBM) framework using a sequential conditional least squares (SCLS) method. Using Lagrange Multiplier type tests of linearity, and the SCLS method our results indicate that for all but two industries the bull and bear betas are significantly different.

Wright, Jill

TI Bayesian Estimation of a Stochastic Volatility Model Using Option and Spot Prices: Application of a Bivariate Kalman Filter. **AU** Forbes, Catherine S.; Martin, Gael M.; Wright, Jill.

Wright, Randall

TI Price Setting, Price Dispersion, and the Value of Money -- Or -- The Law of Two Prices. **AU** Curtis, Elisabeth; Wright, Randall.

Xue, Licun

TI Merger Performance Under Uncertain Efficiency Gains. **AU** Amir, Rabah; Diamantoudi, Effrosyni; Xue, Licun.

Yariv, Leeat

TI Committee Design in the Presence of Communication. **AU** Gerardi, Dino; Yariv, Leeat.

Yashiv, Eran

PD December 2003. **TI** Self-Selection of Migrant Workers: Migration Premium and (no) Returns to Skills. **AA** London School of Economics, Tel Aviv University and CEPR. **SR** CEPR Discussion Paper: 4156; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4156.asp. **PG** 32. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F20, J30, J60. **KW** Self-Selection. Migrant Workers. Skill Premia. Migration Premium. Selection Bias.

AB Why do low-skilled workers choose to work in a foreign economy and what determines their wages? The paper empirically implements the Roy self-selection model to study this question. It does so using a unique dataset on Palestinian workers working locally and in the Israeli economy. The data permit examination of both migrants and non-migrants on a comparable basis and are used to construct the relevant wage equations. The results show that key determinants of self-selection are a substantial migration premium, which lures migrant workers, and very low returns to observable skills in the foreign economy, which deter skilled workers. While the literature has found negative self-selection elsewhere, direct estimation of the relevant second moments -- crucial for the

determination of self selection -- shows that the same findings can be re-interpreted. In particular, we find positive self-selection, leading to a reduction in wage inequality and to worker assignment such that wages are equalized across workers employed in the source and in the host economies. Correcting for selection bias demonstrates that estimates of skill premia for migrants -- an important issue in the immigration literature -- are upwardly biased if selection is not accounted for.

TI Labour and the Market Value of the Firm. **AU** Merz, Monika; Yashiv, Eran.

Yildiz, Halis Murat

PD June 2003. **TI** National Versus International Mergers and Trade Liberalization. **AA** Southern Methodist University. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/56; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.

PG 40. **PR** no charge; available only on website. **JE** F12, F15, L13. **KW** Merger Formation. International Oligopoly. Trade Liberalization.

AB This paper uses an endogenous merger formation approach in a concentrated international oligopoly to examine the effects of trade liberalization on the nature of merger incentives (national vs. international). The effects of unilateral trade liberalization on a country's industry structure are found to be depending on the other country's trade policy regime. If the other country practices free trade, unilateral liberalization by a country yields international mergers whereas if it practices a restrictive trade policy, national mergers arise. As trade gets bilaterally liberalized, the resulting equilibrium market structure is the one with international mergers. These results fit well with the fact that global trade liberalization has been accompanied by an increase in international merger activity. Among equilibrium market structures, international ones are found to be preferable from a welfare point of view. As a result, social and private incentives become aligned together as trade gets liberalized.

Yosha, Oved

PD June 2003. **TI** Financing Innovation: Is Transparency a Two-Edged Sword? **AA** Tel Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Studies Working Paper: 2003/14; Mrs. Stella Padeh, Foerder Institute for Economic Research, Berglas Building, Tel Aviv University, Ramat Aviv, Tel Aviv 69978, Israel. Website: econ.tau.ac.il/research/search_workingPapers.asp.

PG 32. **PR** no charge. **JE** D80, G14, G32, O30. **KW** Disclosure. Innovation. Confidentiality. R&D. Transparency.

AB Does greater transparency obstruct or promote innovative activity? To address this issue, a regime where innovators have a choice between operating in a transparent and in a confidential manner is contrasted with a regime where secrecy is always maintained. A central result is that there are (simple and intuitive) circumstances such that a regime with transparency generates less innovation and (equally simple and intuitive) circumstances where such a regime might generate more innovation. The analysis also has interesting implications for the subsidization of innovative activity. Circumstances are identified such that a subsidy to innovation cum confidentiality

succeeds in drawing in high quality innovators that would otherwise be deterred from innovating.

Youssef, Slim Ben

PD April 2003. **TI** Transboundary Pollution, R&D Spillovers and International Trade. **AA** Universite de Tunis El Manar. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/39; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.

