ABSTRACTS OF WORKING PAPERS IN ECONOMICS

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Abadir, Karim M.
PD October 1995. TI Bias Nonmonotonicity in Stochastic Difference Equations. AU Abadir, Karim M.; Hadri, Kaddour. AA University of Exeter. SR University of Exeter, Department of Economics Discussion Paper: 95/12; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4RF, ENGLAND. PG 9. PR no charge. JE C22, C51. KW Economic Time Series. Near-Nonstationarity. Estimator Biases. AB We show that the bias of estimated parameters in autoregressive models can increase as the sample size grows. This unusual result is due to the effect of the initial sample observations that are typically neglected in theoretical asymptotic analysis, in spite of their empirical relevance. Implications for practical economic modeling are considered.

PD November 1995. TI Testing for Cointegration. AA University of Exeter. SR University of Exeter, Department of Economics Discussion Paper: 95/07; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4RF, ENGLAND. PG 11. PR no charge. JE C32, C52. KW Fractional Integration. Cointegration. Time Series. AB Testing for cointegration is now widespread in economics. Although the principle is sound, the practice has not always been so. In this note, an attempt is made to reveal flaws in some applied testing procedures. Incomplete nonstationary-null procedures make cointegration seem more likely than it actually is, while incomplete stationary-null procedures reject it too often. Complete definitions of integration and cointegration are given, some of them extending earlier definitions of these concepts.

Abbink, Klaus
PD December 1995. TI RatImage-Research Assistance Toolbox for Computer-Aided Human Behavior Experiments. AU Abbink, Klaus; Sadrieh, Abdolkarim. AA University of Bonn. SR Universität Bonn Sonderforschungsbereich, Discussion Paper: B354; Sonderforschungsbereich 303 an der Universität Bonn, Lennestrasse 37, D53113, Bonn 1, DEUTSCHLAND. PG 8. PR no charge. JE C81, C88. KW Experiments. Experimental Economics. Computerized Experiments. Software Tools. AB This paper report on RatImage, an example program for the application of Ratimage, the Research Assistance Toolbox for computerized human behavior experiments. The complete source code of this short experiment program is listed and briefly discussed. Since RatImage combines several central features of RatImage into a simple, but fully operational program, it can provide an easy entry into the world of RatImage programming.

Acemoglu, Daron
PD September 1994. TI Search in the Labour Market. Incomplete Contracts and Growth. AA Massachusetts Institute of Technology. SR Centre for Economic Policy Research, Discussion Paper: 1026; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 27. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE J31, O41, D24. KW Search. Human Capital. Wage Determination. Incomplete Contracts. Growth. AB This paper shows that search in the labor market has important effects on accumulation decisions. In a labor market characterized by search, employment contracts are naturally incomplete and this creates a wedge between the rates of return and marginal products of both human and physical capital. As a result, when workers invest more in their human capital, they increase the rate of return on physical capital. Provided that these factors are complements in the production function, this will increase the desired level of investment for firms. Then, because physical capital is not being paid its marginal product, the rate of return on all human capital goes up. In this model, therefore, there are pecuniary increasing returns to scale in human capital accumulation in the sense that the more human capital there is, the more profitable it is to accumulate human capital. Applying this argument conversely, the presence of pecuniary increasing returns in physical capital accumulation also follows. These pecuniary increasing returns lead to
amplified inefficiencies and to the possibility of multiple equilibria. They also imply that factor distribution of income has an important impact on growth. Finally, the paper derives new links between unemployment and human capital accumulation and shows that when technology choice is endogenized, search introduces a negative wage formation externality which may lead to excessively fast diffusion of new technologies.


AB A monitor is hired to control the agent. Despite the lack of side-contracting opportunities it is shown that the agent and the monitor can collude. The conditions for such implicit collusion are that the monitor should expect future rents from a continued relationship and the agent should have the authority to influence these rents and a credible threat to do so. The paper shows that the credibility of the agent’s threat depends on how the principal will interpret a disagreement between the agent and the monitor, which in turn depends on whether the principal expects collusion to take place.

Ackermann, Michael
PD May 1995. TI Transition from a Planned to a Market Economy: the Interrelation of Subsidization of Firms, Budget Deficit, Unemployment and Inflation. AU Ackermann, Michael; Krelle, Wilhelm. AA University of Bonn. SR Universitat Bonn Sonderforschungsbereich, Discussion Paper: B/311; Sonderforschungsbereich 303 an der Universitat Bonn, Lennestrasse 37, D53113, Bonn 1, DEUTSCHLAND. PG 42. PR no charge. JE P21, P27, E13, E51.

AB There are many important problems in the transition process from a planned to a market economy: changes of the political and social institutions, privatization, structural change of production, change of investment and consumption, to name only a few. They are all interrelated and should be dealt with in a general disequilibrium framework. This cannot be done here. Instead we single out some especially important economic problems: subsidization of firms, budget deficits, unemployment and inflation, which are the most visible concomitant phenomena in the transition process. We do this by means of partial analysis, i.e. we consider the subsidization of firms in a sector which is relatively small with respect to the total economy, so that the repercussions of changes in the sector considered on the sectors of the economy (except on the public sector which has to pay the subsidies) may be disregarded. This implies that at best we can derive partial optima. They may, however, reflect certain aspects of a reasonable economic policy in the difficult stage of transition. The paper is divided into two main parts. After a statement of the general problem, we first analyze it from the static point of view, i.e. assuming a short time horizon of the government such that the factor prices and the rate of inflation can be considered as given. In the second part we dynamize the static system of the first part. The factor prices and the rate of inflation become variables. The interrelation of subsidies, budget deficits, unemployment and inflation depends on time. At the end of the paper some consequences are drawn with respect to the subsidization policy during this transitory phase of economic development. The constitutional and economic situation is different in each country in the transitory stage. We do not model a specific country but try to keep the approach general enough to cover the basic features of all countries as far as the subsidization problem is concerned.

Addison, John T.

AB The paper constructs an asymmetric information model to investigate the efficiency and equity cases for mandated benefits. While we can find no scope for actual Pareto improvements, potential Pareto improvements may be possible, and the redistribution involved may in some cases favor "deserving" workers. In general, however, it appears that the more diverse are free market contracts -- separating the various worker types -- the less likely are mandates to be potentially Pareto improving. In these circumstances, a case can be made for the restriction of any mandate to large firms. But we are also able to show that direct state provision can preserve separations, and may thus be superior to mandates. The elements of the model are applied to maternity benefits.

Agenor, Pierre-Richard

AB This paper estimates a simple consumption-smoothing model of the French current account, and examines its capacity to predict recent developments in France’s external performance. The model views the current account as a buffer through which private agents can smooth consumption over time in response to temporary disturbances to output, investment, and government expenditure. The empirical results indicate that the model performs well overall, and predicts correctly the sharp turnaround in France’s external accounts observed in the past three years—a feature of the data that conventional models of trade flows, based on income and relative price variables, appear unable to explain.


AB This paper examines the role of the labor market in the...
transmission process of adjustment policies in developing countries. It begins by reviewing the recent evidence regarding the functioning of these markets. It then studies the implications of wage inertia, nominal contracts, labor market segmentation, and impediments to labor mobility for stabilization policies. The effect of labor market reforms on economic flexibility and the channels through which labor market imperfections alter the effects of structural adjustment measures are discussed next. The last part of the paper identifies a variety of issues that may require further investigation, such as the link between changes in relative wages and the distributional effects of adjustment policies.


AB This paper provides an assessment of competitiveness and external trade performance of the French manufacturing industry during the 1980s and early 1990s. The first part of the paper reviews developments in a broad range of competitiveness indicators. The analysis indicates that the manufacturing sector appears to have maintained its competitive position in recent years. The second part discusses developments in export market shares. The third part estimates a vector error correction model relating the trade ratio to relative unit labor costs, domestic and foreign demand, and nonprice competitiveness. Variance decompositions suggest that fluctuations in price and nonprice competitiveness account for about two-fifths of fluctuations in manufacturing trade flows.

Albaek, Karsten


AB This paper examines turnover of workers and jobs on the panel of all plants in Danish manufacturing for the years 1980-1991. We relate worker turnover to job turnover with a focus on the share of worker reallocation driven by job reallocation, and we consider the behavior of job and worker flows over the business cycle, throwing light on some recent theories of the cyclical behavior of the labor market. The amount of job creation and job destruction is similar in Denmark and the U.S., but job reallocation in Denmark is acyclical contrary to American findings. The probability of plant closure covaries negatively with the business cycle whereas the amount of plant openings varies positively with the business cycle, in particular for small plants. Worker reallocation is strongly procyclical, due to strong procyclicality of replacement hirings (hiring to an existing job). Our findings are consistent with nonconvex adjustment costs for plant hiring and firing, and with models that explain replacement hirings as driven by worker quits, whereas they seem at odds with theories that view recessions as optimal periods for restructuring the plant labor force.

Alegre, Jose M. Roldan


Alesina, Alberto


AB This paper studies the equilibrium determination of the number of political jurisdictions in different political regimes, democratic or not, and in different economic environments, with more or less economic integration. We focus on the trade off between the benefits of large jurisdictions in terms of economies of scale and the costs of heterogeneity of large and diverse populations. Our model implies that: i) democratization leads to secessions; ii) without an appropriate redistributive scheme (which we characterize) in equilibrium one observes an insufficiently large number of countries; iii) the equilibrium number of countries is increasing in the amount of economic integration. We also study the welfare effects of economic integration and free trade when the number of countries is endogenous.

Altonji, Joseph G.


AB We measure the effects of parental education on the education profile of wages. The analysis uses sibling pairs from the Panel Study of Income Dynamics and the National Longitudinal Surveys of Labor Market Experience of Young Men and Young Women. We also use the variance across siblings in school characteristics to estimate the effects of school inputs on wages holding family background constant. We obtained mixed evidence on whether parental education raises the return to education. We find that teacher’s salary, expenditures per pupil, and a composite index of school quality measures have a substantial positive effect on the wages of high school graduates.

Alvarez, Luis J.

Method. Cointegration.

AB The kind of prior typically employed in Bayesian vector autoregression (BVAR) analysis has aroused widespread suspicion about the ability of these models to capture long-run patterns. This paper specifies a bivariate cointegrated stochastic process and conducts a Monte Carlo experiment to assess the small sample performance of two classical and two Bayesian estimation methods commonly applied to VAR models. In addition, a proposal to introduce a new dimension to the prior information in order to allow for explicit account of long-run restrictions is suggested and evaluated in the light of the experiment. The results of the experiment show that: (i) the Minnesota-type prior with hyperparameter search performs well, suggesting that the prevalent suspicion about the inability of this prior to capture long-run patterns is not well grounded; (ii) the fine-tuning of the prior is crucial; and (iii) adding long-run restrictions to the prior does not provide improvements in the case analyzed.

Amable, Bruno


AB This paper develops a model of endogenous growth where innovation can take two forms, namely radical and incremental. The latter type of innovation means that a new intermediate good is introduced in the production of the final good, thus raising productivity in a Ethier- Romer-type way. A radical innovation means first that the level of knowledge is multiplied by a constant factor, which raises productivity in an Aghion-Howitt way, and second that the previous innovations are made obsolete. The economy is populated by a constant number of researchers, who may either engage in radical or incremental innovation activity. Incremental innovation is deterministic and continuous, radical innovation is discrete and stochastic. The market equilibrium is an allocation of the resources between radical and incremental innovation. Different types of equilibria with perfect foresight are possible: fixed as well as periodic or aperiodic allocations.

Amundsen, Eirik Schroder


AB This paper examines how to harvest a biomass confronted with the threat of partial extinction. We show that the uncertainty involved gives rise to two opposing effects determining an optimal steady state stock of the biomass. A "discount effect", leading to a smaller stock as compared to the certainty case, and a "cushion effect" leading to a larger stock. The net effect is indeterminate and depends on the size of the collapse, a strategy risking total extinction may be optimal even though the biomass could have been saved with certainty. Likewise, for other combinations, a strategy of no harvest may be followed until a mishap has taken place. Finally, both repetitive collapses and stock dependent collapses are shown to lead to a smaller optimal steady state stock as compared to a one shot stock independent collapse.

Andersen, Torben G.


AB We examine the properties of alternative GMM procedures for estimation of the lognormal stochastic autoregressive volatility model through a large scale Monte Carlo study. We demonstrate that there is a fundamental trade-off between the number of moments, or information, included in estimation and the quality, or precision, of the objective function used for estimation. We provide a fairly transparent characterization of the trade-off in the present model. Furthermore, a large sample approximation to the optimal weighting matrix is utilized to explore the impact of the weighting matrix on estimation, specification testing and inference procedures, and to obtain practical efficiency bounds for the given class of GMM estimators. The results provide guidelines for obtaining desirable finite sample properties through the choice of the appropriate estimation design, and although the findings are specific to the model, the conclusions are likely to apply to a wide range of settings characterized by strong conditional heteroskedasticity and correlation among the moments.

Andersen, Torben M.


AB The incentive to renege on a commitment to a fixed exchange rate is shown to be state contingent. A fixed exchange rate policy is not viable under "unusual" circumstances, and the incentive to violate the commitment is larger in the case of contractionary shocks than in the case of expansionary shocks. The possibility that the exchange rate regime is changed in "unusual" circumstances also has significant effects under "normal" circumstances, implying systematic devaluation expectations and output losses.

AB Capital market imperfections make the future purchasing power of wage income risky. Therefore, current nominal wages may have intertemporal implications which affect wage determination. The influence of consumption risk on wage setting is analyzed in a general equilibrium model with an imperfectly competitive labor market (monopoly union). It is shown that the adjustment process implies wage smoothing which causes nominal wages to be less flexible than prices, and moreover employment shows more variability over the business cycle than real wages no matter whether the cycle is driven by real or nominal shocks.

Andersen, E.

TI Performance in Principal-Agent Dyads: The Causes and Consequences of Perceived Asymmetry of Commitment to the Relationship. AU Ross, Jr, W.T.; Anderson, E; Weitz, B.

TI The Impact of Legitimacy on the Choice of Sales Organization: An Institutional Theory Perspective. AU Weiss, A.M.; Anderson, E.

TI Patterns of Credible Commitments: Territory and Brand Selectivity in Industrial Distribution Channels. AU Fein, Adam J.; Anderson, E.

Andersen, Kym

PD June 1994. TI European and American Regionalism: Effects on and Options for Asia. AU Anderson, Kym; Snape, Richard H. AA Anderson: University of Adelaide. Snape: Monash University. SR Centre for Economic Policy Research, Discussion Paper: 983; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 23. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE F13, F15, F43. KW Economic Integration. European Union. NAFTA. Protectionism. Trading Blocs. AB This paper addresses several questions of concern to economies excluded from the world’s two major trading blocs -- the European Union (EU) and the North American Free Trade Agreement (NAFTA). First, it is evident from the evidence that the direct and indirect effects of regional integration agreements (RIAs) on trade and investment have been more significant than is often suggested from the data. Second, for what economies not included? Many would answer “yes”, and some cite the increasing regionalization of world trade to support that view. We suggest that this conclusion is probably unwarranted. It is true that the share of world trade that is intra-regional has been increasing, but the proportion of GDP traded has also increased sufficiently rapidly for there also to be growth in trade with other regions, and in the share of GDP traded extra-regionally. Would enlargement of NAFTA and EU membership contribute to, or slow this trend past for increasing economic integration across regions as well as within regions? Not all the signs are positive and the net effect may indeed be negative, but the paper argues that on balance the concerns of excluded economies relating to trade and investment diversion are probably exaggerated. A broader systemic question that is more worrying for non-included small open economies is whether or not the proliferation of RIAs will erode the GATT rules- based on multilateral trading system. We conclude that there is indeed cause for this systemic concern. The paper also considers how Asian and other non-included economies might respond to the economic integration initiatives in North America, Europe and elsewhere.

Andrews, David

PD December 1995. TI The Mexican Financial Crisis: a Test of the Resilience of the Markets for Developing Country Securities. AU Andrews, David; Ishii, Shogo. AA International Monetary Fund. SR International Monetary Fund. Working Paper: 95/132; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 33. PR not available. JE G11, G12, G15. KW Capital Flows. Mexico. Developing Markets. AB This paper reviews developments in private capital flows to developing countries since the Mexican financial crisis in December 1994. The paper points out that a strong recovery in these flows masks some significant changes in their characteristics, particularly in the type of borrowers back toward sovereigns and the currency denomination of new issues shifted away from U.S. dollars. Terms of new bond issues became significantly less favorable than before the Mexican crisis. One of the most striking developments was the sharp increase in bond placements by developing countries in deutsche mark and yen. It is shown that relatively favorable credit ratings assigned by Japanese rating agencies facilitated some developing countries to tap the yen bond market.

Angehrn, Albert A.

PD July 1995. TI Business Implications of Multimedia: The Case of Spain. AU Angehrn, Albert A.; Lorano, Alejandro. AA INSEAD. SR INSEAD, Working Papers: 96/10/CALT 2; INSEAD, Boulevard de Constance, Fontainebleau, 77305 Cedex, FRANCE. PG 50. PR not available. JE L82, L86, KW Multimedia. Spain. European Industry. Telecommunication Industry. AB The aim of this study is to analyze the "Multimedia phenomenon" in order to provide up-to-date information and insights on its current impact on companies and on the development of European industry in general. This report focuses particularly on Spain, contributing to a better understanding of: the current state and the development of the Multimedia industry in Spain, the key factors affecting this development, the dynamics of market acceptance of current and future Multimedia products and services generated by this development, and the major transformation affecting industry in general derived from the spread of such products. The report provides recent data on key players, regulations, strategies of telecommunication companies, experiences with market reaction to multimedia products and services, and multimedia-enabled transformations which are underway in Spain. Comparisons with other European countries and the U.S. are provided, allowing a better understanding of the situation in Spain. The special characteristics of the Spanish market in terms of regulation, infrastructure, management style, consumers, and their specific attitude towards the adoption of new technologies are also examined. Future developments and key success factors in the new environment are also analyzed, as well as the remaining obstacles for the development of Multimedia in Spain.

Aoki, Reiko


AB This paper examines the consequences of the differences in the timing of information disclosure between the U.S. and Japanese patent systems. Under the Japanese system it is possible for the firm to apply for a patent application. In contrast, in the U.S. the only way a firm learns about a rival’s innovation is upon the actual granting of the rival’s patent. We argue that this difference enables Japanese firms to coordinate their research and development efforts better than their U.S. counterparts and that this, in turn, leads to smaller quality improvements under the Japanese system. We show that the creation/diffusion tradeoff of patents can be influenced not only by the scope and length of patent protection but also by other features of the patenting process.

Ara, Ismat

AB This paper is concerned with the problem of testing a subset of the parameters which characterize the error variance-covariance matrix in the general linear regression model. Formula for likelihood ratio, Wald, Lagrange multiplier and asymptotically locally most powerful test statistics based on the likelihood of a maximal invariant statistic or an equivalent marginal likelihood are given. Specific applications discussed are the problems of testing against AR(4) disturbances in the presence of AR(1) disturbances and testing for a Hildreth-Houck (1968) random coefficient against the alternative of a Rosenberg (1973) random coefficient. Monte Carlo size and power calculations for these two testing problems are reported. These results provide further evidence that supports the proposed approach to test construction. It also suggests that better handling of nuisance parameters is likely to improve the small sample properties of asymptotically based inference procedures.

Arellano, Manuel
TI Female Labour Force Participation in the 1980's: The Case of Spain. AU Bover, Olympia; Arellano, Manuel.

Argimon, Isabel

AB This paper is concerned with the empirical relationship between government spending and private investment. A panel of 14 OECD countries is used. We present evidence which suggests the existence of a significant crowding-in effect of private investment by public investment through the positive impact of infrastructure on private investment productivity. Moreover, government consumption appears to crowd out private investment. The implications of these results are of foremost importance when it comes to fiscal consolidation. Deficit reductions engineered through cuts in public investment could severely impinge upon private capital accumulation and growth prospects.

Artis, M. J.

AB This paper reexamines the case for subsidizing employment. One superficially promising approach, based on the idea that government cofinancing of unemployment benefits could induce firms to lay off too many workers in bad times, turns out to be an unsatisfactory argument for employment subsidies when worker-firm contracts are optimal. But efficiency wage explanations for unemployment offer considerable scope for a revenue-neutral combination of a specific labor subsidy and ad valorem wage tax. When pitched low enough, unemployment must fall under a wide set of conditions.

Asakawa, K.

AB Development of a general framework on the way firms convert and transfer overseas local knowledge across borders is attempted. It is argued that the organizational arrangement of international knowledge conversion is not only contingent on structure and type of local knowledge but is also influenced by managerial and institutional factors.

TI Regional Management and Regional Headquarters in Europe: A Comparison of American and Japanese MNCS. AU Lehrer, M.; Asakawa, K.

