Summaries

Trade integration and the destination of subsidies

Nelly Exbrayat, Carl Gaigné, Stéphane Riou

We build a model of trade and location with two countries which differ with respect to their level of productivity. Public spending has two possible allocations: a direct subsidy to immobile households or a wage subsidy to mobile firms. We show that firms receive a lower net of tax subsidy in the high-productivity country than in the low-productivity one. Despite this less generous policy, the former country can host a larger share of firms, so that its total spending for firms can be higher than in the low-productivity country when trade costs are low enough. The welfare analysis suggests that the second-best optimum requires an increase in the subsidy to households in both countries when the economies are weakly integrated or the productivity gap is low or the share of capital incomes redistributed outside the two economies is high.

Keywords: trade integration, firm location, public expenditure composition.

JEL code: F12, F15, H23.

The Bank Capital Channel and Counter-Cyclical Prudential Regulation in a DSGE model

Grégory Levieuge

This article proposes to insert a bank capital channel (BCC) in the theoretical framework proposed by Bernanke et al. (1999) (BGG), in order 1) to evaluate the mean features of the BCC and 2) to assess the benefits of a countercyclical prudential measure. In a costly state verification framework, banks are charged a financing premium on their external funds which depends on the structure of their balance sheets and which then fluctuates in a counter-cyclical way. This premium is lastly passed on to firms' credit conditions. Simulations confirm that shocks are more amplified than in the BGG model, and confirm the importance of the financial context for macroeconomic volatility. Given the effects of this channel and the ineffectiveness of monetary policy in a capital crunch context, the model finally allows a conclusive evaluation of the advantages associated with a preemptive and counter-cyclical prudential measure in a DSGE model to be made.

Keywords: Bank Capital Channel, Monetary Policy, Prudential Regulation, Dynamic Provisioning.

JEL code: E3, E5, G18

The factors behind CO_2 emission reduction in transition economies

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The Central and Eastern European countries significantly reduced their CO_2 emissions between 1995 and 2003. Was this emission reduction just the fortuitous result of the major economic transformation undergone by countries in transition? Or is it rather a result of more stringent environmental policy? The objective of the article is to answer this question through a simultaneous equation model of the demand (emissions) and supply (environmental stringency) of pollution. The supply equation takes into account the institutional quality of the country as well as consumer preferences for environmental quality. The results indicate that, all else equal, output growth would have increased CO_2 industrial emissions in the Central and Eastern European countries in our sample by 31% between 1995 and 2003, and the composition effect corresponded to an increase of 8.4% of these emissions. Nevertheless, the technique effect, induced by more stringent environmental policy, reduced industrial CO_2 emissions by 58%, and allowed for a final beneficial result for the environment, i.e., -18% of industrial CO_2 emissions in 2003 compared to 1995. Finally, our study confirms the importance of institutional factors in the explanation and further prediction of pollution reduction in transition economies.

Keywords: Transition, CO_2 emissions, environmental policy, scale, composition and technique effects.

JEL code: C33, P5, Q58.

Strategic manipulation of voting rules : An experimental study

Virginie Béhue, Pierre Favardin, Dominique Lepelley

Theoretical analysis of the voting rules susceptibility to strategic manipulation suggests that the choice of the best rule (the less vulnerable to manipulation) is closely related to the underlying notion of equilibrium that is used. A crucial question is to know whether or not the possibility of reacting to a threat of manipulation should be taken in consideration. We investigate this question using laboratory experiments. We find empirical support for the specific notion of *reaction*.

Keywords: social choice, voting rules, strategic manipulation, experiments.

JEL code: C9, D72.