PG 13. **PR** no charge; available only on website. **JE** D62, F12, O32. **KW** Trans-boundary Pollution. R&D Spillovers. Common Market. Social Welfare.

AB We consider a symmetric three-stage game played by a pair of regulator-firm hierarchies to capture the scale and technology effects. Each firm produces one good sold on the market. The production process generates pollution characterized by a fixed emission/output ratio, and cross-border. Firms can invest in R&D to lower their emission/output ratio and this activity is characterized by positive R&D spillovers. We show that R&D spillovers and the competition of firms on the common market help non-cooperating countries to internalize trans-boundary pollution more efficiently. Consequently, in most cases, when the positive externality increases, the levels of R&D and production increase while pollution decreases, implying an increase in social welfare. However, in some other cases, pollution under a common market increases with the R&D externality implying a decrease in social welfare.

Yu, Jianfeng

TI Who Refers to Whom: A Study of Research Reference and the Relationship between Research Reports and Final Publication. **AU** McCarthy, Samuel; Shubik, Martin; Yu, Jianfeng.

Yueh, Linda Y.

PD December 2001. **TI** An Investment Model of Social Capital With Empirical Application to Women's Labor Market Outcomes in Urban China. **AA** University of Oxford. **SR** University of Oxford, Department of Economics Discussion Paper Series: 83; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp.

PG 25. **PR** only available electronically through website. **JE** J16, J22, J71, O53, Z13. **KW** General Microeconomics. Gender. Discrimination. Social Capital. China. **AB** The move to a more market-oriented economy is associated with evidence of increased inequality in the incomes earned by men and women. The context of our study of this question is the recent large-scale reform of the inefficient state sector, which has caused layoffs of urban workers that dramatically changed the state of employment in urban China. One factor in determining success in an imperfect labor market could be related to guanxi, the Chinese variant of social capital. We develop a model of social capital in which the decision to invest in guanxi is a function of time and resources expended, which may reflect and cause gender differences. Our original measures of social capital are created with a data set administered in urban China in early 2000. We find that there are gender differences in the stock of social capital and returns within the labor market. Women have less social capital than

men and also lower economic returns in terms of earned income.

Zechner, Josef

TI Optimal Capital Allocation Using RAROC(tm) and EVA.
 AU Stoughton, Neal; Zechner, Josef.

Zenou, Yves

PD December 2003. TI Efficiency Wages, Urban Unemployment and Housing Consumption. AA University of Southampton and CEPR. SR CEPR Discussion Paper: 4153; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org/pubs/dps/DP4153.asp. PG 22. PR 5 pounds, \$5 or 8 euros + postage and handling. JE J41, R14. KW Relocation Costs. Location-Dependent Wages. Urban Labor Markets.

AB The aim of this paper is to introduce endogenous housing consumption in an efficiency wage model in which two cases are considered: very high and zero relocation costs. First, in both cases, we are able to totally characterize the efficiency wage for any preferences that are quasi-linear with respect to the composite good consumption. Second, in each case, we show how endogenous housing consumption affects the value of the efficiency wage (compared to the case of fixed housing consumption) and demonstrates the existence and the uniqueness of a steady-state equilibrium. Finally, we compare the two models and show how mobility costs affect the efficiency wage setting.

Zhang, Xiaobo

TI Spatial Inequality in Education and Health Care in China. AU Kanbur, Ravi; Zhang, Xiaobo.

Zhang, Xiaoyan

TI Pricing the Global Industry Portfolios. AU Cavaglia, Stefano; Hodrick, Robert J.; Vadim, Moroz; Zhang, Xiaoyan.

Zhang, Xibin

TI A Monte Carlo Investigation of Some Tests for Stochastic Dominance. AU Tse, Y. K.; Zhang, Xibin.

PD April 2003. TI Estimation of Asymmetric Box-Cox Stochastic Volatility Models Using MCMC Simulation. AU Zhang, Xibin; King, Maxwell L. AA Monash University. SR Monash Department of Econometrics and Business Statistics Working Paper: 2003/10; Department of Econometrics and Business Statistics, Monash University, Clayton Campus, Victoria 3800, Australia. Website: www.buseco.monash.edu.au/depts/ebs/. PG 28. PR no charge. JE C15, C22, C52. KW Box-Cox Transformation. Leverage Effect. Sampling Algorithm.