AB Development of a general framework on the way firms convert and transfer overseas local knowledge across borders is attempted. It is argued that the organizational arrangement of international knowledge conversion is not only contingent on structure and type of local knowledge but is also influenced by managerial and institutional factors.

TI Regional Management and Regional Headquarters in Europe: A Comparison of American and Japanese MNCS. AU Lehrer, M.; Asakawa, K.


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ABSTRACTS 7

SR INSEAD, Working Papers: 95/80/0B; INSEAD, Boulevard de Constance, Fontainebleau, 77305 Cedex, FRANCE. PG 23. PR not available. JE F23, L22. KW External/Internal Linkages. Autonomy-Control Tension. International R&D. Multinational Linkage. Japanese MNC. AB By examining how external/internal linkages held by overseas R&D labs affect autonomy-control tension within MNCs, managerial dilemmas pertinent to international R&D management will be discussed, especially in the context of internationalization of Japanese R&D in Europe. R&D is liable to be affected by high autonomy-control tension due to countervailing institutional forces at the functional level (research/corporate) and the geographical level (host country/home country). The external linkages an overseas R&D lab develops tend to increase the expected degree of local autonomy vis-a-vis the parent. The external linkages tend to increase the need for internal control on the part of the parent, especially when such sensitive issues as intellectual property rights and research initiatives are involved. Managers use internal linkages as a condition based on which local autonomy can be granted. Similarly, a high degree of internal linkages tends to decrease the difficulty of internal control and would even allow for some potential increase in local autonomy. An alternative multinational linkage strategy becomes necessary for the Japanese MNCs in the era of global R&D management in which the conventional social/cultural control mechanism may break down. This paper attempts to provide a conceptual framework which enables us to associate such differences in linkage patterns with autonomy-control tension in a systematic way so that some new insight would be obtained regarding this classic yet unresolved tension.

Audretsch, David B.
AB This paper examines the extent to which innovative activity clusters spatially and links the geographic concentration of innovative activity to the degree to which knowledge externalities exist. Because one obvious explanation of why innovative activity tends to cluster geographically more in some industries than in others is that the location of production is more spatially concentrated, we first examine and then control for the geographic concentration of the location of production. Based on a data base that identifies innovative activity for individual states and specific industries for the United States, as well as the geographic distribution of production, we find that the propensity for innovative activity to cluster spatially is greater in industries where the creation of new knowledge and knowledge spillovers is more important. Even though such industries also tend to exhibit a greater geographic concentration of production, the empirical evidence suggests that the propensity for innovative activity to cluster is more attributable to the role of knowledge spillovers and not merely the geographic concentration of production.

AB The decision of how best to appropriate the value of new economic knowledge is reached by individuals within the context of the decision-making process embedded in the principal-agent model and applied to organizations. Because new economic knowledge is not only imperfect but also inherently asymmetric across agents, a divergence in beliefs about its potential value can arise between an agent possessing that knowledge and the decision-making bureaucracy in a hierarchical organization. This leads to the prediction that agents are more likely to resort to starting a new firm in an effort to maximize the value of their potential innovation in industries characterized by a greater degree of knowledge asymmetries. Based on a panel data-base identifying new-firm start-ups in US manufacturing between 1976 and 1986 there is considerable evidence consistent with the hypothesis that start-up activity is shaped by the underlying knowledge conditions, or what is called the technological regime. New-firm start-ups are apparently less important under the routinized technological regime, where innovative activity tends to occur within the boundaries of incumbent enterprises. By contrast, under the entrepreneurial technological regime, where knowledge asymmetries are particularly prevalent, new-firm start-up activity plays a more important role.

AB The purpose of this paper is to suggest how institutions can be created and modified to devise and implement industrial policy in the emerging market economies. Two main issues confronting industrial policy institutions are how to avoid regulatory capture, that is, having those policy-makers with a mandate to devise and implement industrial policy consistent with international trade policy. The second section of this paper links institutions devising and implementing industrial and trade policies to the framework and timetable recently agreed upon in the Europe Agreements. The third section of the paper provides a framework for prescribing industrial policies, their interaction with trade policies, and institutions charged with policy formulation and implementation. At the heart of this framework is a clear distinction between sectoral policies, which essentially target the economic output of specific industries and even firms, and horizontal policies, which essentially focus on improving the quality of inputs in the production process.

Axilrod, Stephen H.

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AB As developing countries and economies in transition have relied on deregulated, competitive markets to spur growth, their central banks have shifted toward using open market operations as a tool of monetary policy. To be most effective, such operations require supportive changes in other policy instruments (reserve requirements, discount window), a competitive banking system and securities market, and adaptation of particular open market or market-type instruments used to the stage of, and potential for, market development. The paper assesses options available to a central bank for encouraging a competitive market architecture and designing instruments for implementation of open market operations.

Ayat, K.L.

AB The extent to which several unit root tests agree under the null and alternatives is explored by Monte Carlo experiment. The results show clearly that considerable size changes may result from basing decisions on the outcomes of naive combinations of tests. Correcting for this, we usually find no gain in power over the better single test, for a variety of DGP's used in earlier attempts. Attempting to control size distortions by combining test outcomes leads to substantial size reductions, only one of which is desirable. The results suggest that decisions should usually be based on the single best test alone, which, in our experiments, is the GLS-based test of Elliot, Rothenberg and Stock.

Ayres, Leslie W.
TI Simulation as a Useful Tool in Examining Waste Production. AU Wolfgang, N.C.; Ayres, Leslie W.

TI Eco-Thermodynamics: Exergy and Life Cycle Analysis

AU Ayres, Robert U.; Ayres, Leslie W.; Martinas, Katalin

TI The Life-Cycle of Chlorine: Part I and II. AU Ayres, Robert U.; Ayres, Leslie W.

TI Eco-Thermodynamics: Exergy and Life Cycle Analysis

AU Ayres, Robert U.; Ayres, Leslie W.; Martinas, Katalin.

Ayres, Robert U.

AB See the abstract for Ayres (1995), INSEAD Working Papers, 95/84/EPS.


AB See the abstract for Ayres (1995), INSEAD Working Papers, 95/83/EPS.


AB Statistical measures are needed to reveal at a glance how far (or near) various countries are to meeting the conditions of long run sustainability and how conditions are changing on a year to year basis (i.e. whether sustainability is being approached or not). The scheme proposed in this paper presents numerical comparisons of energy and materials use in the real world vis a vis an ideal case where all of the identifiable criteria for sustainability are satisfied. Apart from population stabilization, five general but quantifiable criteria for sustainability are suggested, including (1) stabilization of greenhouse gas concentrations in the atmosphere, (2) stabilization of acidity (pH) in rainfall, (3) reduction of dissipative uses and wastes of heavy metals to natural (or lower) mobilization rates, (4) elimination of agriculture based on pumping "fossil" water from non-renewable aquifers and (5) elimination of loss of arable land because of salination or erosion. Other criteria, such as preservation of biodiversity and socio-economic equity between countries and generations might be added to the list. They introduce more difficult measurement problems, however, which are not considered further in the paper. Having fixed the list of criteria, the next step is to identify measures that either go to zero or unity, as the system approaches more and more closely to sustainability, at least in the limited sense defined above. Various types of measures of sustainability/unsustainability can be developed: (i) measures of relative dependence of the economy on non-renewable sources of energy and materials, (ii) measures of the productivity of energy and materials consumed by the economic system and (iii) measures of dissipative losses, especially of toxic and hazardous substances. Specific examples of each type are discussed.


AB The term "sustainability" has been popularized in recent years, and there is some danger of it becoming a cliche. This paper seeks to sort out the questions about sustainability on which there is substantial scientific agreement from those unresolved questions that are still subject to considerable
environment to accommodate anthropogenic disturbances. The earth is finite. Second, there are also limits to the substitutability of conventional market goods and services for environmental services. Third, there are limits to the extent to which technology can repair or replace environmental resources that are irreversibly damaged. For instance, one cannot imagine undertaking to substitute engineering systems designed by humans to replace natural means of climate control and stabilization. With respect to the controversial questions, an agenda for urgently needed research is suggested. For instance, there is a possibility that nature may be exceedingly adaptable, resilient and resistant to anthropogenic disturbance. Or nature may not be so resilient. It is conceivable, too, that human ingenuity could invent engineering alternatives to natural processes being threatened, or that technology can offer ways of "adaptation" to ecological and climatic stress. However, the argument is that these possibilities are not probabilities. The limits of resilience are probably not very distant, and it is very difficult to justify a high degree of confidence that "business as usual" can continue without risk for even a few more decades. In brief, the underlying problem is that many current demographic, economic and industrial trends currently seem to point unmistakably in the other direction. To achieve sustainability and minimize ecological risk, I think it is necessary to reverse most of these trends. Indeed, some aggregated measures of material and energy use may have to be reduced by large factors (four to ten). Such a reversal will entail very fundamental changes in the economic system. The directions and magnitudes of these changes are assessed briefly, and various approaches to their implementation are analyzed.

PD 1996. TI Limits to the Growth Paradigm. AA INSEAD. SR INSEAD, Working Papers: 96/19/EPS; INSEAD, Boulevard de Constance, Fontainebleau, 77305 Cedex, FRANCE. PG 21. PR not available. JE F10, Q30, O47. KW Economic Growth. Human Welfare. Technological Progress. Trade. Environmental Protection. AB This paper is a synthesis of several current controversies. It makes four broad claims: (1) that economic growth (as conventionally measured) is not, and never has been, the most important contributor to increasing human welfare; (2) that technological progress has always been the primary source of both growth and welfare (considered separately); (3) that trade was at best a minor contributor to growth in the past and is probably now contributing negatively to both national wealth and equity, hence to welfare, in Western Europe and North America and (4) that both growth (of GDP) and trade are increasingly incompatible with environmental protection. In fact, while increasing prosperity breeds environmental sensitivity, many of the processes by which it is achieved are environmentally destructive. The paper assembles and presents some of the key arguments and evidence.

integrated analytical framework, namely life cycle analysis (LCA). To do this for a non-specialist audience requires considerable background explanation. This is done in Part I (Sections 1 through 6). Applications and examples are discussed in subsequent sections (part II). The paper concludes that the proposed measure (which we call exergy hereafter) is indeed feasible for general statistical use, both as a measure of resource stocks and flows, and as a measure of waste emissions and potential for causing environmental harm.

Aziz, Jahangir

AB Against the backdrop of emerging stock markets, this paper examines an asset market where investors behave strategically based on their private information. It is shown that if the investor base expands in the form of more informed traders entering the market, in contrast to the commonly held view, price volatility actually increases. Moreover, if entry is endogenized using transaction costs (brokerage fees), it turns out that the level of participation is stochastic and the market displays "excess volatility" in price. Informed traders participate in trading only when they believe that the probability of making speculative profits is large and therefore informed trading is discretionary. An extension of the model opens up the possibility of the market displaying informational herding-like behavior despite traders having long trading horizons.

Bacchetta, Philippe
PD February 1995. TI The Impact of Monetary Policy and Bank Lending: Some International Evidence. AA Bacchetta, Philippe; Ballabriga, Fernando C. SR Universite de Lausanne, and Institut d'Analyse Economique. Ballabriga: ESADE and Institut d'Analyse Economique. SR Universite de Lausanne Cahiers de Recherches Economiques: 9501; Departement d'Economometrie et d'Economie Politique, Universite de Lausanne, BFSH1 - Dorigny, CH-1015 Lausanne, SWITZERLAND. PG 22. PR no charge. JE E44, E52, C32. KW Monetary Policy, Bank Lending. VAR.

AB There has been extensive empirical research on the role of credit markets in the transmission of U.S. monetary policy, but the evidence for other countries is scarce. This paper compares the U.S. experience with a set of thirteen European countries by examining monetary VARs including banks' balance sheets in the spirit of Bernanke and Blinder (AER, 1992). It is shown that the VAR methodology provides plausible results for interpreting interest rate shocks as monetary policy shocks in most countries. The evolution of bank lending after a monetary contraction is analyzed. For most countries, it is shown that, in the medium run, bank loans decline more than money. In the short run, however, loans are sticky and react less than money. This evidence is similar to the U.S. and is consistent with the "lending" view of monetary policy.

Bagwell, Kyle

AB We study the implications of customs union formation for multilateral tariff cooperation. We model cooperation in multilateral trade policy as self-enforcing, in that it involves balancing the current gains from deviating unilaterally from an agreed-upon trade policy against the future losses from forfeiting the benefits of multilateral cooperation that such a unilateral defection would imply. The early stages of the process of customs union formation are shown to alter this dynamic incentive constraint in a way that leads to a temporary "honeymoon" for liberal multilateral trade policies. We find, however, that the harmony between customs unions and multilateral liberalization is temporary: Eventually, as the full impact of the emerging customs union becomes felt, a less favorable balance between current and future conditions re-emerges, and the liberal multilateral policies of the honeymoon phase cannot be sustained. We argue that this is compatible with the evolving implications of the formation of the European...
Community customs union for the ability to sustain liberal multilateral trade policies under the General Agreement on Tariffs and Trade.


AB We present a theory of collusive pricing in markets subject to business cycle fluctuations. In the business cycle model that we adopt, market demand alternates stochastically between fast-growth (boom) and slow-growth (recession) phases. We provide a complete characterization of the most-collusive prices and show that (1) the most-collusive prices may be procyclical (countercyclical) when demand growth rates are positively (negatively) correlated through time, and (2) the amplitude of the collusive pricing cycle is larger when the expected duration of boom phases decreases and when the expected duration of recession phases increases. We also offer a generalization of Rosemborg and Saloner's (1986) model, and interpret their findings in terms of transitory demand shocks that occur within broader business cycles phases.

Baier, Scott L.


AB This paper is a theoretical investigation of the likely outcomes of the effects of monetary innovations when the Treaty of Maastricht is implemented. The model employed is a version of Fuerst's (1992) liquidity effects model. It is shown that monetary injections that exceed households' anticipated values will lead to increases in output and employment. Though there exists a positive short-run relationship between employment and unexpected money growth it is also shown that the long-run relationship is a negative one. Finally, it is shown that from a policy standpoint, the best policy is a low inflation, procyclical policy.

Bailey, Ralph W.


AB A common method of conserving degrees of freedom when estimating demand systems is to impose separability in a two-stage budgeting framework. Two-stage budgeting, however, imposes additional unnecessary restrictions above those of separability. A preferable approach is to impose the restrictions of separability in a single level demand system. Unfortunately, in flexible demand models such as the AIDS these restrictions can be imposed only at a single point in the data sample, and entail rather messy, and computationally expensive, non-linear constraints on the estimated parameters. We therefore propose a return, in the modern context of demand systems based on the cost function, to the more traditional approach of single-stage budgeting with parameter-conserving constraints on cross-price effects: the Block-AIDS. The attractions of this model in applied work are: ease of estimation, the relatively small number of parameters (particularly when there are many commodity groups), and the flexibility it allows (within a "rational" framework) to the consumer. We compare the two-stage-budgeting and Block-AIDS approaches to cross-country data.

Balazs, K.

TI The Downside of Downsizing. AU Kets De Vries, M.F.R.; Balazs, K.

Baldwin, Richard E.


AB The two essays in this Occasional Paper take opposite views of the European Economic Area's viability. The main conclusion of the Flam paper is that EU membership is not very important economically, if one assumes that the EEA is a long-run solution to the single-market threat. Although he makes this assumption in his formal analysis, Flam is not an EEA-optimist. He explicitly points out that the future of the EEA is by no means certain. The main conclusion of the Baldwin paper is that the economic gains from joining the EU will be large because the EEA will fail, leaving EU accession as the only way that Scandinavians can adjust to the new commercial realities in Europe. In particular, he argues that Scandinavian parliaments and industries would soon find the "influence deficit" intolerable. Therefore, a "no" vote this autumn is likely to force many Scandinavian firms to individually overcome the "influence deficit" by becoming EU-based firms.

Baldwin, Robert E.


AB This paper investigates the economic factors that best explain the decisions of the International Trade Commission in administering the injury provisions of US antidumping, countervailing duty, and safeguard laws during the 1980s.
Utilizing the economic data collected by the Commission for each investigation, it attempts to ascertain through regression analysis how strictly the commissioners have interpreted these laws in recent years, in terms of the economic conditions required for finding that an industry has been injured, and for establishing a causal relationship between imports and this injury.

Baliga, Sandeep
PD December 1995. TI Renegotiation in Repeated Games With Transfers. AU Baliga, Sandeep; Evans, Roberts. AA University of Cambridge. SR University of Cambridge, Department of Applied Economics, Amalgamated Series Working Paper: 9601; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 14. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE C70. KW Repeated Games. Equilibrium.

AB The authors consider repeated games with transferable utility: players have an endowment of wealth in each period in which transfers can be made. It is shown that if endowments are large enough and the common discount factor high enough, then a strong renegotiation-proof equilibrium (SRP) in the sense of Farrell and Maskin (1989) exists. As the discount factor goes to 1, the set of SRP payoffs converges to the set of efficient, individually rational payoffs.

Balankenborg, Dieter

AB We extend the notions of evolutionary stability and, for the first time, that of neutral stability to asymmetric games played between two populations. Stability with respect to simultaneous entry of a small proportion of mutants into both populations is considered. Allocations where neither mutant can ever spread are called neutrally stable. For bimatrix games, neutral stability in the asymmetric population game is found to be a weaker concept than neutral stability in the asymmetric contest. Moreover existence is guaranteed for 2 x 2 bimatrix games. Sets of neutrally stable strategy pairs such that for any pair of mutants not in the set at least one mutant is driven out are called evolutionarily stable. Evolutionarily stable sets are shown to be equivalent to strict equilibrium sets. Additionally, uniformity considerations are investigated.

Ballabriga, Fernando C.
TI BVAR Models in the Context of Cointegration: A Monte Carlo Experiment. AU Alvarez, Luis J.; Ballabriga, Fernando C. TI The Impact of Monetary Policy and Bank Lending: Some International Evidence. AU Bacchetta, Philippe; Ballabriga, Fernando C.

Barrett, C.R
TI Mandated Benefits, Welfare, and Heterogeneous Firms. AU Addison, John T.; Barrett, C.R.; Siebert, W.S.

Barrett, Garry F.
PD February 1995. TI Dynamics of Canadian Welfare

AB Although Canada is contemplating major reforms of welfare policy, there is scant information regarding the use of welfare. This paper addresses this gap by documenting the dynamics of welfare participation in British Columbia over the period 1980-1992. These patterns suggest conclusions important to policy. First, governments need to focus on helping individuals become self-sufficient and to remain off welfare rather than encouraging quicker exits. Second, it may be more efficient for governments to target special programs at single parent families who remain on welfare for long periods, taking account of their needs and circumstances.

Barro, Robert J.

AB The neoclassical growth model accords with empirical evidence of convergence if capital is viewed broadly to include human investments, so that diminishing returns to capital set in slowly, and if differences in government policies or other variables create substantial differences in steady-state positions. Open economy versions of the theory predict higher rates of convergence than those observed empirically, however. We show that the open economy model conforms with the evidence if an economy can borrow to finance only a portion of its capital, for example, if human capital must be financed by domestic savings.

Bayoumi, Tamim A.

AB A model of optimum currency areas is presented using a general equilibrium model with regionally differentiated goods. The choice of a currency union depends upon the size of the underlying disturbances, the correlation between these disturbances, the costs of transactions across currencies, factor mobility across regions, and the interrelationships between demand for different goods. It is found that while a currency union can raise the welfare of the regions within the union, it unambiguously lowers welfare for those outside the union.


AB Structural vector autoregressions are used to analyze the relationship between real output and relative prices within the European Union (EU) and the United States. Relative price variability appears to be more important for adjustment within the EU than the United States, reflecting the lower integration of goods and factor markets. In the absence of higher market integration, the lower relative price variability implied by the introduction of a single currency in the EU could well cause significant economic disruption.


AB This paper uses consumption patterns across countries to measure capital market integration. It argues that earlier empirical tests of this type were potentially misspecified and proposes a more robust specification. The results indicate that Japan was the only industrialized country for which national consumption was fully integrated with the rest of the world over the period 1973-89. For the other countries the source of the failure varies. Within the European Union it is generally associated with incomplete integration across capital markets. Elsewhere, consumption is found to be excessively dependent on disposable income.


AB State budgets can, in principle, provide significant fiscal stabilization that could otherwise be provided by other government entities within the United States. This paper tests the impact of fiscal restraints (such as state balanced budget amendments and other devices) on fiscal stabilization by looking at stabilization across US states, and compare it with behavior of central government and lower levels of government in a number of countries. Our results indicate that state budgets provided about one-seventh of the total fiscal offset to income fluctuations in the 1970s and 1980s.

PD October 1994. TI On the Optimality of Consumption Across Canadian Provinces. AU Bayoumi, Tamim A.; McDonald, Ronald. AA Bayoumi: International Monetary
There is mounting evidence that the pattern of relative wage movements over the last decade may reflect technological innovation favoring high skill workers. In light of this observation, this paper explores some positive and normative implications of such a technological change. Within an OLG framework, we show that the dynamics of accumulation for both physical capital and human capital are such that, following a skill-biased technological change, market forces may push the economy on a downward path that converges to a lower steady state level of output. Moreover, we show that this process will be accompanied by decreased aggregate savings, increased real interest rates and a widening of the wage distribution. This parallels several major trends observed in the US economy. How might fiscal policy respond to such a change? We find that the optimal response is always to reduce transfers from the young generation to the old and that, by doing so, aggregate output can be assured to grow.

AB This paper tests for the optimality of consumption across Canadian provinces. The results indicate that consumption is highly integrated within the central and eastern core of the country, based around Ontario and Quebec. This is not true for provinces in the western half of the country, however, or for the most easterly province, Newfoundland. All of the provinces which fail the test for optimality are subject to large regional income disturbances. It is concluded that large enough disturbances can limit financial intermediation even when capital markets are highly integrated, as they are in Canada.

AB This paper considers the impact on trade of preferential arrangements in Europe since the 1950's. Using a first difference version of the gravity model, we find that the EEC and EFTA altered the pattern of international trade. We also find evidence of trade diversion in several cases, notably that of the EEC in the 1960's.

AB This paper offers a new perspective on why labor market policies aimed at reducing the cost of business cycles may be warranted and how such policies should be designed in order to improve welfare. To this end, we develop a quantitative dynamic equilibrium model to illustrate how the contractual structure of the labor market may hide significant undiversified wage risk induced by aggregate fluctuations. The environment analyzed is such that the only imperfectly diversified risk borne...
by a worker is the risk that one’s job be hit by a reallocation shock when the market for new contracts is depressed. When we fit the model to replicate the amount of wage variation estimated from micro data, we obtain estimates of the potential value of stabilization policies that are substantially larger than those found in the literature. We use the framework to examine several policy issues and show, in particular, why unemployment insurance schemes that allow payments to vary with the state of the economy may dominate non-contingent unemployment insurance schemes.

Ben-David, Dan
AB For decades, the prevailing sentiment among economists considered this to be one of the six important "stylized facts" that theory should address, and until the emergence of endogenous growth models, this was a fundamental feature of growth theory. This paper uses an endogenous trend break model to investigate the unit root hypothesis for 16 countries, using annual GDP data spanning up to 130 years. Rejection of the unit root, which is facilitated by the inclusion of a trend break, introduces the possibility of examining the long-run behavior of growth rates. We find that most countries exhibited fairly steady growth for a period lasting several decades. The termination of this period was usually characterized by a significant and sudden drop in GDP levels. But rather than simply returning to their previous steady-state path, as predicted by the standard neoclassical growth model, most countries continued to grow at roughly double their pre-break rates for many decades, even after their original growth path had been surpassed.

Benabou, Roland
AB This paper develops a simple model of human capital accumulation and community formation by heterogeneous families, which provides an integrated framework for analyzing the local determinants of inequality and growth. Five main conclusions emerge. First, minor differences in education technologies, preferences, or wealth, can lead to a high degree of stratification. Imperfect capital markets are not necessary, but will compound these other sources. Second, stratification makes inequality in education and income more persistent across generations. Whether the same is true of inequality in total wealth depends on the ability of the rich to appropriate the rents created by their secession. Third, the polarization of urban areas resulting from individual residential decisions can be quite inefficient, both from the point of view of aggregate growth and in the Pareto sense, especially in the long run. Fourth, when state-wide equalization of school expenditures is insufficient to reduce stratification, it may improve educational achievement in poor communities much less than it lowers it in richer communities; thus average academic performance and income growth both fall. Yet it may still be possible for education policy to improve both equity and efficiency. Fifth, because of the cumulative nature of the stratification process, it is likely to be much harder to reverse once it has run its course than to arrest at an early stage.

Benoit, Jean-Pierre
PD April 1996. TI The Folk Theorems for Repeated Games: A Synthesis. AU Benoît, Jean-Pierre; Krishna, Vijay. AA New York University. Krishna: Penn State University. SR University of Copenhagen, Institute of Economics, Discussion Paper: 96/03; Institute of Economics, University of Copenhagen, Studiestraede 6, 1455 Copenhagen K, DENMARK. PG 34. PR not available. JE C72, C73. KW Repeated Games. Folk Theorems. AB We present a synthesis of various folk theorems for repeated games.

Bentolila, Samuel
TI Wage Bargaining in Industries with Market Power. AU Padilla, A. Jorge; Bentolila, Samuel; Dolado, Juan J.

Bettis, Caroline
AB Recent evidence shows clearly that exchange rate movements have very little effect on prices of traded goods. This paper develops a general equilibrium model consistent with the non-response of prices to exchange rate movements that are generated by money shocks. In the model some firms engage in pricing-to-market (PTM) across countries. The main question addressed is the degree to which PTM itself affects the behavior of the exchange rate. It is shown that the presence of PTM combined with sticky local-currency nominal prices magnifies the response of the exchange rate to money shocks, and that the degree of exchange rate variability may be increased considerably relative to a model where the law of one price holds continuously. It is further shown that the presence of PTM affects the international transmission of shocks in an important way. The higher is the degree of PTM, the less of an effect a domestic money shock has on foreign consumption, but the higher is the effect on foreign output. In terms of welfare, monetary policy is a "beggar-thy-neighbor" instrument in the presence of a high degree of PTM.
Bilal, Sanoussi
AB The purpose of this paper is to estimate the welfare impact of a change in the supply of protection when political and administered protection can be sought in a two-stage lobbying process. Contrary to what may be expected, tightening the rules to one avenue of protection does not inevitably improve national welfare, in particular when: (1) an alternative route to protection is available, (2) the cost of seeking protection increases, and (3) protection can be sought more than once. A major reason is that in these three cases, welfare-reducing lobbying effort may increase. In consequence, this analysis suggests that policy makers should be cautious about the remedies adopted to reduce the negative welfare impact of protection-seeking activities and resulting trade restrictions, in particular when they choose to change the "rules of the game".

AB This paper examines the influence of regional integration on the demand for protection. Previous studies have suggested that a customs union reduces the pressures for trade restrictions, as national interest groups have less weight to influence a central trade authority than their own government. On the contrary, this paper argues that protectionist preferences may not be diluted at the regional level. The reasons for this lie in the ability of protection interests to organize themselves at the regional level and the advantage they have over anti-protectionist forces in doing so (principally due to their superiority in controlling the potential free rider problem). In consequence, specific groups seeking protection are likely to experience a relative (if not absolute) reinforcement of their preferences in a trade bloc.

AB The purpose of this paper was to discuss the institutional aspects of regional integration and its implication for the determination of external trade policies by a trade bloc. In particular, this study raises the question: Can institutional designs in a regional integration area increase the responsiveness of trade authorities to protectionist demands? Contrary to some previous research, the analysis shows that the answer is affirmative. As illustrated by the European Union experience, the supply of trade protection in the context of regional integration crucially depends on the design and evolution of institutions adopted by the trade bloc. Moreover, the dynamic process of regional integration entails a redefinition of rules which inevitably attracts lobbying activities (in particular from those with protectionist interests). In consequence, in the absence of a strong political commitment, the danger exists that the design of new institutions will be captured by protectionist forces.

Binmore, Ken
AB We examine an Outside Option Game in which player I submits a claim for a share of the cake while player II simultaneously either makes a claim or chooses to opt out. If player II opts out, then she receives an opt-out payment while player I receives nothing. If player II opts in and if the claims total less than the cake, then each player receives his or her claim plus half of the surplus. If the claims total more than the cake, both players receive zero. Tension arises in this game between players I's desire to seek as large a share of the cake as possible and the necessity of providing player II with a sufficiently large payoff to ensure that she will opt in. Economic theories that stress efficiency predict that player II will opt in. We argue that trial-and-error learning processes can teach the competitive skills needed to secure large shares of the cake more effectively than the cooperative skills needed to ensure that the cake is available to be divided. As a result, outcomes will arise in which player II opts out, especially when the payment from doing so is attractive. We conduct experiments in which player IIs commonly opt in when their opt-out payment is small, but frequently opt out for larger opt-out payments.

PD August 1995. TI Backward Induction and Rationality. AA University College London. SR University College London Discussion Paper: 95/10; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 20. PR 3 Pounds; checks payable to Department of Economics, University College London. JE C72, C73. KW Backward Induction. Rationality.
AB When does this backward induction principle apply? This paper uses Rosenthal's Centipede Game to argue that the formal theorems offered on this subject are often misleading. In particular, it may be just as "rational" for the first player in the Centipede to deviate from the backward-induction action as to use it.

Birley, S.

Fbntainebleau, 77305 Cedex, FRANCE. PG 7. PR not registering for Valued Added Tax (VAT) or sales tax. Moreover, requiring a telephone, a credit rating, as employing others, or as European Study. American Business Conference. available. JE L11. M13. KW Entrepreneurial Firm. their very nature, they do not appear in any listings until they are already established and have identified themselves as exercising (Birley 1984, Aldrich et al. 1989). On the surface, however, this problem should not arise when attempting to find the more established firms and their founders. More particularly, it would seem intuitively obvious that the easiest population for researchers to identify would be that of the "high flyers": the entrepreneurs who own and manage the fast growing companies. After all, in the USA, lists would appear to abound and to be published in journals such as INC or Venture, or through membership organizations such as Young Presidents. Unfortunately, these lists are not compiled through any rigorous research process, but rather through invitation to readers, subscribers, members and entrepreneurs to submit candidates. While this may, indeed, be an effective and, possibly, accurate method, there is no evidence to this effect. Nevertheless, in 1992, the researchers were asked by a European Task Force to conduct a pilot study to assess the viability and cost of identifying the hundred largest, high growth, entrepreneurial firms which would form the base for the creation of the European equivalent of the American Business Conference (ABC). This group would not only provide visible role models for other entrepreneurs across Europe, but would also be an important "sounding board" for European policy in relation to the entrepreneurial firm. This research note reports the results of the pilot study.

TI Trade-Offs in the Venture Capital Decision. AU Musyka, Daniel F.; Birley, S.; Leleux, B.

Bismut, Claude

Bjorndal, Trond
TI Optimal Exploitation of a Biomass Confronted With the Threat of Partial Extinction. AU Blackburn, Joseph D.; Scudder, Gary D.; Van Wassenhove, Luk N.; Hill, C. AA Blackburn, Scudder and Hill: Vanderbilt University. Van Wassenhove: INSEAD, SR INSEAD, Working Papers: 95/06/TM; INSEAD, Boulevard de Constance, Fontainebleau, 77305 Cedex, FRANCE PG 19, PR not available. JE L86, M11. KW Computer Software. Management. Product Development. AB Software projects are commonly late and over budget, causing the product to be late to market. This study, based on questionnaires and field research with software managers in Europe, the U.S. and Japan, seeks to isolate the management practices that accelerate software development. The results suggest that global differences are not pronounced: Japanese software factories have development processes structured similar to their U.S. and European counterparts; productivity also is roughly equivalent. To reduce development time, software managers currently achieve greater leverage from the managers of people and the cross-functional process than with the use of CASE tools and technology.

TI Limits to Concurrency. AU Hoedemaker, G.M.; Blackburn, Joseph D.; Van Wassenhove, Luk N.

Birley, S.; Leleux, B.

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TI Limits to Concurrency. AU Hoedemaker, G.M.; Blackburn, Joseph D.; Van Wassenhove, Luk N.
distinguish time-based software development practices: those managerial actions that result in faster development and higher productivity. This study is based upon a survey of software management practices in Western Europe and builds upon and earlier study we carried out in the U.S. and Japan. We describe a set of managerial actions that separate fast and slow developers and construct a framework called Concurrent Software Engineering for implementing these practices.

Blackburn, Keith

AB We consider an artificial world of two interdependent economies which produce differentiated commodities and accumulate human capital. Commodities are traded and human capital production depends on country-specific public expenditures and worldwide knowledge. Public goods are differentiated in terms of their relative yields of consumption and production services. The terms of trade link between countries gives rise to negative policy spillover effects on welfare while the externalities in human capital production account for positive policy spillover effects on welfare. We study optimal policy as the equilibrium outcome of a dynamic game between benevolent governments. We show that, while welfare is never lower, growth may either be higher or lower under cooperation than under noncooperation depending on the extent to which public goods are differentiated and the relative strengths of different cross-country externalities.

Blackorby, Charles

AB This paper investigates birth-date dependent principles for social evaluation in an intertemporal framework in which population size may vary across states of affairs. We weaken the strong Pareto principle in order to allow individuals' birth dates to matter in establishing a social ordering. Using the axiom, "Independence of the utilities of the dead," we characterize population principles with a recursive structure. If the population substitution principle is added, birth-date dependent generalizations of the Critical-Level Generalized Utilitarian principles are obtained. Appending stationarity leads to the special case of geometric discounting.

PD August 1995. TI Income Inequality Measurement: The Normative Approach. AU Blackorby, Charles; Bossert, Walter; Donaldson, David. AA University of British Columbia. SR University of British Columbia, Department of Economics Discussion Paper: 95/23; Department of Economics, University of British Columbia, 1873 East Mall, Room 997, Vancouver, B.C. V6T 1Z1 CANADA. PG 22. PR 20 cents per page Canadian to other than educational institutions. JE D63, C43. KW Income Inequality. Ethical Index Numbers.

AB This paper provides a survey of normative approaches to inequality measurement, to be published as a chapter in a volume on income inequality. We present general methods for deriving ethical inequality indexes from social-evaluation orderings such as the Atkinson-Kolm-Sen and Kolm procedures. Relative, absolute, and other index types are related to these general approaches. A discussion of ordinal indexes as well as numerically significant indexes is included. In addition, we discuss the decomposition of indexes into measures of intergroup and intragroup inequality.


AB This paper shows that, in a partially welfarist framework that permits discounting, per-period social evaluations can be consistent with a timeless social ordering only if social principles lead to the repugnant conclusion. The same result applies if per-period social evaluations are replaced by forward-looking evaluations (social orderings that, in a given period, depend on present and future utilities only). This is the case because geometric classical generalized utilitarian principles are the only social principles satisfying these intertemporal consistency conditions together with some basic assumptions. The conclusion to be drawn from this paper is that history must matter to some extent if social-evaluation principles are to be ethically acceptable.


AB This paper analyzes variable-population social-evaluation principles in a framework where outcomes are uncertain. In a static model, we provide characterizations of expected-utility versions of Critical-Level Generalized Utilitarian rules. These principles evaluate lotteries over possible states of the world on the basis of the sum of the expected values of differences between transformed utility levels and a transformed critical level, conditional on the agents' being alive in the states under consideration. Equivalently, the Critical-Level Utilitarian value functions applied to weighted individual expected utilities can be employed. Weights are determined by the anonymity axiom.
Blanchard, Pierre

In this paper we analyze systematically through Monte Carlo simulations the consequences of misspecified heterogeneity on the most popular panel data models. We also illustrate our findings through the estimation of a well-known investment demand model.

Blomhof-Ruwaard, J.M
TI Optimising Environmental Product Life Cycles: A Case Study of the European Pulp and Paper Sector. AU Weaver, P.M.; Gabel, H.L.; Bloemhof-Ruwaard, J.M.; Van Wassenhove, Luk N.

TI Optimising Environmental Product Life Cycles: A Case Study of the European Pulp and Paper Sector. AU Weaver, P.M.; Gabel, H.L.; Bloemhof-Ruwaard, J.M.; Van Wassenhove, Luk N.


AB Will paper recycling reduce the environmental impact of the European pulp and paper sector? If so, is maximal paper recycling the best policy to optimize the life cycle of the pulp and paper sector? We explore these questions using an approach that combines materials accounting methods and optimization techniques. Environmental impact data are inputs for a linear programming network flow model to find optimal configurations for the sector. These configurations consist of a mix of different pulping technologies, a geographical distribution of pulp and paper production, and a level of recycling consistent with the lowest environmental impacts. We use the model to analyze scenarios with different recycling strategies. Recycling offers a reduction in environmental impact in regions with a high population and a large production of paper and board products. Regions with a large production of graphic products should focus on cleaner virgin pulp production with energy recovery. We conclude that relocation of paper production also offers a reduction in environmental impact. However, the severe effects of the economy make this policy less attractive than a combination of recycling, cleaner pulp production and energy recovery.

Blundell, Richard

This paper combines information on stock market value, market structure and technological innovation to distinguish between strategic and "deep pockets" explanations of innovative activity. Using data on the observed count of technological innovations from a panel of UK manufacturing firms a dynamic model of innovation is implemented. Even after controlling for unobserved heterogeneity, it is found that high market share leads to higher expected numbers of innovations. Using information on financial structure and stock market valuation it is also argued that the relationship could be due to strategic considerations in the product market rather than purely financial factors. These results are consistent with the importance of the "efficiency effect" highlighted by Gilbert and Newbery (1982).

Boe, G.
TI Agreement and Disagreement Between Unit Root Tests. AU Ayat, K.L.; Boe, G.; Burridge, Peter; Sheldon, Marie.

Boes, Dieter
AB This paper considers a two-period procurement model in an incomplete-contract framework. In contrast to Hart-Moore (1988), the welfare-maximizing government, as buyer, is able to accomplish ex-ante optimal contracts which guarantee first-best specific investments of both buyer and seller. These contracts are precisely characterized. Regardless of the underlying supports of cost and benefit distributions renegotiation inevitably occurs in some states of nature. This renegotiation always increases the ex-ante fixed trade price. Hence, the empirical observation of soft budget constraints in government contracting can be rationalized. Furthermore, in accordance with common beliefs, the seller’s rents accrue only at the production stage.


AB We present a model where a government chooses the number of individuals to which ownership in a former state-owned firm shall be allocated. When making this decision the government maximizes the political support it gets from the firm’s incumbent manager and from potential shareholders, anticipating that a greater dispersion of shares reduces the control of the manager by the firm’s new owners. It turns out that shares will be allocated to the maximum number of individuals- and thus a policy of mass privatization will be implemented- if the manager’s utility enters the political support functions with a higher weight than the welfare of the potential shareholders. The result of the political process, however, need not conflict with the objective of achieving a Pareto-optimal allocation. Thus we contradict a widely shared presumption that mass privatization schemes sacrifice efficiency to satisfy political constraints and show that they can be very attractive from an efficiency point of view.

Boltho, Andrea


AB Standard theory predicts that exchange rate changes have merely temporary real effects. Yet, if the higher profits that a devaluation ensures are used to improve non-price competitiveness, longer-run effects are possible. The paper looks at the experience of Germany, Spain, France and Italy which, in the 1950s and 1960s, either benefited from low parities or devalued their currencies. Favorable exchange rates probably contributed to these countries’ rapid growth, but so did trade liberalization. In today’s Europe the scope for further trade liberalization is limited while the uncertainties introduced by floating exchange rates make successful devaluations less likely.

Bonser-Neal, Catherine


AB This paper tests the effects of central bank intervention on the ex ante volatility of $/DM and $/Yen exchange rates. In contrast to previous research which employed GARCH estimates of conditional volatility, we estimate ex ante volatility using the implied volatilities of currency options prices. We also control for the effects of other macroeconomic announcements. We find little support for the hypothesis that central bank intervention decreased expected exchange rate volatility between 1985 and 1991. Federal Reserve intervention was generally associated with a positive change in ex ante $/DM and $/Yen volatility, or with no change. Perceived Bundesbank intervention did not alter $/DM ex ante volatility in any of the periods, while perceived Bank of Japan intervention was associated with positive changes in ex ante $/Yen volatility during the 1985-91 period as a whole and during the February 1987 to December 1989 post-Louvre Accord subperiod.

Booth, Alison L.


AB This paper uses a new data source to investigate whether wages rise more with seniority in unionized than in non-unionized workplaces. The data distinguish workers who are covered by incremental wage scales with automatic progression by seniority. For union workers with seniority scales, the union wage differential increases with seniority. This is not the case for union workers without seniority scales. Taking account of this heterogeneity, we are able to reconcile previous paradoxical empirical findings. The results provide support for discriminating monopoly models of the trade union and have important efficiency and distributional implications.

Borensztein, Eduardo


AB We test the effect of foreign direct investment (FDI) on economic growth in a cross-country regression framework, utilizing data on FDI flows from industrial countries to developing countries over the last two decades. Our results
suggest that FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. However, the higher productivity of FDI holds only when the host country has a minimum threshold stock of human capital. In addition, FDI has the effect of increasing total investment in the economy more than one for one, which suggests the predominance of complementarity effects with domestic firms.