AB The stochastic volatility model enjoys great success in modeling the time-varying volatility of asset returns. There are several specifications for volatility including the most popular one which allows logarithmic volatility to follow an autoregressive Gaussian process, known as log-normal stochastic volatility. However, from an econometric viewpoint, we lack a procedure to choose an appropriate functional form for volatility. Instead of the log-normal specification, Yu, Yang and Zhang (2002) assumed Box-Cox transformed volatility follows an autoregressive Gaussian process. However, the empirical evidence they found from currency markets is not

strong enough to support the Box-Cox transformation against the alternatives, and it is necessary to seek further empirical evidence from the equity market. This paper develops a sampling algorithm for the Box-Cox stochastic volatility model with a leverage effect incorporated. When the model and the sampling algorithm are applied to the equity market, we find strong empirical evidence to support the Box-Cox transformation of volatility. In addition, the empirical study shows that it is important to incorporate the leverage effect into stochastic volatility models when the volatility of returns on a stock index is under investigation.

Zigrand, Jean-Pierre

TI Strategic Financial Innovation in Segmented Markets.
 AU Rahi, Rohit; Zigrand, Jean-Pierre.

Zilcha, Itzhak

TI Improvement in Information, Income Inequality and Growth. AU Eckwert, Bernhard; Zilcha, Itzhak.

Zilcha, Yitzhak

TI The Effect of Better Information in Income Inequality.
 AU Eckwert, Bernhard; Zilcha, Yitzhak.

Zimmermann, Klaus F.

TI What Makes an Entrepreneur and Does it Pay? Native Men, Turks and Other Migrants in Germany. AU Constant, Amelie; Shachmurove, Yochanan; Zimmermann, Klaus F.

Zingales, Luigi

TI People's Opium? Religion and Economic Attitudes.
 AU Guiso, Luigi; Sapienza, Paola; Zingales, Luigi.

TI The Corporate Governance Role of the Media.
 AU Dyck, Alexander; Zingales, Luigi.

Zizzo, Daniel John

PD April 2001. TI Racing With Uncertainty: A Patent Race Experiment. AA University of Oxford. SR University of Oxford, Department of Economics Discussion Paper Series: 68; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. PG 28. PR only available electronically through website. JE C91, O31, O34. KW Patent Races. Dynamics. Experimental Economics.

AB This paper presents an experimental test of the multi-stage patent race model by Harris and Vickers (1987). Tied competitors invested more when nearer the end of the race, but this may have followed from a more general and unexplained pattern of a positive correlation between investment and progress in the race. The relationship between investment and gap between competitors was mostly not as predicted. Also, leaders did not invest more than (not heavily lagging) followers, and the race did not approach monopoly as the gap between competitors widened. Overall, the evidence brings only limited support to the theory.

TI Is Trust Self-Fulfilling? An Experimental Study.
 AU Bacharach, Michael; Guerra, Gerardo A.; Zizzo, Daniel John.

PD March 2002. TI Probability Compounding in Words

and in Practice. AA University of Oxford. SR University of Oxford, Department of Economics Discussion Paper Series: 88; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. PG 24. PR only available electronically through website. JE C91, D81, D83. KW Conjunction Fallacy. Heuristics. Probability Compounding. Implicit Knowledge. Explicit Knowledge.

AB The conjunction fallacy occurs whenever probability compounds are thought of as more likely than its component probabilities alone. In the experiment we present, subjects chose between simple and compound lotteries after some practice. Depending on the condition, they were given more or less information about the nature of probability compounds. The conjunction fallacy was surprisingly robust. There was, however, a puzzling dissociation between probability compounding in words and in practice: verbal ranking responses were sensitive, but actual choices entirely insensitive, to the amount of verbal instructions being provided. This might reflect a dichotomy between implicit and explicit knowledge.

PD March 2002. TI Fear the Evil Eye. AA University of Oxford. SR University of Oxford, Department of Economics Discussion Paper Series: 91; Working Paper Coordinator, Department of Economics, Manor Road Building, Oxford OX1 3UQ, England. Website: www.economics.ox.ac.uk/research/workpapers.asp. PG 11. PR only available electronically through website. JE C91, D11. KW Consumer Choice. Money Burning. Envy. Egalitarianism.

AB This paper presents the results of an experiment where people can reduce ("burn") other subjects' money at a cost to their own, with the decisions of one of them (randomly chosen after all decisions are made) getting implemented to determine final winnings. Almost 50% of the subjects engage in money burning, eliminating some 23% of the earnings of the other subjects. The price elasticity of burning is estimated, and found to be less than one up to a lower boundary price of about 0.22. Three subjects out of four appear rank egalitarian, providing support to theories of interdependent preferences that predict that agents care about how money is divided among other agents. Relatively poor and disadvantaged agents burn at least as much as the others. Overall, money burning appears a genuine phenomenon, mirroring the institutional realities of some transition and underdeveloped economies where "the evil eye" can induce behavior closely resembling money burning, and which may hinder economic growth. Some implications for developed countries are also discussed.