Bosswijk, Peter
PD February 1996. TI Multiple Unit Roots in Periodic Autoregression. AU Bosswijk, Peter; Franses, Philip Hans; Haldrup, Niels. AA Bosswijk: University of Amsterdam, Franses: University Rotterdam. Haldrup: University of Aarhus. SR University of Aarhus, Department of Economics, Memo: 1996/2; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK8000 Aarhus C, DENMARK. PG 30. PR no charge. JE C12, C22, C51, C52. KW Time Series Modeling. Periodic Integration. Seasonal Unit Root. Double Unit Root. AB In this paper we propose a model selection strategy for a univariate periodic autoregressive time series which involves tests for one or more unit roots and for parameter restrictions corresponding to seasonal unit roots and multiple unit roots at the zero frequency. Examples of models that are considered are variants of the seasonal unit roots model and the periodic integration model. We show that the asymptotic distributions of various statistics are the same as well-known distributions which are already tabulated. We apply our strategy to three empirical series to illustrate its ease of use. We find that evidence for seasonal unit roots based on nonperiodic models disappears when periodic representations are considered.

Bottazzi, Jean-Marc
PD March 1995. TI Market Demand Functions in the CAPM. AU Bottazzi, Jean-Marc; Hens, Thorsten; Loeffler, Andras. AA Bottazzi: University of Paris. Hens: University of Bonn. Loeffler: Free University. SR Universitat Bonn Sonderforschungsbereich, Discussion Paper: A468; Sonderforschungsbereich 303 an der Universitat Bonn, Lennestrasse 37, D53113, Bonn 1. DEUTSCHLAND. PG 13. PR no charge. JE C62, D51, G12. KW CAPM. Market Demand. Multiple Equilibria. AB We demonstrate that in a CAPM economy, Walras’s Law and the Tobin Separation Property characterize market demand on finite sets of prices. Consequently, for any number n there exist CAPM economies which have at least n equilibria and hence have different beta pricing formulas. It is shown that the lower bound on the number of equilibria, n, is robust to perturbations of endowments.

Bouchet, Andre

Bover, Olympia
AB In this paper we specify and estimate Euler equations for durable expenditure with house purchase effects which are interpreted as capturing the influence of housing decisions on the intertemporal allocation of durable expenditure. We use household panel data obtained from the Spanish Family Expenditure Survey (1985-I to 1991-IV). Our results indicate that there is a significant effect of main residence purchases on durable expenditure, the former being associated with around a tenfold increase in durable expenditure. We believe this result is relevant in explaining the consumption increase in the 80's in Spain, given the increased demand for owner-occupied housing at the time.

AB This paper is motivated by the large increase in the labor force participation of prime age women that, like in many other countries, took place in Spain during the last decade. We develop an empirical time series participation equation for women aged 25-44 in which education and fertility are treated as endogenous variables. We regard participation, education and fertility as variables that jointly respond to changes in the demand for skilled non-physical labor and the wage structure. Although we find a significant business cycle effect on participation, we conclude that the dominant forces determining the increase in participation during the sample period were structural factors that shifted female earnings potential.

Bowman, D.
AB Order of entry has been demonstrated to have a significant effect on market share. A number of explanations for this effect has been suggested in the marketing and strategy literatures. In this study, we investigate the influence of order of entry into a market on the effectiveness of a firm's marketing mix decisions. We test for asymmetries in the market response of early entrants versus late entrants using data from two durables (automotive) and three nondurables categories. A market share attraction model is developed where the parameters vary as a function of order of entry. Results show that asymmetries in the effectiveness of a brand's marketing mix variables are an essential source of order-of-entry effects.

Brander, James A.
AB This paper develops a two-good, two-country model with national open access renewable resources. We derive an appropriate analog of "factor proportions" for the renewable resource case and link it to trade patterns and to the likelihood of diversified production. The resource importer gains from trade. However, a diversified resource exporting country necessarily suffers a decline in steady state utility resulting from trade, and may lose along the entire transition path. Thus the basic "gains from trade" presumption is substantially undermined by open access resources. Tariffs imposed by the resource importing country always benefit the resource exporter, and may be pareto-improving.

AB We present a simple model of renewable resource and population dynamics that offers a plausible explanation for the rise and fall of the Easter Island civilization. Our simple general equilibrium model generates a dynamic system that is similar to the Lotka-Volterra predator-prey model. In our formulation, man is the predator and the resource base is the "prey". Starting from a given initial condition, economic development can follow a feast and famine cycle of alternatively rising and then falling population and resource stocks. Cyclical behavior is not a necessary outcome, but boom and bust cycles will tend to arise in societies where fertility is high, the resource base is slowly growing, and the technology for resource harvesting is relatively efficient. We speculate that such cycles may be a recipe for violent conflict over resource use.

Brenton, Paul
AB Using cross country consumption data we estimate a system of demand equations in a piecewise manner to investigate whether price and expenditure elasticities for energy differ between broad groups of countries. The empirical results reject the assumption of constant parameters across regimes of poor and rich countries. The derived elasticities suggest that the own price elasticity for energy is higher in poor than in rich countries. We find no evidence for the commonly held view that expenditure elasticities for energy decline with income.
AIDS. AU Bailey, Ralph W.; Brenton, Paul.

Broadberry, Stephen N.
AB In this paper we relate trends in the accumulation of human capital in Britain, Germany and the United States to overall production strategy and productivity trends. In the United States a strategy of standardized mass production led to high levels of labor productivity and concentration on the development of managerial capabilities, but neglect of the skills of the shop-floor labor force, while in Britain and Germany concentration on craft production led to greater emphasis on shop-floor skills. After the Second World War, however, British firms made an unsuccessful move towards standardized mass production. Since shop-floor skills were neglected, British firms were left in a weak position to take advantage of the recent switch of technological leadership away from American mass production methods to German modern craft production or "flexible production" methods, intensive in the use of skilled shop-floor labor within a small batch industrial environment. British manufacturing also adopted an American style "mission oriented" approach to research and development in contrast to the German style "diffusion oriented" approach, which helped to reinforce the move away from craft production. Since the 1980s, Britain has returned to a more skilled labor intensive strategy but still has a large skills gap to make good.

Brooks, Robert D.
AB This paper conducts a Monte Carlo analysis of the size and power properties of combining choice set partition tests of the IIA property of the Logit model. On the basis of this comparison we recommend that applied researchers testing for IIA calculate all versions of the McFadden, Train and Tye (1981) test and reject IIA if any single test rejects IIA.

Brunello, Giorgio
AB Standard estimates of earnings profiles ignore the fact that, with unobserved heterogeneity, cross- section evidence need not reflect the "true" relationship between earnings and tenure. In this paper we argue that the observation of the position filled by an employee in the firm hierarchy is informative about both his/her quality and the quality of his/her match. Under certain assumptions, this information can be used to construct an unbiased estimator of the effects of tenure on earnings growth. We apply this simple idea to Japanese and UK data. We find that tenure effects on earnings are positive but smaller than the effects estimated with the traditional approach. In a comparative perspective, we also find that UK and Japanese earnings profiles are rather similar in banking and finance and remarkably different in manufacturing.

Brunt, Liam

AB Constructing an agricultural output series requires a rational economic basis on which to convert one crop into another and a conversion method using only the information which we have at our disposal. The traditional method fails on both counts. We develop two alternative methods. The first is extremely parsimonious but imprecise; the second is less parsimonious but allows us to isolate the effect of different crop rotations on wheat yields. We compare the three methods using the farm dataset compiled by Arthur Young on his tours of England and Wales during the Agricultural Revolution and we show that new fallow crops substantially increased the wheat yield.

Buckberg, Elaine


AB This paper presents a new theory of asset pricing intended to address why other developing country equity markets responded so strongly to the Mexican devaluation, while the world’s major stock markets were unmoved. This phenomenon can be explained if investors follow a two-step portfolio allocation process, first determining what share of their portfolio to invest in developing countries, then allocating those funds across the emerging markets. For 12 of 13 markets studied, the one-factor CAPM is rejected in favor of a two-factor asset pricing model, including both a broad emerging markets portfolio and the global market portfolio.

Bufman, Gil


Bell, George


AB This paper investigates whether excess stock price volatility may be due in part to a failure of the market to form rational expectations. Using data on analysts’ expectations of long run earnings growth for individual companies, we report a number of interrelated results which lend support to this hypothesis. First we show that there is no statistically significant relationship between analysts’ long run forecasts and subsequent earnings growth, suggesting that analysts’ expectations are excessively dispersed. Secondly, we provide evidence that analysts’ expectations are reflected in market prices. These two results together imply that the cross-section of stock prices will also be excessively dispersed, so that stocks with low earnings expectations are underpriced and stocks with high earnings expectations are overpriced. As analysts’ forecasts errors become apparent, stock prices should adjust accordingly and so excess returns should accrue. We demonstrate that analysts’ forecasts are indeed negatively correlated with subsequent excess returns. All hypothesis testing uses panel regression techniques, and to circumvent the problem of cross-sectional dependence in the data we use a generalized method of moments estimator of the parameter covariance matrix.


AB A number of papers have reported evidence that cross-section stock returns can be explained by the ratio of the book value of companies’ assets to their market value. The unresolved issue, which we address here, is whether this evidence is consistent with the efficient markets hypothesis. We argue that the efficient markets model, which implies that book to market is a proxy for risk, implies also that it is a noisy proxy. This same model also presents a way to clean up this variable so that it explains stock returns more successfully. Removing the noise from book to market in this way should improve its explanatory power under the efficient markets hypothesis, while under the alternative hypothesis of irrational pricing it should cause its explanatory power to deteriorate. We present evidence in this paper that its explanatory power deteriorates.

Burda, Michael C.


AB Labor markets in Central and Eastern Europe (CEE) will be a key vehicle for the expression and reallocation of skills and talents in the transformation process. To a large extent, the emergence of unemployment is an indicator of this restructuring and reallocation. This paper surveys some of the issues involved in the rise of CEE unemployment as well as the policy options available for dealing with it. Specifically, the paper looks at reallocation of human resources across industries, occupations, space, and labor market states. The matching function is proposed as one possible device for summarizing and studying these developments. The paper briefly evaluates current labor market policies in the CEE economies in this light.

The need for locational competition among labor markets arises when labor is immobile. At the same time market clearing under such conditions can lead to wage and income variability. In such cases demand for insurance against regional shocks arises, which can be provided by nationwide collective bargaining and other national institutions in the spirit of the implicit contract literature. In this interpretation, the desirability of locational competition depends on the nature of shocks which affect the regions. Real wage and other types of systematic shocks. We present evidence that West German and other European experiences are more consistent with an insurance contract interpretation, while US regional labor markets are characterized by high regional mobility, rendering insurance less relevant.

Burdett, Kenneth

TI Temporal Aggregation Bias in Stock-Flow Models.
AU Coles, Melvyn G.; Burdett, Kenneth; Ours, Jan van.

SR University of British Columbia, Department of Economics Discussion Paper: 95/40; Department of Economics, University of British Columbia, 1873 East Mall, Room 997, Vancouver, B.C. V6T 1Z1; CANADA. PG 16. PR 20 cents per page Canadian to other than educational institutions.
JE J64, J24. KW Search and Matching. Training. Coordination Failure.
AB This paper demonstrates how matching frictions can generate a skills trap. If it takes time for an unemployed worker to contact a firm and vice-versa, an employer may hire a worker who does not yield the greatest expected profit rather than wait. If the most desirable workers are the most skilled, then the higher the percentage of trained workers, the greater the expected profit from posting a vacancy. Higher profits create higher entry and more vacancies. Conversely, the greater the number of vacancies, the greater the expected return to training. This reasoning suggests that multiple Pareto rankable equilibria can exist.

Burridge, Peter

PG 34. PR 2 pounds. JE C14, C22. KW Level Crossings. Unit Roots.
AB We derive the limit distribution of the number of crossings of a level by a random walk with continuously distributed increments, using a Brownian Motion local time approximation. This complements the well-known result for the random walk on the integers. Use of the frequency of level crossings to test for a unit root is examined.

Cadot, Olivier

PD August 1994. TI The Europe Agreements and EC-LDC Relations. AU Cadot, Olivier; De Melo, Jaime. AA Cadot: INSEAD. De Melo: Université de Genève.
SR Centre for Economic Policy Research, Discussion Paper: 1001; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 23. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions.
JE F13, F14, F15. KW North/South Trade Relations. Foreign Aid. Integration.
AB The paper considers the implications of recent changes in the EC relationship with the Central and East European countries (CEECs) for the EC's traditional links with African, Caribbean and Pacific (ACP) countries. After reviewing some important aspects of the trade regime signed in 1991 between the EC and the CEECs, showing that they give only marginal trade preferences to the CEECs. The paper also considers foreign direct investment and aid flows and argues that there is little evidence to date of a massive redirection of the flow of funds from the EC to the CEECs and away from the ACP countries.

PD October 1994. TI France and the CEECs: Adjusting to Another Enlargement. AU Cadot, Olivier; De Melo, Jaime. AA Cadot: INSEAD. De Melo: Université de Genève.
SR Centre for Economic Policy Research, Discussion Paper: 1049; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 27. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions.
AB The paper considers the effects of trade expansion between the EU and the Central and East European Countries (CEECs) on France. Taking a political-economy perspective, we attempt to detect potential demand for protection at the sectoral and regional level. Recent aggregate figures for trade and direct investment are reviewed, showing that French trade relations with the CEECs have as yet failed to expand by as much as a simple gravity relationship would predict, while French direct investment in the area remains small. The paper then considers disaggregated trade data; simple trade expansion simulations are carried out suggesting that job creation and destruction at the regional level is likely to be marginal. The paper closes by drawing a comparison with France's adjustment to the EU's 1986 Southern enlargement (to Spain and Portugal), showing that fears of job losses turned out in that case to be largely unfounded, while Spain attracted significant amounts of French direct investment.

AB When innovation is followed by imitator entry, the degree to which the innovator can appropriate the rents induced by its innovations influences the rate of innovative activity. Our interest focuses upon the interaction between the rate of innovative activity and the length of the delay between the
innovative and imitation, in a model in which innovative activity generates a sequence of new innovations in the face of market saturation and discounting. The optimal rate of innovation depends upon our distinct economic forces: the appropriability effect stressed in the literature, fighting market saturation, a competitive motivation (to maintain the monopoly position), and a strategic motivation (to deter entry). The goal of our analysis is to elicit the circumstances in which each force dominates. Because of these countervailing forces, the optimal rate of innovation may not be monotone in the delay; furthermore, a more easily saturated market can benefit the innovator.

Caglayan, Mustafa
TI Monetary Instability, the Predictability of Prices and the Allocation of Investment: An Empirical Investigation Using UK Panel Data. AU Beaudry, Paul; Caglayan, Mustafa; Schiantarelli, Fabio.

Canonero, Gustavo

AB This paper is about the market’s assessment of the Spanish authorities’ policy commitment as reflected in the interest rate premium. It focuses on two particular aspects of the Spanish economy that may be acting as constraints to the authorities’ policy credibility: the high unemployment rate and the pursued lengthening of the maturity of the debt. The evidence presented provides support to the view that policy credibility in Spain is not only a question of policymaker’s type, but also of policy viability, which is considerably limited by massive unemployment. However, no conclusive evidence is found in regard to the effect of debt maturity.

Canoy, Marcel

AB The paper formalizes the observation that submarkets for high-quality and low-quality variants are markedly different from each other. We study a simple model where variants in the low-quality range are identical for every customer, whereas customers strongly disagree about the value of variants in the high-quality segment. We determine the outcome under price competition in the differentiation triangle with sequential entry when each firm can develop the full vertical product line or decide to follow a niche strategy, i.e. to develop only one variant.

Card, David

AB Steady increases in the costs of medical care, coupled with a rise in the fraction of workers who lack medical care insurance, have led to a growing concern that the Workers’ Compensation system is paying for off-the-job injuries. Many analysts have interpreted the high rate of Monday injuries -- especially for hard-to-monitor injuries like back sprains -- as evidence of this phenomenon. In this paper, we propose a test of the hypothesis that higher Monday injury rates are due to fraudulent claims. Specifically, we compare the daily injury patterns for workers who are more and less likely to have medical insurance coverage, and the corresponding differences in the fraction of injury claims that are disputed by employers. Contrary to expectations, we find that workers without medical coverage are no more likely to report a Monday injury than other workers. Similarly, employers are no more likely to challenge a Monday injury claim -- even for workers who lack medical insurance.

Carlin, Wendy

AB Recent empirical and theoretical work on the transitional economies has emphasized the importance of internal bargaining and incentives. This paper constitutes an attempt to systematize the large body of case studies of enterprise restructuring in Poland, Hungary, Slovakia, Russia and the Czech Republic. It uses a framework in which the incentives and constraints on managers are crucial for the success of transforming enterprises into value maximizing firms. The forms of, and the constraints on, active behavior are examined for each enterprise across the dimensions of internal organization, product and labor markets and investment. Although there is widespread evidence of enterprise managers reacting to the post-reform environment, examples of deep restructuring are rare. Managers are hamstrung by weak incentives and employee opposition, as well as by the uneven development of social and market infrastructure external to the enterprise. The examination of pre-privatization behavior suggests that the pace and depth of restructuring would increase after privatization only when privatization clearly transforms the incentives and constraints facing managers. This is rare. The limited evidence on post-privatization restructuring surveyed here suggests that foreign ownership of a former state-owned enterprise is the exception in which privatization produces a marked change in behavior.
Carranza, Luis  
PD December 1995. TI Credit Imperfections, Inequality and Economic Growth. AA University of Minnesota. SR University of Minnesota, Center for Economic Research, Discussion Paper: 286; Department of Economics, 1035 Management and Economics, University of Minnesota, 271 19th Avenue South, Minneapolis, MN 55455. PG 48. PR no charge. JE 016, E51, D92. KW Economic Development. Endogenous Credit Constraints. Growth Rate. AB This paper presents a dynamic general equilibrium model to investigate the interaction of financial markets with economic growth, change of industry structure and the evolution of wealth across households along the development process. I find that in the early stages of development the economy experiences "extensive growth," in which the growth rates are increasing and the fraction of entrepreneurs is positively correlated to the level of aggregate output. The engine of growth in this stage comes from the reallocation of resources from low to high productivity sectors, in the middle and mature stages of development the economy experiences "intensive growth," that is, the fraction of entrepreneurs is negatively correlated with the level of output and the source of growth in these stages is the higher average productivity achieved by the competition among entrepreneurs. As a result, the growth rate could be increasing in the middle stage and then displays a decreasing pattern during the mature stage.

Casella, Alessandra  
PD May 1994. TI Can Foreign Aid Accelerate Stabilization? AU Casella, Alessandra; Eichengreen, Barry. AA Casella: Columbia University. Eichengreen: University of California, Berkeley. SR Centre for Economic Policy Research. Discussion Paper: 961; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 21. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE E63, F33. KW Stabilization. Foreign Aid. Distributional Struggle. AB This paper studies the effect of foreign aid on economic stabilization. Following Alesina and Drazen (1991), we model the delay in stabilizing as the result of a distributional struggle: reforms are postponed because they are costly and each distributional faction hopes to reduce its share of the cost by obstructing the required policies. Since the delay is used to signal each faction's strength, the effect of the transfer depends on the role it plays in the release of information. We show that this role depends on the timing of the transfer: foreign aid decided and transferred sufficiently early into the game leads to earlier stabilization; but aid decided or transferred too late is destabilizing and encourages further postponement of reforms.

Cashin, Paul  
PD November 1995. TI International Integration of Equity Markets and Contagion Effects. AU Cashin, Paul; Kumar, Manmohan S.; McDermott, John. AA International Monetary Fund. SR International Monetary Fund, Working Paper: 95/110; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 27. PR not available. JE F36, G12, G15. KW Contagion Effects. Developing Markets. International Integration. AB This paper investigates empirically the degree of international integration of industrial and emerging country equity markets. It analyzes two issues: first, the extent to which equity prices have tended to move similarly across countries and regions in the long run; and second, the strength of cross-country "contagion" effects. The paper's findings suggest that both intra-regional and inter-regional linkages across national equity markets have strengthened in recent years. In addition, using impulse response functions, the paper shows that cross-country contagion effects of country-specific shocks dissipate in a matter of weeks while contagion effects of global shocks take several months to unwind themselves.

Cassiers, Isabelle  
PD July 1994. TI Economic Growth in Post-War Belgium. AU Cassiers, Isabelle; De Ville, Philippe; Solar. Peter M. AA Cassiers and De Ville: Universite Catholique de Louvain. Solar: Vrije Universiteit Brussel. SR Centre for Economic Policy Research, Discussion Paper: 986; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 41. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE N14.047. KW Belgium. Economic Growth. AB The growth of the Belgian economy since 1945 is surveyed with emphasis on the distinction between open and sheltered sectors. Relatively slow growth to around 1960 is explained by a move away from traditionally liberal industrial policies that began in the crisis of the 1930s, by the squeeze on open sector firms' profits in the 1950s that arose from the conjunction of social pressures for higher wages and deflationary monetary policy, and by weaknesses in innovation and new product development attributable to the system of corporate control. The subsequent acceleration in growth resulted from increased international competition and greater technological and organizational transfers, both associated with membership of the European Community and substantial foreign direct investment. From the mid-1970s productivity growth in the open sector remained high but its overall growth has been hindered by cost increases resulting from an increasingly dysfunctional system of wage and income determination and from the deterioration of public finances.

Chadha, Bankim  
PD July 1994. TI Fiscal Constraints and the Speed of Transition. AU Chadha, Bankim; Coricelli, Fabrizio. AA Chadha: International Monetary Fund. Coricelli: University of Siena. SR Centre for Economic Policy Research, Discussion Paper: 993; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 26. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE E24, P21. KW Restructuring. Unemployment. Transition. Fiscal Constraints. AB This paper develops a model of the process of reallocation of resources from a declining state sector to an expanding private sector. The transition is shown to be costly in that it entails unemployment and a deterioration of the fiscal balance. The interaction of fiscal constraints with the transition process is examined. It is shown that fiscal constraints may induce the government to maintain the state sector, slowing the speed of transition, and could jeopardize the eventual outcome of the process of restructuring.
Chatterjee, Robin A.
PD October 1995. TI The Financial Effects of Takeover: Accounting Rates of Return and Accounting Regulation. AU Chatterjee, Robin A.; Meeks, Geoffrey. AA University of Cambridge. SR University of Cambridge, Discussion Papers in Accounting and Finance: AF13; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 19. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE M41, C23. KW Takeover Performance. Accounting Regulation. AB This paper outlines the contradictions and pitfalls of two literatures on the financial effects of takeover: one based on stock market returns, the other on accounting profitability. Focusing on the latter measure, a simple general model demonstrates that accounting profitability is high after takeover. Focus is on new companies, excluding many large companies excluded from stock market measures. The model predicts that takeover should lower accounting profitability, and experiments confirm these findings. The paper concludes with a discussion of the implications for accounting regulation.

Chennells, Lucy
PD October 1995. TI Wages and Technology in British Plants: Do Workers Get a Fair Share of the Plunder? AU Chennells, Lucy; Van Reenen, John. AA Chennells: Institute of Fiscal Studies. Van Reenen: University College London and Institute of Fiscal Studies. SR University College London Discussion Paper: 95/17; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 45. PR 3 Pounds; checks payable to Department of Economics, University College London. JE J31. O33. KW Wages. Technology. Endogeneity. AB Many recent empirical studies have pointed to the higher wages enjoyed by workers in environments where new technologies are intensively used. An examination of the 1984 and 1990 plant-based British WIRS datasets reveals similar patterns. This paper argues that endogeneity bias is endemic in these results. Controlling for this endogeneity bias suggests that the estimated impact of new technologies on wages is severely upwards biased. The correlation in the data is driven by the fact that higher wages appear to give firms greater incentives to introduce new technologies. This seems consistent with the view that plants with stocks of high quality skilled workers are more able to adopt new technologies.

Chemmanur, Thomas J.
PD March 1996. TI Why Include Warrants in New Equity Issues? A Theory of Unit IPOs. AU Chemmanur, Thomas J.; Fulghieri, Paolo. AA Chemmanur: Columbia University. Fulghieri: INSEAD and Centre for Economic Policy Research. SR INSEAD, Working Papers: 96/12/FIN; INSEAD. Boulevard de Constance, Fontainebleau, 77305 Code, FRANCE. PG 36. PR not available. JE G11, G12, G13. KW Warrants. Equity Markets. Equity-Warrant Package. Under-Pricing. AB We develop a theory of unit IPOs, in which the firm going public issues a package of equity with warrants. We model an equity market characterized by asymmetric information, where insiders have private information about the riskiness as well as the expected value of their firm's future cash flows. We demonstrate that, in equilibrium, high risk firms issue "units" of equity and warrants, and the package of equity and warrants is underpriced; lower risk firms, on the other hand, issue underpriced equity alone. An important feature of our model is that, in contrast to the existing literature, underpricing is used as a signal in equilibrium in the context of a one-shot equity offering. While the model is developed in the context of IPOs of equity, it is also applicable with minor modifications to the case of seasoned equity offerings packaged with warrants; further, the intuition behind the model generalizes readily to provide a new rationale for packaging call option like claims with other risky securities (e.g., convertible debt, debt with warrants) as well.

Chick, Victoria
PD September 1995. TI Multiplier and Finance. AA University of London. SR University College London Discussion Paper: 95/12; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 28. PR 3 Pounds; checks payable to Department of Economics, University College London. JE E22, E12, E21. KW Multiplier. Finance. Funding. Keynes. Robertson. AB The financial side of the multiplier has bothered few authors. By considering it, we can see that (a) the autonomous
expenditure which starts off the process must be financed by bank lending, as the only form of lending for which no prior saving is required, (b) that the role of saving is not to finance investment but to fund it. In the process of this exploration we re-enter the debate about the identity/equality of saving and investment and the role of process and equilibrium in the macroeconomics of Keynes.


AB Development economics is in the grip of the pre-Keynesian theory that the dynamics of investment are determined by the inadequacy, at home or abroad, of savings. This theory fails to acknowledge the institutional developments of incorporation, financial intermediation and all forms of credit, especially credit money. All of these institutions are well in place in almost all developing countries. The paper explores the micro- and macro-economics of financing and funding investment in the developing economy of today. The basic tools are those forged by Keynes, which acknowledge modern institutions. Credit, not saving, is the primary source of investment finance. Funding, rather than finance, is the more difficult problem in the underdeveloped countries.

Chou, Chien Fu
TI Redistribution and Growth: Pareto Improvements.
AU Talmain, Gabriel; Chou, Chien Fu.

Christodoulakis, Nicos M

AB This paper re-examines the efficiency hypothesis in the foreign exchange market. The traditional efficiency testing equations are reviewed and a model is developed that incorporates Bayesian revisions in the form of devaluation expectations. A number of propositions regarding the pattern of the coefficients in efficiency testing equations are established. The results are confirmed by the empirical estimation of the model for the Greek foreign exchange market.

Chung, Ching-Fan

AB We consider minimum distance estimation of the fractionally integrated ARMA process. The estimator minimizes the distance between functions of the sample and population autocorrelations. An appropriate choice of functions is necessary to yield an estimator that is the square root of T-consistent for values of the differencing parameter greater than or equal to 0.25. Monte Carlo simulations show that this estimator is less biased than other common estimators, such as the MLE, for values of the differencing parameter close to 0.5.

Churchill, N.
TI Entrepreneurial Transformation: A Descriptive Theory.
AU Muzyka, Daniel F.; De Koning, Alice J.; Churchill, N.

Cicinskas, Jonas

AB The reintegration into the world economy has been an integral part of Lithuania’s transformation process. Trade policy reform has been assigned a key role, aiming at opening up the economy and redirecting foreign trade. This paper (i) analyzes the trade shock following the dissolution of the former Soviet Union; (ii) studies the political economy of trade reforms; (iii) evaluates Lithuania’s attempts to gain greater access to Western markets, in particular the European Union; and (iv) reviews the empirical evidence on redirecting foreign trade.

Clarida, Richard

AB This paper attempts to identify the sources of real exchange rate fluctuations since the collapse of the Bretton Woods period. We use a structural VAR model with recursive long-run restrictions to decompose the real exchange rate series into three components, associated with supply, demand and monetary shocks. Our estimates imply that monetary shocks account for a substantial fraction of the variability of both yen and Deutschmark real exchange rate variations against the dollar. Demand shocks appear as the largest source of real exchange rate fluctuations for all the currencies considered, while supply shocks seem to play a minor role.

Clark, Todd E.
PD March 1995. TI Small Sample Properties of
Estimators on Non-Linear models of Covariance Structure.

AB This study examines the small sample properties of GMM and ML estimators of non-linear models of covariance structure. The study focuses on the properties of parameter estimates and the Hansen (1982) and Newey (1985) model specification test. It uses Monte Carlo simulations to consider the properties of estimates for some simple factor models, the Hall and Mishkin (1982) model of consumption and income changes, and a simple Bernanke (1986) decomposition model. This analysis establishes and seeks to explain a number of results. Most importantly, optimally weighted GMM estimation yields some biased parameter estimates, and GMM estimation yields a model specification test with size substantially greater than the asymptotic size.

Clavijo, Sergio

AB This survey describes the timing and main macroeconomic results of the ambitious structural reforms adopted by Chile in the middle and late 1970s and by Colombia almost a decade later in the late 1980s and early 1990s. These reforms have enabled both countries to maintain vigorous real growth rates during the first part of the 1990s. However, they face challenges to their competitiveness as their real exchange rates continue to appreciate and real unit labor costs have been increasing. Although their exchange rate management system has helped to avoid an excessive inflow of short-term capital, interest rate differentials keep exerting pressures. Structural reforms have helped attract foreign direct investment, allowing the investment ratios of both countries to increase.

Coady, David
PD July 1995. TI Structural Adjustment and the Environmental and Natural Resource Base: A Synthesis. AA University College London. SR University College London Discussion Paper: 95/08; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 43. PR 3 Pounds; checks payable to Department of Economics, University College London. JE Q13, Q28, Q38. KW Structural Adjustment. Environmental Resources. Development.

AB This paper is concerned with the relationship between structural adjustment in developing countries and the efficient management and use of the environmental and natural resource base. The initial neglect in structural adjustment programs of the need for microeconomic adjustment, and the continued neglect of market, institutional and policy failures specific to the environment and natural resource sector, are discussed. Difficulties associated with the formulation of environmental policy, particularly in developing countries, are highlighted. Arguments for a more "direct" focus on removing "distortions" in the environment and natural resource sector are forwarded. The overlap with more general development goals is emphasized.

Coe, David T.

AB We examine the extent to which developing countries that do little, if any research and development themselves benefit from research and development that is performed in the industrial countries. By trading with an industrial country that has large "stocks of knowledge" from its cumulative research and development activities, a developing country can boost its productivity by importing a larger variety of intermediate products and capital equipment embodying foreign knowledge, and by acquiring useful information that would otherwise be costly to obtain. Our empirical results, which are based on observations over the 1971-90 period for 77 developing countries, suggest that research and development spillovers from the industrial countries in the North to the developing countries in the South are substantial.

Coestier, Benedicte

AB We consider a market with asymmetric information on product quality. First we present a model of repeat purchases with vertical differentiated consumers in the same spirit as Allen (1984). Then we introduce a costly test available to firms in order to help signaling themselves. We show that under some conditions, in reputation equilibrium with test, the price is greater than marginal cost in order to satisfy incentive conditions but is lower than the price that would have prevailed without test. The test thus partially overcomes moral hazard problems. A normative approach is conducted which leads us to characterize the optimal way of subsidizing quality signs.

Cohen, Daniel

AB We develop a two-sector model in which technological progress alternatively raises the productivity of one sector after
consumers. The sector which benefits from technical progress will see a resulting fall in its price. In this model, any uneven overshoot their long-run target: as time passes they must fall, as follows shocks (symmetric or asymmetric) which can occur in the economy. We show that wages will immediately rise and unemployment (including job-to-job mobility). An "age of diminished expectations" following any productivity shock is then likely to occur sooner or later.

We examine the pattern of wages and unemployment that follows shocks (symmetric or asymmetric) which can occur in the economy. We show that wages will immediately rise and unemployment (including job-to-job mobility). An "age of diminished expectations" following any productivity shock is then likely to occur sooner or later.

AB The paper offers new tests of the "convergence hypothesis". It first analyzes the pattern of growth of measured inputs (human and physical capital conventionally measured by an inventory method) and shows that these tests sustain the hypothesis. On the other hand, when one analyzes the pattern of growth of revealed inputs (physical capital and Solow residual), then one is led to reject the convergence theory. In order to understand what lies at the heart of this discrepancy, I will show that the poor countries failed to catch up to the rich countries not so much because they failed to raise adequately.

Inventories. AU Coles, Melvyn G.; Smith, Eric.

AB This paper models equilibrium trading patterns when marketplaces exist and goods are differentiated. When first visiting the market, a buyer samples a stock of goods. If fortunate, the buyer matches with and purchases one of these goods and then exits the market. If an initial match does not succeed, the buyer can now only match with the flow of new goods for sale. The previous stock has been sampled and rejected. In a steady state, the current stock of unmatched traders on one side of the market is trying to match with the flow of new traders on the other side. It is shown that this market behavior describes matching patterns between unemployed job seekers and vacancies in UK Job Centres.

AB This paper characterizes how a firm's opportunity to sell from its stock of inventories alters the outcome of strategic wage negotiations with a union of workers. Given the level of inventories, the negotiated wage increases when demand is high. More interestingly, given the state of demand, greater inventories increase the firm's threat of delay and thereby lower the union's wage. We further demonstrate that the bargaining outcome corresponds to a modified Nash bargain which provides a potentially useful method for incorporating these results into more general applications.

Coles, Melvyn G.

TI Cross-Section Estimation of the Matching Function: Evidence from England and Wales. AU Smith, Eric; Coles, Melvyn G.

PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE C13, J64. KW Matching. Temporal Aggregation Bias.

AB The matching function describes the flow of job creation as a function of the stocks of unemployed and vacancies. Most empirical work tries to identify such a relationship by regressing the flow of matches (aggregated over the month) on the stocks of unemployment and vacancies measured at the beginning of that month. It is shown that estimates obtained using this procedure will be downward biased if unemployment and vacancies are mean-reverting processes. If the bias is small, the size of the bias is proportional to the length of the period interval. By further aggregating the data from monthly to quarterly data, the downward bias should triple. The resulting change in the parameter estimates can then be used to estimate the size of the original bias.


AB The paper offers new tests of the "convergence hypothesis". It first analyzes the pattern of growth of measured inputs (human and physical capital conventionally measured by an inventory method) and shows that these tests sustain the hypothesis. On the other hand, when one analyzes the pattern of growth of revealed inputs (physical capital and Solow residual), then one is led to reject the convergence theory. In order to understand what lies at the heart of this discrepancy, I will show that the poor countries failed to catch up to the rich countries not so much because they failed to raise adequately.

AB For Africa, a regional customs union is unlikely to realize net welfare gains (in the sense of trade creation dominating trade diversion) which cannot be attained through unilateral trade liberalization. Unilateral reform has often failed in Africa, however. A regional customs union tied to Europe with reciprocal free trade is likely to dominate unilateral liberalization in several ways. Most importantly, it would make trade liberalization credible and thereby easier to sustain.

Copeland, Brian R.


AB This paper uses the concepts of pollution supply and demand to review and extend the recent literature on the interaction between trade liberalization, environmental quality, and national income levels. Under a wide variety of assumptions about the institutional response to pollution, theoretical models with production-generated pollution predict that (all else equal), pollution intensive industries tend to migrate to countries with weaker pollution regulations. We extend the literature by developing a simple new model of consumption-generated pollution, and find that trade shifts pollution-intensive consumption to the low income, low regulation, country. Consequently, the dirty industry migration hypothesis (broadly defined) appears to be robust to generalizations that include consumption-generated pollution.


AB We develop a simple two-sector dynamic model to examine the effects of international trade in the presence of pollution-created intersectoral production externalities. We assume that the production of “Smokestack” manufactures generates pollution, which lowers the productivity of an environmentally sensitive sector (“Farming”). As a result, the long run production set is non-convex. Trade can play an important role in spatially separating incompatible industries. If pollution does not affect utility directly, then free trade is always welfare-improving for an unregulated small open economy. Two identical, unregulated countries will gain from trade if the share of world income spent on Smokestack is high. In contrast, when the share of world income spent on the dirty good is low, trade can usher in a negatively reinforcing process of environmental degradation and real income loss for the exporter of Smokestack.

Corado, Cristina


AB This paper discusses the Europe Agreements, implicit trade preferences given to the Central and East European countries (CEECs) and their impact on European Community (EC) members. As expected, South European countries compete in the same range of products and in a more similar quality market with the CEECs than do other EC countries. A significant part of this trade is explained by outward-processing trade (OPT) of clothing, however. EC firms increasingly move the labor-intensive stages of production to the CEECs. OPT competes in a different quality market than “direct” trade. Up to 1993, trade policy favored outward processing and was against “direct” trade and foreign direct investment. We draw some lessons from a similar experience in Portugal regarding OPT movements, foreign direct investment and effects of trade policy changes. During the CEECs’ transition period, the policy bias will be eliminated. EC firms may go on processing products in the CEECs or may move elsewhere. The competitive pressures on South European countries will not change with further trade liberalization towards the CEECs because those pressures are unlikely to depend on OPT location. New OPT legislation designed to keep employment in the EC may have distributive effects among EC countries. However, the CEECs are the most likely to suffer from the proposed legislation if it is strictly applied.

Corbett, C.J.


AB This paper is a first step towards a different way of looking at the practice of OR, with implications for practitioners and researchers alike. We make two key observations: (1) Looking at how OR practitioners perform individual projects will not lead to a full understanding of how OR practitioners perform individual projects. Instead, one has to take into account the series of preceding projects by that same practitioner, to infer and understand his "strand of practice". (2) A practitioner’s strand of practice is developed as the result of a learning process. Therefore, practitioners operating in different environments can have widely different strands of practice. Consequently, operationalizable guidelines about how to perform OR projects will have to include an indication of the strand(s) of practice for which they are valid.
Our observations are based on an exploratory series of interviews with practitioners and their clients.


AB There is more to the practice of OR than meets the eye. Performing a successful project involves much more than simply applying techniques, and projects are rarely the linear progression that case descriptions frequently suggest they are. We will argue in this paper that successful practitioners do a lot more than they write about, and much of what they do not write about is in fact critical for their practice. As a result, the ropes of practice remain hidden behind a streamlined simplicity suggested by many cases, rendering the learning process for others, particularly the uninstructed such as students, novices, and clients, unnecessarily difficult.

Coricelli, Fabrizio

TI Fiscal Constraints and the Speed of Transition. AU Chadha, Bankim; Coricelli, Fabrizio.

Cornelius, Peter K.

TI Trade Policies and Lithuania’s Reintegration into the Global Economy. AU Cincikas, Jonas; Cornelius, Peter K.; Treigiene, Dalia.

Corneo, Giacomo G.


AB In this paper a microeconomic foundation of the social custom approach to trade union membership is provided. The reputation effect of belonging to the union is endogenized as the outcome of a signaling game among the workers. The signaling value of being a union member depends in equilibrium on the union density, but the form of this relationship may turn out to differ from what is usually assumed in the literature. Conditions for the existence of a critical mass that is necessary for union viability are determined and given a precise interpretation in terms of status-seeking behavior. Finally, implications for optimal unionism are derived.


AB Social incentive mechanisms based on status or social esteem have long been thought to play a crucial role in shaping economic growth. We analyze the influence of the desire of status on economic growth in a model with technological spillovers à la Arrow (1962) and Romer (1986). When status depends on relative wealth, the growth rate of the competitive economy can be socially optimal if the status motive is sufficiently important. The presence of status seeking may even lead to excessive growth under laissez-faire.

Correa, Isabel


AB This paper discusses a dynamic model that is consistent with the main empirical regularities of economic fluctuations in open economies. While other models in this class have relied on non-separable preferences or finite horizons to generate a realistic consumption volatility, we show that there is a simple class of time separable preferences that is consistent with the cyclical volatilities of the components of the national income accounts identity as well as with the countercyclical character of the balance of trade.

Corstjens, Judy


AB In the last ten years, the competitive behavior among fast-moving consumer goods (FMCG) retailers in France has been surprisingly different to that observed in the UK, given the proximity of the countries and their many shared conditions (similar products, income level, same manufacturer suppliers, common market, etc.). In France, the rivalry between the major retail chains has been largely price driven, while on the other
side of the channel, the largest and most successful retail chains have competed on quality -- in particular store differentiation via own labels and fresh products, range, and size of store. The profitability and market value of retailers resulting from these contrasting strategies has been correspondingly different. We illustrate the differences by focusing on six of the largest (grocery) retail chains: for the UK, Sainsbury, Tesco and Argyll; and for France, Carrefour, Promodes and Casino. These chains account for over 50% and 40% respectively of the national total sales. Two of the four largest grocers in France (Leclerc and Intermarche) are not included because, due to their private ownership, figures are not available. We believe their situation to be substantially similar to those examined.

Corstjens, Marcel
TI Retail Competition in the Fast-Moving Consumer Goods Industry: The Case of France and the UK. AU Corstjens, Judy; Corstjens, Marcel; Lal, Rajiv.

Cragg, John G.
AB Using sample moments up to the fourth in the standard simple regression model with measurement errors allows testing whether the parameters are identified by having independent variables which are not normally distributed. If the parameters are identified, these moments can be used to estimate them consistently and asymptotically efficiently by minimum chi-square. If instruments are available, they may be used to get more efficient, consistent estimates than are provided by either instrumental-variable estimation or by the higher moment approach alone. A Monte Carlo study indicates that the approach offers a feasible, practical approach to handling errors in variables. Inference may sometimes be improved by using bootstrapped estimates, but the improvement is not marked or very dependable. If there is an instrumental variable which is not a very strong one, it may be advantageous even in fairly small samples to combine the fourth-moment approach with instrumental-variables to produce a combined estimator (which is asymptotically more efficient) rather than to rely on the instrumental variables alone.

Cragg, Michael I.
TI Dynamics of Canadian Welfare Participation. AU Barrett, Garry F.; Cragg, Michael I.

Cram, Donald P.
AB Center for Research in Security Prices (CRSP) data users would prefer to leave behind, or never learn, the Fortran programs that are most commonly used to retrieve and analyze CRSP data. But while a 1994 SAS Users Group International conference paper explained theoretical benefits of using SAS to deliver CRSP and other large databases at a major U.S. business school, and while SAS/ETS's PROC DATASOURCE has been available since 1993, it appears that few CRSP sites are set up well for the SAS user. Sample SAS/ETS and Base SAS programs, general programming tips, and certain supporting central files at each site are needed. This paper, and an associated WWW-site with downloadable programs, addresses these gaps in service to existing and would-be CRSP SAS users. It is targeted for beginning CRSP users with moderate SAS experience and for system administrators who may install central files to help users. Some tips are framed specifically to pertain to the Unix operating system and other particulars of the Stanford Graduate School of Business CRSP site, but the sample programs should run on all platforms. The sample programs include an event study, one of the most frequent CRSP data applications, which employs SAS macro-language programming and uses central files installed by system administrator programs which also are provided.

Crauwels, H.A.J.
AB Local search heuristics are developed for a problem of scheduling jobs on a single machine. Jobs are partitioned into families, and a set-up time is necessary when there is a switch in processing jobs from one family to jobs of another family. The objective is to minimize the number of late jobs. Four alternative local search methods are proposed: multi-start descent, simulated annealing, tabu search and a genetic algorithm. The performance of these heuristics is evaluated on a large set of test problems. The best results are obtained with the genetic algorithm; multi-start descent also performs quite well.

AB Local search heuristics are developed for a problem of scheduling jobs on a single machine. Jobs are partitioned into families, and a set-up time is necessary when there is a switch in processing jobs from one family to jobs of another family. The objective is to minimize the total weighted completion time. Four alternative neighborhood search methods are developed: multi-start descent, simulated annealing, threshold
accepting and tabu search. The performance of these heuristics is evaluated on a large set of test problems, and the results are also compared with those obtained by a genetic algorithm. The tabu search method generates high quality schedules relative to the other methods at modest computational expense.


AB This paper presents several branch and bound algorithms for a single machine scheduling problem with batching. Jobs are partitioned into families, and a set-up time is necessary when there is a switch from processing jobs of one family to jobs of another family. The objective is to minimize the total weighted completion time. A lower bound based on Lagrangean relaxation of the machine capacity constraint is derived. Also, a multiplier adjustment method to find values of the multipliers is proposed. Computational experience with instances having up to 70 jobs shows that the lower bounds are effective in restricting the search.

Cressman, R.


AB The effect of exogenous mistakes, made by players choosing their strategies, have on the dynamic stability for the replicator dynamic is analyzed for both asymmetric and symmetric normal form games. Through these perturbed games, the dynamic solution concept of limit asymptotic stability is motivated by insisting that such solutions be asymptotically stable for all sufficiently small perturbations (a robustness property). Limit asymptotic stability is then a refinement of the Nash equilibrium. For asymmetric normal form games, it is shown that a strategy pair is limit asymptotically stable if and only if it is a pure strategy pair that weakly dominates alternative best replies. For symmetric normal form games, all evolutionary stable strategies (ESS's), whether pure or mixed, are limit asymptotically stable. Here, conditions are established for limit asymptotic stability of completely mixed (i.e. interior) strategies as well as strategies on the boundary. Consistency with solutions found by backwards and/or forwards induction is shown for elementary extensive form games. Limit asymptotically stable sets are introduced that generalize other set-valued solution concepts such as the 'strict equilibrium set' and the 'ES set' for asymmetric and symmetric normal form games respectively.


AB The analysis of the replicator dynamic in generic perfect information games yields the following results. In the long run, players play a Nash equilibrium provided that initially all strategies are present. There is at most one "stable" component (formally, an interior asymptotically stable set), and play in this component will follow the backwards induction path. Existence of such a component is guaranteed in a simple class of games with at most three consecutive decision nodes. An example of a "longer" game is provided where some trajectories starting close to the backwards induction component lead away and never come back.

Cron, Axel


AB This paper shows the uniform convergence in probability of a modified kernel estimator towards the Baire function representing the conditional variance provided the data generating process is given by a strictly stationary solution of a parametric ARCH (q)-model.


AB This paper shows the uniform convergence in probability of modified kernel estimators towards the Baire functions representing the conditional variances and contemporaneous conditional covariances provided the data generating process is given by a strictly stationary solution of a nonparametric multivariate VARCH (q,m)-model.


AB We analyze the asymptotic behavior of kernel estimators provided the underlying regression functions (called regimes here) are time- dependent. We show the uniform convergence in probability of the kernel estimators towards a Baire function that can be interpreted as a weighted average of the different regimes. Moreover, we propose consistent estimators for the different regimes for the case that the terms of the regimes are
known.


AB This paper attempts to analyze the impact of German unification on the position that Germany holds within the European Monetary System (EMS), i.e. on the asymmetry in the EMS. Applying kernel estimation and bootstrap methods we can corroborate that result of previous studies that Germany's position within the EMS was not weakened by German unification when speculative periods before and after German unification are compared. Moreover, our data exhibit significant non-linearities pointing to threshold cointegration or regime switching processes.

Csaba, Laszlo


AB This paper evaluates the robustness of trade liberalization in Central Europe and the role of the Europe Agreements (EAs) in institutionalizing this process. It finds a) that institutions are still fragile in Central Europe; b) that the EAs are not a great force for liberalism (on either side); and c) that there is a danger that trade policy will become submerged by other, apparently more important, issues. In this context abolition of governmental agencies with a stake in free trade is seen as a step in the wrong direction.

Currie, Janet


AB The poor health status of children in the U.S. relative to other industrialized nations has motivated recent efforts to extend insurance coverage to underprivileged children. There is little past evidence, however, that extending eligibility for public insurance to previously ineligible groups will increase health status or even utilization of medical resources. Using data from the Current Population Survey, the National Health Interview Survey, and state-level data on child mortality, we examine the utilization and health effects of eligibility for public insurance. Our models are identified by the recent expansions of the Medicaid program to low income children. We find that these expansions roughly doubled the fraction of children eligible for Medicaid between 1984 and 1992; by 1992, almost 1/3 of all children were eligible. Takeup of these expansions was much less than full, however, even among otherwise uninsured children. Despite this takeup problem, we find that eligibility for Medicaid significantly increased the utilization of medical care along a number of dimensions. Medicaid eligibility was associated with large increases in care delivered in physician's offices, although there was some increase in care in hospital settings as well. While there was no effect of eligibility on parentally-assessed subjective health measures, we do find significant reductions in child mortality. Finally, we find that rising Medicaid eligibility is associated with reductions in racial disparities in the number of visits and in child mortality. However, there is some evidence of increased disparities in the site at which care is delivered.

Cyr, D.J.


AB The purpose of this research was to explore how human resource management policies and practices contribute to organizational learning in joint ventures between Western European companies and Central/Eastern European companies. Our discussion is based on extensive interviews and field observation, as well as survey data, at multiple levels of the organization in three joint ventures between Western European and Central/Eastern European companies (French-Polish, German-Czech, and Swedish-Hungarian). These cases provide the opportunity to consider the conditions felt necessary for learning to take place in joint ventures, particularly across the East/West divide. Human resource management (HRM) was found to play an important role in organizational learning in the following ways: 1) in promoting the sharing of responsibility between local and foreign managers; 2) in contributing to the development of new attitudes and behaviors through training and reward systems; and 3) in helping to create a new corporate culture and value system.

Dalhaeuser, Heike


AB This paper is concerned with the influence of psychological aspects of the perception of numbers on pricing behavior. The wide spread usage of prices just below prominent numbers is attributed to the belief of the price-setting subjects that many potential customers base their buying decisions on prominent numbers as upper price limits. The aim of the empirical investigation presented in this paper is to find the prominent price limits below which the catalog prices of a
that many potential customers base their buying decisions on prominent numbers as upper price limits. The aim of the empirical investigation presented in this paper is to find the prominent price limits below which the catalog prices of a certain department store are kept. In addition the structure of the deductions from the prominent prices is examined. The prominence level of the prices is determined using a method developed by Selten. The proposed rule for rounding prices to prominent levels is tested and a simplified version is introduced.

Danthine, Jean Pierre
AB The objectives of this paper are threefold: (1) to present a family of full-fledged dynamic macroeconomic models with financial sectors, (2) to discuss their implications for the pricing of financial assets, and (3) to evaluate quantitatively the potential of each model to explain a set of key stylized facts of financial markets. We begin with an asset pricing model in the spirit of Lucas (1978) which we merge with a standard dynamic equilibrium model of capital accumulation. We next provide a new decentralized interpretation of the model's equilibrium. Under this interpretation firms make meaningful multiperiod investment decisions. We then compare, both quantitatively and qualitatively, the implications of the model with empirical summaries of actual financial market behavior. On the basis of that comparison, we then progressively enrich the model by introducing costs to adjusting the stock of capital, corporate debt, and labor contracts. We conclude that additional progress towards the resolution of this outstanding financial puzzle is as likely to come from a richer modeling of the real side of economies as from further refinements in the descriptions of the financial sector.

Dattels, Peter
AB This paper applies the "market microstructure" literature to the specific features of government securities markets and draws implications for the strategy to develop government securities markets. It argues for an active role of the authorities in fostering the development of efficient market structures.

David, Paul A.
AB This paper removes the inconsistencies in two opposing views regarding the relative productivity of the agriculture sector during the antebellum era. Some studies claim that land abundance in North America resulted in levels of average and marginal productivity in farming that remained so high that scarce and relatively dear labor constituted an obstacle to the growth of other, especially manufacturing, employments - an obstacle that was eventually alleviated after 1815 by the combined effects of the imposition of protective tariffs, the substitution of machinery, and the encouragement of the labor sector. Other studies view agriculture as the comparatively backward, relatively low labor productivity sector, and they show the secular reallocation of the labor force over the 1800-1840 era as having not simply resulted in a shrinkage in the relative size of the farm sector consistent with a rising trend in real income per capita, but as having contributed substantially to the labor sector through the adoption of labor-saving technologies. The objective of this paper is to present a new approach for the analysis of a range of historical evidence from a series of U.S. economic sectors, including agriculture, that has been neglected in the study of the development of the American economy. The methodology is based on a new approach to the measurement of income and welfare that is designed to be applicable to a wide range of historical economies. The approach is illustrated with a case study of the U.S. economy during the antebellum period, and the results are compared with those of previous studies. The paper concludes with a discussion of the implications of the findings for our understanding of the development of the American economy.
observed in market economies. The paper shows how the piecemeal manner in which prices were liberalized resulted in strong relative price variability over a prolonged period of time, against a background of high inflation. Convergence toward international relative and absolute price levels has progressed but is not complete, with prices for energy and services in particular still below market economy levels.

De Grauwe, Paul

AB This paper analyzes the nature of the monetary policies in the EMS during the most recent recession. It shows that these monetary policies were very restrictive in an historical perspective, and identifies the characteristics of the workings of the EMS responsible for these monetary policies.

De Gregorio, Jose
TI How Does Foreign Direct Investment Affect Economic Growth? AU Borensztein, Eduardo; De Gregorio, Jose; Lee, Jong-Wha.

De Koning, Alice J.
TI Entrepreneurial Transformation: A Descriptive Theory. AU Muzyka, Daniel F.; De Koning, Alice J.; Churchill, N.


AB We report on the findings of the first phase of a research program investigating the idea convergence process which results in new venture opportunities. In this phase we interviewed 10 successful habitual or serial entrepreneurs. Some results replicated earlier studies, especially motivations and psychological traits, some added a new insight and depth to previous results, and some introduced new issues into our research agenda. The final section begins to develop a theoretical discussion on four issues: opportunity as a subjective reality, how partnerships and "know-how" contribute, the counter-intuitive or contrarian thinking style, and opportunism as a path dependent process.

De Masi, Paula
TI Inflation Dynamics in Kazakhstan. AU De Broeck, Mark; De Masi, Paula; Koen, Vincent.


AB This paper presents an analysis of the behavior of the Swiss labor market, which emphasizes both changes to labor supply and real wage inflexibility as determinants of recent unusually high levels of unemployment. Supply responses in the past meant that measured unemployment rates were rarely high. The paper suggests that these responses also meant that real wages were probably less responsive to shocks as a result. Econometric tests reported in the paper broadly confirm these suggestions, and imply that the level of unemployment consistent with stable inflation has risen in Switzerland.

De Melo, Jaime
TI The Europe Agreements and EC-LDC Relations. AU Cadot, Olivier; De Melo, Jaime.

TI France and the CEECs: Adjusting to Another Enlargement. AU Cadot, Olivier; De Melo, Jaime.

De Meyer, Arnoud

AB Manufacturing Strategy is about the choice of priorities and the process and programs through which these choices are implemented. Since 1986 we have carried out at INSEAD a bi-annual survey of manufacturing strategy practices in Europe which focuses on these priorities and action programs. Using the data of 5 consecutive surveys we have analyzed the evolution of manufacturing action programs and competitive priorities over the last decade. It appears that the consistently most emphasized action programs are in the field of integrating information technology. Furthermore we observe that "hard" standalone technology has been abandoned in favor of "soft" action programs, e.g. strategic human resources management. This shift in action programs can be explained by a shift in competitive priorities. Quality has increasingly become a qualifier for European manufacturing companies, while the ability to offer dependable deliveries and low pricing has gained considerably in importance from 1986 till 1994.


AB This paper discusses the network of manufacturing facilities in European multinationals on the basis of the "European Manufacturing Futures Survey". It is shown that proximity to the market and low-cost labor are the main drivers for establishing a plant abroad, and that access to high quality input factors is the main differentiator in the decision to manufacture abroad. The results indicate that manufacturing companies consider proximity to the market as a logistical advantage, much more than an opportunity for tailoring their products to their markets. Companies that emphasize product leadership attach much importance to the availability of
qualified labor in the design of their plant network. Finally, the importance of managing the plant configuration as a tight network of plants is highlighted.

De Meza, David
TI Too Few Risk Takers. AU Black, Jane; De Meza, David.

De O’Cavalcanti, Ricardo

AB Despite the widespread belief that taxation upon realization discourages trade, the study of its macroeconomic effects has been limited by the lack of general equilibrium models suitable for quantitative analysis of capital-gains taxation. In this paper I present a variant of the standard growth model, amended to accommodate a role for asset trading and to generate capital gains. With a reasonable parameterization and a judiciously selected realization tax policy, revenues attributable to taxes on capital-gains in the computed steady-state resemble their counterpart for the U.S. data. I also ask whether this government policy is a tax on consumption smoothing. I proceed by studying another steady state that attains when gains are taxed upon accrual. I find the answer to be in the affirmative. Moreover, when compared to a 28 percent realization tax rate, accrual taxation is capable of raising the same revenue with a tax rate of just 7.7 percent together with a welfare improvement.

De Vilder, Robin G.

AB In this paper we investigate the global behavior of the output equilibrium time paths in an overlapping generations (OLG)-model where agents optimize utility, have perfect foresight and where markets are competitive. It has been shown that in a one-dimensional version of this model, periodic and even chaotic equilibrium time paths may occur whenever there is a strong conflict between the substitution and the income-effect. However, chaos only arises when the income effect is very strong. We will show that in a two-dimensional OLG-model with productive investment and capital accumulation the equilibrium time paths can converge to periodic as well as to complicated attractors even when the substitution effect dominates the income effect everywhere. It turns out that the autarkic steady state (a saddle point) plays a crucial role in this process. In particular, homoclinic intersections of the stable and unstable sets of the autarkic equilibrium cause complicated dynamical behavior. This feature seems to be present in a broad class of nonlinear economic models. We present rigorous and computer assisted proofs of the results, using very recent findings from nonlinear dynamical system theory.

De Ville, Philippe
TI Economic Growth in Post-War Belgium. AU Cassiers, Isabelle; De Ville, Philippe; Solar, Peter M.

Dearden, Lorraine
PD November 1995. TI Intergenerational Mobility in Britain. AU Dearden, Lorraine; Machin, Stephen; Reed, Howard. AA Dearden and Reed: Institute for Fiscal Studies. Machin: University College London and London School of Economics. SR University College London Discussion Paper: 95/20; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 42. PR 3 Pounds; checks payable to Department of Economics, University College London. JE J62, D31. KW Mobility. Intergenerational. Education. Distribution.

AB In this paper we use longitudinal data on children and their parents to assess the extent of intergenerational mobility in Britain. Based on data from the National Child Development Survey, a cohort of all individuals born in a week of March 1958, we find that the extent of intergenerational mobility is limited. We report an intergenerational correlation of the order of .40 to .60 for fathers and sons and .45 to .70 for fathers and daughters in terms of labor market earnings and years of schooling. An examination of quartile transition matrices between parental and child earnings outcomes reveals a similar pattern. Finally, it seems, on the basis of these transition matrices, that there is an important asymmetry in intergenerational earnings mobility with upward mobility from the bottom of the earnings distribution being more likely than downward mobility from the top.

Debelle, Guy

AB This paper outlines the inflation objective for monetary policy in Australia, which we describe as seeking to achieve a broad central tendency for inflation of between 2 and 3 percent over the long-run -- a "thick point" -- rather than a narrow target band. It also provides a more detailed rationale for this objective. In doing so, the paper discusses the issues relevant in determining the appropriate mean inflation rate at which policy should aim, the degree of variation of inflation around that central point, and how policy should respond to shocks. A simple model of the economy is presented which attempts to address these issues in a consistent framework.


AB This paper extends the analysis of central bank independence to a model in which there is more than one...
policymaker. It shows that the degree of central bank independence as generally defined in the existing theoretical literature is only one of the influences on macroeconomic performance. The objectives of the fiscal authority, the commitment mechanisms available to the authorities and the nature of the policy game play a key role in determining the inflation rate and output in the economy. Furthermore, the model can be solved for the optimal degree of inflation aversion of the central bank.

Degryse, Hans
AB Since 1990, London’s SEAQ International attracts considerable trading volume in Belgian equities. This paper uses transactions, quotation, and limit order book data to investigate competition between the Brussels CATS market and SEAQ International. It focuses in more detail on the liquidity (indirect costs) measured by the quoted and effective bid-ask spread. CATS outweighs SEAQI for both measures. The effective spread is substantially smaller than the quoted spread. The CATS effective spread shows a U-shape form. This is in line with the different market micro-structure models. Total trading costs on CATS are lower (higher) for small (large) trade sizes.

Del Boca, Alessandra
AB We analyze the Italian labor market, which is typically considered to be highly regulated. We focus on the costs imposed on firms by the institutional environment in which they operate, and on the adjustment strategies that they pursue as a result. Understanding the ways in which companies attempt to circumvent regulations is crucial in explaining the effects of hiring and firing costs. Specifically, our survey is addressed to the issues of whether adjustment costs are symmetric, and whether they have fixed components which are independent of the scale of adjustment. We have followed two complementary approaches: the analysis of the development of the law relating to hiring and firing, together with a set of interviews of 61 manufacturing employers in the province of Brescia in Northern Italy. The survey has allowed us to quantify the extent of turnover costs on the total labor costs. Our research complements econometric studies which look at the structure of adjustment costs and examine statistically how employment reacts to shocks. Those studies test for the existence, shape and structure of these costs but they can neither isolate their institutional origin nor determine and measure their different components. We attempt to do this.

Demeza, David E.
AB This paper argues that most of the facts characterizing small-scale businesses, including high failure rates, reliance on bank credit rather than equity finance, relatively low interest rate margins, and credit rationing, can be explained by a tendency for those who are excessively optimistic to dominate new entrants. Drawing on findings in psychology, we model entrants as relatively naive optimizers. Banks on the other hand are viewed as well informed and efficient processors of information.

Dermine, J.
AB The purpose of the paper is to discuss four pitfalls commonly found in the application of RAROC to loan management. These are, respectively, the use of a single hurdle rate, the timing of profit recognition, the time horizon for equity allocation, and the under-identified benefits of portfolio diversification. Without explicit recognition of these pitfalls by senior bank management, the application of RAROC to risk-adjusted performance measurement can lead to misleading information.

AB Ten years ago, the White Paper on the Completion of the Single Market announced the integration of European banking markets. The purpose of this essay is to identify four public issues that remain to be addressed. Home country control of international banks needs to be complemented by host country control. The deposit guarantee schemes should be modified by rendering insured deposits "first order claim". A European authority is needed to ensure that banks do not exploit domestic rents to subsidize international activities. Finally, tax evasion is a fourth issue that remains to be addressed.

At the Madrid summit in December 1995, the EU heads of state or government endorsed a three-phase plan for the introduction of the single currency. The purpose of the paper is to identify how, besides an obvious fall in revenue from intra-European currencies trading, a single currency will alter fundamentally and permanently European banking markets. A common currency will likely change the sources of competitive advantage in various markets such as those of government bonds and their fast growing appendices the interest rate derivative markets, of corporate bonds and equities, of foreign exchange, and of fund management.

Devereux, Michael B.


In cross-country studies of economic growth, average growth rates of GNP per capita tend to be negatively associated both with the size of government and with measures of political instability. We show that a linear endogenous growth model with a very simple model of government spending and taxation in the face of political uncertainty can account for both empirical correlations. In addition, the model predicts that both correlations are intimately linked: thus greater political instability leads to both lower growth rates and a higher share of government spending in GNP.

Exchange Rate Dynamics and International Transmission in a Model of Pricing-To-Market. AU Deveraux, Michael B.

TI Exploring General Equilibrium Implications of Skill-Biased Technological Change. AU Beaudry, Paul; Devereux, Michael B.

Price Formation in Double Auctions. AU Gjerstad, Steven; Dickhaut, John.

Dierker, Egbert


See the abstract for Dierker and Grodal (1996), University of Copenhagen Institute of Economics Discussion Paper, 96/05.


AB General equilibrium models of oligopolistic competition give rise to relative prices only without determining the price level. It is well-known that the choice of a number or, more generally, of a normalization rule converting relative prices into absolute prices entails drastic consequences for the Nash equilibria. In this paper we show that, given a firm has chosen a particular profit function as its objective, profit maximization can be expressed in such a way that it depends on relative prices only. However, the choice of such an objective function need not be in the interest of the shareholders. This problem is overcome by relating the profits of a firm to the aggregate demand of its shareholders. We propose a definition of the objective of a firm, called maximization of shareholders’ real wealth, which does not depend on any price normalization. Real wealth maxima are shown to exist under certain conditions. Moreover, we consider an oligopolistic market and prove the existence of a Nash equilibrium in which each firm maximizes the real wealth of its shareholders. As a consequence, there is no need for absolute prices in the theory of imperfect competition.

Diewert, W. Erwin


AB The paper explores various approaches to the problems involved in collecting and aggregating price and quantity information at the lowest level of aggregation. The axiomatic approaches of Eichhorn and Dalen are explored as are the economic approaches of Reinsdorf and Moulton. The unit value approach of Walsh and Davies is recommended if price and quantity information is available. Finally, the paper catalogues various sources of bias in consumer price indexes and concludes that U.S. consumer price inflation had an upward bias in the .75 to 1.7% per year range during the 1980’s.


AB The paper is an extensive review of chapter 16 in the

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System of National Accounts, 1993 written by Peter Hill. The basic principles for measuring price and quantity change in the National Accounts are explained. The paper also presents some new material on the consistency of superlative indexes with indexes which are additive in their components. Some new material on the treatment of quality change is also presented which indicates that traditional Statistical Agency treatments of this issue will lead to upward bias in price indexes. The literature on sources of bias in consumer price indexes is also reviewed.


AB The paper reviews the recent rebirth of the stochastic approach to index number theory. The earlier contributions of Jevons, Edgeworth and Bowley are also reviewed. The stochastic approach treats each price relative as an estimate of the amount of inflation between the base period and the current period. By averaging these price relatives, a more accurate estimate of price change is obtained and a confidence interval for the amount of inflation can be derived. The paper criticizes the stochastic approach by following Keynes in asserting that the price relatives must be weighted according to their economic importance. Once weights are brought into the picture, we must use the test or economic approaches to index number theory to determine the precise nature of the weights. The paper concludes by defining measures of price dispersion that are appropriate for the test or economic approaches.


AB The paper gives a brief review of the nonparametric approach to efficiency measurement or Data Envelopment Analysis as it is known in the operations research literature. Inequalities are derived between the efficiency measures when different assumptions are made on the technology sets or on the behavior of managers. Of particular interest is the derivation of a Le Chatelier Principle for measures of allocative inefficiency. Finally, DEA methods for measuring the relative efficiency of production units are compared with the more traditional index number and econometric methods.

PD January 1996. TI Seasonal Commodity Prices, High Inflation and Index Number Theory. AA University of British Columbia. SR University of British Columbia, Department of Economics Discussion Paper: 96/06; Department of Economics, University of British Columbia, 1873 East Mall, Room 997, Vancouver, B.C. V6T 1Z1 CANADA. PG 77. PR 20 cents per page Canadian to other than educational institutions. JE B23, C43, D11, E31, M41. KW Aggregation of Commodities. Consumer Theory. Index Numbers. Inflation.

AB This paper studies the problems of measuring economic growth under conditions of high inflation. Traditional bilateral index number theory implicitly assumes that variations in the price of a commodity within a period can be ignored. In order to justify this assumption under conditions of high inflation, the accounting period must be shortened to a quarter, month or possibly a week. However, once the accounting period is less than a year, the problems of seasonal commodities is encountered (i.e., in some subannual periods, many seasonal commodities will be unavailable, and hence the usual bilateral index number theory cannot be applied). The present paper systematically reviews the problems of index number construction when there are seasonal commodities and high inflation. Various index number formulae are justified from the viewpoint of the economic approach to index number theory by making separability assumptions on consumers’ intertemporal preferences. We find that accurate economic measurement under conditions of high inflation is very complex. Statistical Agencies should produce at least three different types of index: (i) year over year “monthly” price and quantity indexes; (ii) a short term “month to month” price index of nonseasonal commodities and (iii) annual Mudgett-Stone quantity indexes that use the short term price index in (ii) to deflate the seasonal prices.


AB The paper discusses various sources of bias in the U.S. CPI. Available research indicates that the U.S. Consumer Price Index overstated inflation approximately 1.3 to 1.7 percent per year.

Dimelis, Sophia


AB This paper provides an analysis of the impact of economic reforms in the Central and East European countries (CCEECS) on Greece in terms of trade flows and investment activity. We make a number of key observations. We conclude that for the near future prospects of trade between Greece and the CEECS are very optimistic and that the pressures exercised by CEEC products on Greece’s exports in the Union’s market will rather be mild. Furthermore a new, dynamic regional market is emerging in the Balkans in which Greece is called to play a central role.
Dissanaike, Gishan

PD September 1994. TI Do Stockmarket Investors Overreact? The UK Evidence. AA Judge Institute of Management Studies and University of Cambridge. SR University of Cambridge. Discussion Papers in Accounting and Finance: AF8; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 29. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE G12, G14. KW Overreaction. Stock Market. Efficient Markets. Anomalies. AB This paper examines the evidence on the stock market overreaction hypothesis. The study is unique in the area because it is restricted to larger and better-known listed companies, whose shares are more frequently traded. This restriction minimizes the influence of bid-ask biases and infrequent trading, and reduces the possibility that reversals are primarily a small-firm phenomenon. The paper also investigates whether reversals can be explained by time-varying risk. They study employs unbiased methods of return computation and uses data from 1975 to 1991 for nearly 1000 UK companies. Overall, the evidence appears to be consistent with the overreaction hypothesis, subject to certain qualifications.

Donaldson, David

TI Income Inequality Measurement: The Normative Approach. AU Blackorby, Charles; Bossert, Walter; Donaldson, David. SR University of Cambridge. Discussion Papers in Accounting and Finance: AF24; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 29. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE G11, G14. KW Contrarian Strategies. Overreaction. Efficient Markets. Anomalies. Reversal Coefficient. AB This paper investigates the evidence on long-term stock price reversals in the UK, using cross-sectional regression techniques. Although a few studies have used regression techniques to identify evidence of reversals, there has surprisingly been little discussion about the implications of the chosen regression specification. We discuss the implications of two alternative specifications, and test them empirically. We demonstrate that the "conventional" model used in the overreaction literature embodies the assumption that price reversals are stronger for winners than for losers, a point which has not been recognized before. We also derive an alternative specification which assumes that price reversals are symmetric, but we find that the "conventional" model performs slightly better than this "derived" model- we interpret this to mean that price reversals for winners are indeed stronger than those for losers, contrary to what was thought in De Bondt and Thaler (1985). Overall, we find evidence of stock price reversals, even after controlling for time-varying risk and restricting the study to larger, listed companies (i.e., companies which are actively traded; more heavily regulated; and extensively analyzed by market commentators, analysts, and institutional investors).

Donaldson, John B.

TI Asset Pricing Implications of Real Market Frictions. AU Danthine, Jean Pierre; Donaldson, John B. SR University of Cambridge. Discussion Papers in Accounting and Finance: AF24; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 29. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE G15, G28. KW Capital Gains. International Lending. Capital Controls. AB This paper reviews recent theoretical and empirical work on controls over international capital movements. Theoretical contributions reviewed focus on "second best" arguments for capital market restrictions as well as arguments based on multiple equilibria. The empirical literature suggests that controls have been "effective" in the narrow sense of influencing yield differentials. But there is little evidence that controls have helped governments meet policy objectives, with the exception of reduction in the governments' debt service costs, and no evidence that controls have enhanced economic welfare in a manner suggest by theory.

Dove, C.

TI Finding the High Flying Entrepreneurs: A Cautionary Tale. AU Birley, S.; Muzyka, Daniel F.; Dove, C.; Rosell, D. SR University of British Columbia. Paarsch; University of British Columbia. PD November 1995. TI A Survey of Academic Literature on Controls Over International Capital Transactions. AA International Monetary Fund. SR International Monetary Fund. Working Paper: 95/127; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 38. PR not available. JE F34, G15, G28. KW Capital Gains. International Lending. Capital Controls. AB This paper reviews recent theoretical and empirical work on controls over international capital movements. Theoretical contributions reviewed focus on "second best" arguments for capital market restrictions as well as arguments based on multiple equilibria. The empirical literature suggests that controls have been "effective" in the narrow sense of influencing yield differentials. But there is little evidence that controls have helped governments meet policy objectives, with the exception of reduction in the governments' debt service costs, and no evidence that controls have enhanced economic welfare in a manner suggest by theory.
44 ABSTRACTS

G.

Doz, Y.
TI Strategy Formulation as Disciplined Imagination.
AU Szulanski, G.; Doz, Y.

Driver, Rebecca
PD January 1996. TI How Robust are FEERs?
AB Fundamental Equilibrium Exchange Rates, or FEERs, are defined as the real exchange rate which would prevail if the economy were to be in internal and external equilibrium. As such they have been widely used both for policy purposes and as a method of calculating the level to which the real exchange rate might tend in the medium run. This paper addresses the issue of the sensitivity of FEERs to changes in the assumptions underlying these calculations. We quantify the sensitivity of the FEER calculations to various parameters and inputs, and show that in many cases the changes induced in the FEER are large.

PD April 1996. TI European Monetary Union, Asymmetric Shocks and Inertia. AU Driver, Rebecca; Wren-Lewis, Simon. AA University of Exeter. SR University of Exeter, Department of Economics Discussion Paper: 96/07; Department of Economics, University of Exeter, Amory Building, Rennes Drive, Exeter Devon, EX4 4RJ, ENGLAND. PG 10. PR no charge. JE F33, F41, F42. KW European and Monetary Union. Asymmetric Shocks. Inertia.
AB This paper assesses the scale of the costs of European Monetary Union when shocks are asymmetric. This is done considering time consistent policies within a small theoretical two country model, with parameter values chosen from empirical work. The model builds on earlier work by incorporating a forward looking inflation mechanism. Our results suggest that there are significant costs associated with Monetary Union, particularly when fiscal policy is not used as a stabilization tool.

Dumenil, Gerard
PD September 1995. TI The Great Depression: a Paradoxical Event?
AB When considered from the viewpoint of the historical trends of technology and distribution, the Great Depression appear as a paradoxical event. It actually interrupted several very favorable trends: rapid growth of labor productivity, a rising profit rate, etc. We contend that the premature obsolescence of a large segment of the capital stock, in relation to this rapid technical progress, is a crucial factor in the analysis of the Great Depression. It explains how a recession was transformed into a depression in the early 1930s. New technical opportunities account for the rise of stock prices during the 1920s, but the effects of the collapse of October 1929 were corrected by the swift action of monetary authorities. The duration of the decline in output set in motion a financial crisis, at first a credit-supply crisis, i.e., a disruption of the willingness to lend. The banking system, due to increasing defaults. The Fed provided banks with reserves, but let the credit crisis develop into a banking crisis (the failure of banks).

Although the size of the problem to be tackled was quite unusual, the weaknesses of the existing institutional environment, including monetary institutions, must be acknowledged. A more daring thesis is then formulated which interprets the depression, at a higher level of abstraction, as a crisis expressing the difficult emergence of a new stage of Capitalism, Managerial Capitalism.

Dunn, Thomas A.
TI The Effects of School and Family Characteristics on the Return to Education. AU Altonji, Joseph G.; Dunn, Thomas A.

Dutta, S.

Easterly, William
TI Policy, Technology Adoption and Growth. AU Levine, Ross; Easterly, William; King, Robert; Rebelo, Sergio.

Eaton, Curtis
PD October 1995. TI Endogenous Cartel Formation.
AB This paper investigates, in a supergame framework, the endogenous formation of cartels in which cheating on the cartel agreement results in the ejection of the defector from the cartel while collusion continues amongst the non-cheating members. When firms produce heterogeneous goods and set prices, cartels comprising a small fraction of the industry’s firms are shown to be viable. The emergence of two or more cartels within the same industry is seen not only to be a distinct possibility but also to be quite likely.

Eaton, Jonathan
PD March 1995. TI Trade in Ideas: Patenting and Productivity in the OECD.
AB We develop and estimate a model of technological innovation and its contribution to growth at home and abroad. International patents indicate where innovations come from and
where they are used. Countries grow at a common steady-state rate. A country’s relative productivity depends upon its capacity to absorb technology. We estimate that, except for the United States, OECD countries derive almost all of their productivity growth from abroad.

Eftekhari, B.

PD November 1995. TI On the Characteristics of the Measures of Risk in Finance. AU Eftekhari, B.; Satchell, S. E. AA University of Cambridge. SR University of Cambridge, Discussion Papers in Accounting and Finance: AF19; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 24. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE G11, D81, C15. KW Risk Measures. Price Variance. Monte Carlo. AB The authors investigate the statistical properties of measures of risk, with a view to explaining the reasons for the lack of use in finance of risk measures other than the variance. They consider as their examples the semi-variance, the lower partial moment, the Gini, and the absolute deviation. They conduct a Monte Carlo study, generating random numbers, to study the behavior of these measures of risk. They also use bootstrap methods, by drawing random observations from real financial returns data, for the same purpose.

PD January 1996. TI International Investors’ Exposure to Risk in Emerging Markets: a Study Within and Between Major Currencies. AU Eftekhari, B.; Satchell, S. E. AA University of Cambridge. SR University of Cambridge, Discussion Papers in Accounting and Finance: AF20; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 30. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE G15, D81, O16. KW Risk. Developing Markets. AB In this paper the authors examine the difference in emerging market betas taken across four major currencies: US Dollars, Sterling, Yen, and German Marks. They find that the mean-variance betas are in the majority of cases statistically similar to lower partial moment betas. This suggests that the mean-variance betas are robust to the non-normality in the data. The difference between the two betas has also become less significant in recent years. The authors also present evidence that betas obtained from both risk measures, and calculated from returns denominated in different currencies, have the same ordinal association. They conclude that international investors can carry on using the mean-variance beta in assessing risk in emerging markets, though investors should not give it a conventional equilibrium interpretation.

Eichengreen, Barry

TI Can Foreign Aid Accelerate Stabilization? AU Casella, Alessandra; Eichengreen, Barry. PD June 1994. TI Institutions and Economic Growth: Europe After World War II. AA University of California, Berkeley. SR Centre for Economic Policy Research. Discussion Paper: 973; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 44. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE N10, N01, N20. KW Europe. Institutions. Growth. AB European economic growth in the quarter of a century that ended in 1973 outstripped growth in any period of comparable length before or since. The elements of Europe’s growth miracle -- wage moderation, high investment and rapid export growth -- were delivered by a tailor-made set of domestic and international arrangements — on the domestic side the social market economy, on the external side international agreements and supranational institutions — that solved problems of commitment and cooperation that would have otherwise hindered the resumption of growth.

TI Restraining Yourself: Fiscal Rules and Stabilization. AU Bayoumi, Tamim A.; Eichengreen, Barry. PD October 1994. TI The Geography of the Gold Standard. AU Eichengreen, Barry; Flandreau, Marc. AA Eichengreen: University of California, Berkeley. Flandreau: OCFE. SR Centre for Economic Policy Research. Discussion Paper: 1050; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 30. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE F02, F31, N10. KW Gold Standard. Bimetallism. International Monetary System. AB In this paper we chart the geography of the gold standard. We highlight the late date of the move to gold and the variety of transition strategies. Whether a country with a currency convertible into specie operated a gold, silver or bimetallic standard at mid-century depended not so much on whether it was rich or poor as on the monetary standard of the foreign country or countries to which its transactions were linked. When it came to the distinction between specie convertibility and inconvertibility, however, domestic economic conditions came into play. In particular, there was a strong correlation between economic development, as proxied by the level of per capita incomes, and possession of a convertible currency. Most countries went onto the gold standard between the 1870s and the first decade of the twentieth century. We enumerate the factors propelling this transition and analyze variations in its timing. Factors shaping the course of this transition include the level of economic development, the magnitude of reserves relative to world specie markets, whether reserves were concentrated at the central bank, and the presence or absence of imperial ties.

TI Is Regionalism Simply a Diversion? Evidence from the Evolution of the EC and EFTA. AU Bayoumi, Tamim A.; Eichengreen, Barry. Eisenhardt, K.M


Eiteljorge, Uwe

PD December 1995. TI The Uruguay Round and Net Food Importers. AU Eiteljorge, Uwe; Shielis, Clinton. AA International Monetary Fund. SR International Monetary Fund. Working Paper: 95/143; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 27. PR not available. JE F13, F15, F17. KW GATT. Agricultural Reform. AB This paper attempts to assess the incremental external financing requirements occasioned by changes in world food prices, due to implementation of the Uruguay Round Agreement on Agriculture, for a sample of 57 developing
countries. Based on estimates of changes in food prices due to the Round obtained in previous studies, and on detailed data on food trade by country and commodity, the present study shows that the increase in net food import costs are likely to be smaller than 4 percent of net food imports over a period of six years for the countries considered, although for some of the larger trading nations the effect may exceed US$10 million.

Elliott, Graham

AB This paper analyzes the transmission of shocks across countries and how the responses of investment and the current account differ depending on the degree of propagation of shocks. We explore both issues by estimating a structural model for the Japanese, German and US economies where productivity shocks propagate through trade. We find that there is a strong asymmetry in the propagation of shocks. Shocks to the US propagate quickly to the other two economies while German and Japanese shocks have little impact in other countries’ productivity. When we explore the responses of investment and the current account to each of the shocks, we find that productivity increases lead to domestic investment booms and current account deficits. However, we also find that foreign investment tends to react positively to productivity shocks, even when the shock is purely national. This result, that foreign investment does not decrease in response to productivity shocks, contradicts the predictions of a standard open-economy model with perfect capital mobility where, in response to country-specific shocks, domestic and foreign investment should move in opposite directions. We also find quantitative differences among the three countries in the behavior that their current account and investment growth rates show in response to domestic productivity changes. We interpret this result as evidence of different degrees of capital mobility among the countries in our sample.

Engsted, Tom

AB It is well-known that if the forcing variable of a present value (PV) model is an integrated process, then the model will give rise to a particular cointegrating restriction. In this paper we demonstrate that if the PV relation is exact, such that no additive error term appears in the specification, then the variables will be multi-cointegrated such that the cumulation of cointegration errors at one level of cointegration will coincide with the forcing variable. Multicointegration thus delivers a statistical property of the data that is necessary, though not sufficient, for this class of models to be valid. Estimation and inference of the model are discussed and it is shown that provided the PV relation is exact the discount factor of the model can be estimated with a rate of convergence that is faster than the usual super-consistent rate characterizing estimators in the cointegration literature. Finally, the paper is completed with two empirical analysis of PV models using term structure data and farmland data, respectively.

Escriva, Jose Luis

AB This paper aims to provide some sectoral estimates of the monetary transmission mechanism in Spain. Using a Vector Autoregressive (VAR) methodology, we look to trace through the effects of an exogenous monetary impulse upon the intermediate and final target variables of policy. Provided this mapping between (exogenous) instrument and (endogenous) intermediate and final variables is valid, such an exercise offers meaningful estimates of the size and speed of the effects of a monetary perturbation upon output and prices. And, as important from an intermediate target perspective, it is indicative of the dominant mechanisms through which monetary policy is propagated. Evidently, these issues are of direct policy relevance.

Estrada, Angel
TI Durable Consumption and House Purchases: Evidence From Spanish Panel Data. AU Bover, Olympia; Estrada, Angel.
PD not available. TI Investment and Financial Costs:
This paper analyzes the interrelatedness of investment and financial variables with a panel of Spanish manufacturing firms. The neoclassic model of investment is rejected due to its correlation with financial variables. Alternatively, an investment model in which there is a premium on the cost of external funds is accepted. This premium depends on the debt level and the asset structure of the firms and we estimate that it represents an average cost of 0.3 percentage points above the market interest rate. We find that recently established and small firms, because of their financial characteristics, have a higher premium cost, implying a discount rate between 0.5 and 1 percentage point below that of the remaining firms. Nevertheless, these additional costs are not significant at firms which distribute dividends in consecutive periods.

Fagnart, Jean-Francois

AB In a stochastic dynamic general equilibrium framework, we introduce the concept of variable capacity utilization (as opposed to the concept of capital utilization). We consider an economy where imperfectly competitive firms use a putty-clay technology and decide on their productive capacity level under uncertainty. An idiosyncratic uncertainty about the exact position of the demand curve faced by each firm explains why some productive capacities may remain idle in the sequel and why individual capacity utilization rates differ across firms. The capacity under-utilization at the aggregate level thus hides a diversity of microeconomic situations. The variability of the capacity utilization allows for a good description of some of the main stylized facts of the business cycle, propagates and magnifies aggregate technological shocks and generates endogenous persistence (i.e., the output growth rate displays positive serial correlation).

Faini, Riccardo

AB Policy-makers in European countries typically complain about the low level of labor mobility within Europe. At the
same time they appear to be increasingly concerned about growing migration pressures from outside the European Community. In this paper, we try to cast some light on the issues of both internal and external labor mobility. We investigate the link between migration and growth. We argue that in a relatively poor sending country, an increase in the wage will have a positive impact on the propensity to migrate (by providing the resources to enable a migrant to move), even if we control for the wage differential with the receiving country. Conversely, if the home country is relatively well off, an increase in the wage there will work towards a reduction in the pressure to migrate. Econometric estimation for Southern Europe over the period 1962-88 provides substantial support for our approach. We estimate the turning point in the migration-income link at around $4000 in 1985 prices. We predict, therefore, a steady decline in the propensity to migrate from South European countries. Similarly, our results highlight the possibility that the pressure to migrate from North African countries and other developing countries may increase with further growth.

Fatás, A.
TI International Business Cycles and the Dynamics of the Current Account. AU Elliott, Graham; Fatás, A.
AB We show that the presence of intermediate inputs magnifies the multiplier effects of pecuniary aggregate demand externalities in an imperfectly competitive model. In our setting, the presence of intermediate inputs is a necessary condition for the existence of multiple equilibria. Moreover, the range of parameter values for which multiple equilibria are possible is increasing in the share of intermediate inputs.

Fatás, A. AA Fatás: INSEAD. Metrick: Harvard University
AB This paper introduces an aggregate demand externality into a model of irreversible investment. The central result of the paper establishes the mechanism in which increases in uncertainty can lead to sub-optimal recessions. These inefficient outcomes occur even if agents are allowed to coordinate to the best possible equilibrium. The result is driven by the external effects of firms' investment decisions. The "no news can be good news" section draws an analogy between increases in uncertainty and improvements in the quality of information, with the conclusion that an improvement in information may also lead to a sub-optimal recession.

AB This paper shows that there exists a strong positive correlation between long-term growth rates and the persistence of output fluctuations in a cross section of countries. We argue that the traditional explanation of persistence, an RBC model with exogenous productivity shocks, cannot produce this correlation. We propose an explanation based on an endogenous growth model with exogenous cyclical shocks. We find that, despite the cyclical nature of the shocks, output fluctuations are persistent and the degree of persistence is an increasing function of long-term growth rates. Growth dynamics become an important component of the transmission of business cycles. We conclude that the analysis of economic fluctuations in models where technological progress is assumed to be exogenous can be misleading.
Fein, Adam J.

TI Incumbent Defense Strategies Against New Product Entry. AU Gatignon, Hubert; Robertson, Thomas S.; Fein, Adam J.


AB Why do firms in distribution channels agree to limit their dealings to a small subset of other firms? We propose a new theoretical rationale based on transaction cost reasoning that explains the paired existence of selectivity agreements in marketing channel relationships. Literature from marketing, economics, and law advance explanations that focus on one party in a relationship desiring some degree of exclusivity from the other. In contrast, we explicitly focus on the strategy and commitments. Selectivity agreements counterbalance exposure underorganizational relationship. We also consider the opportunity costs when a supplier limits itself to fewer distributors or when a distributor limits itself to fewer brands. Our model is estimated using dyadic data from 362 manufacturer-distributor relationships. The empirical results are broadly supportive of our framework.

Feldman, Maryann P.

TI Knowledge Spillovers and the Geography of Innovation and Production. AU Audretsch, David B.; Feldman, Maryann P.

Feldman, Robert A.


AB From 1976 to 1980, the International Monetary Fund sold by sealed-bid auctions one-fifth of its gold stock and systematically experimented with auction format. Based on data from these auctions, this paper uses nonlinear estimation techniques to estimate demand curves under the alternative formats. Demand schedules at the uniform-price auctions were steeper and to the right of those at discriminatory-price auctions, upholding the predictions of bidding theory. Moreover, it is estimated that discriminating-price auctions yielded lower revenue than uniform-price auctions; Monte Carlo simulations suggest that this latter result is both robust and statistically significant.

Feldstein, Martin


AB This paper reexamines the results of my 1974 paper on Social Security and saving with the help of an additional twenty-one years of data. The estimates presented here reconfirm that each dollar of Social Security wealth (SSW) reduces private saving by between two and three cents. The parameter estimates for the postwar period and for the entire sample since 1930 are very similar. The correction of the error in the original SSW series between 1958 and 1971 therefore does not affect the original results. The estimated effect of SSW is robust with respect to the addition of a variety of variables that have been suggested in previous critiques of the original study. In the aggregate, the parameter values imply that the Social Security program currently reduces overall private saving by nearly 60 percent.


AB The traditional method of analyzing the distorting effects of the income tax greatly underestimates its total deadweight loss as well as the incremental deadweight loss of an increase in income tax rates. Deadweight losses are substantially greater than these conventional estimates because the traditional framework ignores the effect of higher income tax rates on tax avoidance through changes in the form of compensation (e.g., employer paid health insurance) and through changes in the patterns of consumption (e.g., owner occupied housing). The deadweight loss due to the increased use of exclusions and deductions is easily calculated. Because the relative prices of leisure, excludable income, and deductible consumption are fixed, all of these can be treated as a single Hicksian composite good. The compensated change in taxable income induced by changes in tax rates therefore provides all of the information that is needed to evaluate the deadweight loss of the income tax. These estimates using TAXSIM calibrated to 1994 imply that the deadweight loss per dollar of revenue of using the income tax rather than a lump sum tax is more than twelve times as large as Harberger's classic estimate. A marginal increase in tax revenue achieved by a proportional rise in all personal income tax rates involves a deadweight loss of nearly two dollars per incremental dollar of revenue. Repealing the 1993 increase in tax rates for high income taxpayers would reduce the deadweight loss of the tax system by $24 billion while actually increasing tax revenue.

Fender, John

PD August 1995. TI Protection in a Dynamic Macroeconomic Model with Imperfect Competition. AU Fender, John; Yip, Chong K. AA Fender: University of Birmingham; Yip: Georgia State University, USA and Chinese University of Hong Kong. SR University of Birmingham, Department of Economics. Discussion Paper: 95/22;
Fernandez De Lis, Santiago

AB This article analyzes and compares the different indices that classify central banks on the basis of their autonomy. A number of aspects affecting central bank autonomy are listed and described. These aspects are compared with the facets of central bank independence actually included in the classifications, assessing their degree of coverage. Certain problems related to the elaboration of the indices are addressed. A comparison is also made of the results of the different classifications. Finally, the effect of the Maastricht Treaty-related institutional changes on the independence of EU central banks is estimated, showing a substantial upgrading in absolute and relative terms of this group of countries.

Ferrer, G.

TI The Undershoot of the Reorder Point: Tests of an Approximation. AU Baganha, M.P.; Pyke, D.F.; Ferrer, G.

Filder, R.

AB Replication is an important aspect of hard sciences in developing an objective knowledge base that the great majority of scientists can accept. In social sciences, however, replication has proved problematic. One of the exceptions has been the M-Competition whose calculations and conclusions have been replicated by many researchers. In order to extend the range under which extrapolative methods have been compared, this study examines a unique set of 263 series. Unlike the M-Competition data, they come from a single source containing series of similar characteristics (the same calendar, no seasonality, little randomness, and a downward sloping trend). The study shows that the conclusions of the M-Competition are still valid while at the same time it is found that Robust-Trend, a new method not used in the M-Competition, outperforms all other methods. In addition, the relative performance of exponential smoothing is shown to depend on the ways its parameters are optimized. The implications of these conclusions are discussed.

Fischer, Stanley
defining the goals of the central bank and its command in order to meet the targets assigned to it. The empirical evidence shows not only that greater independence is associated with lower inflation, but also that the central bank's rights not to finance the government and to set interest rates independently increase its effectiveness. The role of inflation targeting and the distinction between price level and inflation targeting are also analyzed.

Fisher, P.G
AB This paper presents an econometric analysis of M4 balances based on a split between the personal and corporate sectors. For the personal sector we find that simultaneous estimation of the demand for money and a consumption function yields encouraging results. The dynamic interaction of money and consumption may have an important role to play in explaining the recent behavior of both variables. Modelling the corporate sector's money holdings is more problematic. The endogeneity of interest rates cannot be ignored and corporate behavior is more likely to resemble the portfolio allocation than a traditional demand for money approach. Nevertheless, a relatively simple model can be estimated for corporate sector M4, which offers a starting point for future research.

Fishman, Arthur
TI The Frequency and Pricing of Product Innovations. AU Rob, Rafael; Fishman, Arthur.

Flam, Harry

Flandreau, Marc
TI The Geography of the Gold Standard. AU Engen, Barry; Flandreau, Marc.

Forbes, Catherine Scipione
AB This paper presents an information criteria based model selection procedure (called FIC) for choosing the variables to be used in a linear regression. The penalty function is based on sums of critical values from particular F-distributions which are related to the small sample probabilities of incorrectly including additional regressors. Results from a Monte Carlo simulation study demonstrate that the performance of this new procedure is competitive with other asymptotically motivated procedures, while providing the practitioner with controls over the desired small sample probabilities of correct selection. An alternative, somewhat simpler selection criterion based on an asymptotic distribution is presented and compared to the finite sample criterion. Conditions for strong consistency of this variable selection procedure based on an approximate penalty function are presented.

Frank, Jeff
TI Seniority, Earnings and Unions. AU Booth, Alison L.; Frank, Jeff.

Franses, Philip Hans
TI Multiple Unit Roots in Periodic Autoregression. AU Boswijk, Peter; Franses, Philip Hans; Haldrup, Niels.

Frey, Ruediger
AB This paper presents an information criteria based model selection procedure (called FIC) for choosing the variables to be used in a linear regression. The penalty function is based on sums of critical values from particular F-distributions which are related to the small sample probabilities of incorrectly including additional regressors. Results from a Monte Carlo simulation study demonstrate that the performance of this new procedure is competitive with other asymptotically motivated procedures, while providing the practitioner with controls over the desired small sample probabilities of correct selection. An alternative, somewhat simpler selection criterion based on an asymptotic distribution is presented and compared to the finite sample criterion. Conditions for strong consistency of this variable selection procedure based on an approximate penalty function are presented.

Frey, Ruediger
AB This paper analyses in what way the demand generated by dynamic hedging strategies affects the equilibrium prices of the underlying asset. To this end we first construct an economy in which prices are given by the classical Black-Scholes model. Then we introduce into this model additional traders who are implementing dynamic trading strategies as they are, for instance, prescribed by Black-Scholes theory. We derive an explicit expression for the transformation of market volatility under the impact of hedging. It turns out that market volatility increases and becomes price-dependent. The strength of the effects depend not only on the market share of portfolio insurance but also crucially on the heterogeneity of insured payoffs. Moreover we discuss in what sense hedging strategies calculated under the assumption of constant volatility are still appropriate if the feedback effect of their implementation on prices is taken into account.
Fry, Tim R.L.
TI Combining Choice Set Partition Tests for the Independence of Irrelevant Alternatives Properties: Size Properties in the Four Alternatives Setting. AU Brooks, Robert D.; Fry, Tim R.L.; Harris, Mark N.

Fujita, Masahisa
AB Cities are often viewed as places fostering employment. It is shown that the choice of a particular location within a city is a key factor for the creation of jobs by a new existing firm. This question is addressed in the context of a standard urban model in which existing firms are established at the city center and where workers compete in both the land and labor markets. The new firms is supposed to anticipate the impact of its location and wage decision on those two markets. Different urban configurations then emerge depending on the competitiveness of the existing firms in the labor market. More jobs are created as the firm sets up further away from the city center.

Fulghieri, Paolo
TI Why Include Warrants in New Equity Issues? A Theory of Unit IPOs. AU Chemmanur, Thomas J.; Fulghieri, Paolo.

Funk, Peter
AB This article studies the long-run direction of technological change in an endogenous growth model. Development is modeled as a sequence of temporary equilibria in an overlapping generations framework. We introduce a concept of "long-run efficient development" which excludes persistent inefficiencies. The concept is much weaker than short-run or long-run Pareto-efficiency and does not depend on our particular model. The main theorem of the article gives conditions on agents' expectations and preferences and on the evolution of innovation possibilities under which equilibrium development, guided by current prices and profit expectations, is long-run efficient.

AB We introduce a framework of development in which the direction of change is determined endogenously. Which new products, which new qualities and which new techniques are introduced in the course of development is determined by the profitability of different potential innovations. We define a concept of long-run efficiency of development which formalizes a widespread notion of "dynamic efficiency". The concept merely excludes persistent inefficiencies. We finally give conditions that guarantee long-run efficiency of laissez-faire development. This formalizes a popular claim about the dynamic efficiency of the market system, and, at the same time, makes more precise the limits to the claim.

AB In this article we show how absolute poverty and per capita growth can be sustained simultaneously in a fully integrated world economy even in the absence of population growth. In contrast to the literature, we use a model of endogenously sustained growth in which not only the intensity of progress is determined endogenously, but also the direction of change. The essential assumptions driving the results are that once a person has satisfied his basic needs, he prefers high-quality commodities to low-quality commodities and that innovation-possibilities within high-quality sectors are not unskilled-labor-using.

AB This article examines the validity of a gains from trade proposition in a world in which the direction of technological change is determined endogenously. We first give an extreme example in which a part of the world that would smoothly develop under autarchy forever remains underdeveloped under free trade. An assumption is then introduced, which excludes the example and guarantees that development under free trade dominates development under autarchy in the long-run. The assumption is closely related to the assumption of irreducible markets in Mackenzie [1959]. It requires the existence of a "closed scarcity chain" connecting tastes and endowments of all types of consumers. The results complement the classical gains from trade proposition that assumes the state of technological knowledge to be given.


AB This paper explores the impact of insatiable need on the sustainability and the direction of technological change and economic growth. In a simple framework it is shown that growth can only be sustained if either the opportunity costs of research are small at low levels of research or if some needs are insatiable. The first source of sustained growth (low opportunity cost of research) also enhances an efficient spread of growth over different technologies and commodities, while the second (insatiable needs) typically induces the "wrong kind" of growth. In connection with Keynes' essay "On the Economic Possibilities of our Grandchildren" (1931), we consider relative needs as the main source of insatiablety of needs.

Gaab, Werner

AB This paper first examines the role of monetary aggregates in monetary policy formulation in the UK and Germany over the past decade. It then compares the usefulness of simple-sum and Divisia broad money aggregates (indices) as indicators of economic conditions (output and prices/inflation) in each country using cointegration and causality analysis and error-correction modeling. In Germany, simple-sum M4 marginally outperforms its Divisia counterpart, whilst in the UK Divisia M4 significantly outperforms its simple-sum counterpart. This is attributed to the hitherto more rapid financial innovation in the UK and to measurement problems inherent in calculating Divisia monetary indices. It is recommended that attempts be made to overcome the latter and that more refined Divisia indices should be monitored along with their simple-sum counterparts so that divergences, which often appear to contain useful information, can be subjected to scrutiny.

Gaba, Anil

AB Subjective risk perceptions are often encoded as 0-1 questions in surveys or other qualitative risk scales. However, reference points for assessing an activity as risky are confounded by various characteristics of the respondents. This paper uses a sample of workers for whom quantitative risk assessments as well as dichotomous risk perception responses are available. It is shown that, given a quantitative risk measure, the thresholds for assessing an activity as risky vary systematically, particularly by education. The differences in such thresholds across worker groups are estimated. The resulting implications of using qualitative risk variables for assessing wage-risk tradeoffs are estimated, yielding results which are also relevant for many other areas involving similar qualitative variables.

Gabel, H.L


AB This paper studies the link between environmental audits and employee compensation. The context is a one-period principal-agent relationship where the risk-averse agent must allocate effort between financial and environmental tasks. The former are routinely monitored while the latter are audited (at some cost) only under specific circumstances. We find that the optimal wages have a lower mean and a greater variance when there is an environmental audit than when there is not. This is attributed to the hitherto more rapid financial innovation in the UK and to measurement problems inherent in calculating Divisia monetary indices. It is recommended that attempts be made to overcome the latter and that more refined Divisia indices should be monitored along with their simple-sum counterparts so that divergences, which often appear to contain useful information, can be subjected to scrutiny.

Galbis, Vincente


AB This paper examines financial sector reforms in eight developing countries--Argentina, Bulgaria, Ecuador, Egypt, India, Kenya, Tanzania, and Uganda--and derives general lessons from their experience. The paper reviews the initial situation of these countries; describes the financial sector (and related) reforms carried out, including sequencing issues, and points out the unresolved questions; and examines the effects of reforms on monetary control and financial development, investment and growth and the efficiency of financial intermediation. The main recommendations are the need to persevere with macroeconomic stabilization through indirect...
monetary policy instruments, and the need to substantially strengthen prudential regulation and supervision and restructure and privatize or liquidate ailing financial institutions.

Galetovic, Alexander
PD March 1994. TI Financial Intermediation, Resource Allocation, and Long-Run Growth. AA Princeton University and Centro de Economia Aplicada. SR Princeton University, Woodrow Wilson School Discussion Paper in Economics: 178; Woodrow Wilson School, Robertson Hall, Princeton University, Princeton, NJ 08544. PG 30. PR no charge. JE G10. G20. E44. O16. O40. KW Financial Intermediation. Financial Development Path. Frictions. Intangible Assets. Long-Run Growth. AB I present an endogenous growth model to study the role that financial intermediaries play in the mechanics of long-run growth. Under the premise that frictions in credit markets are important I show that: (a) financial innovations that improve the static efficiency of the economy or foster the accumulation of physical capital may retard long-run growth; (b) the allocation of short-term loans may be as important for growth as the allocation of long-term loans; (c) low-quality financial services or sufficiently large intermediation costs can bring growth to a halt. I conclude that while finance is not an engine of growth, it clearly plays more than a passive role in the mechanics of growth.

Gali, Jordi
TI Sources of Real Exchange Rate Fluctuations: How Important are Nominal Shocks? AU Clarida, Richard; Gali, Jordi.

Galar, Oded
PD June 1994. TI Human Capital Distribution. Technological Progress, and Economic Growth. AU Galar, Oded; Tsiddon, Daniel. AA Galor: Brown University. Tsiddon: The Hebrew University of Jerusalem. SR Centre for Economic Policy Research, Discussion Paper: 971; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 43. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE D31. O41. KW Income Distribution. Human Capital. Growth. Overlapping Generations. Kuznets Hypothesis. AB This paper analyzes the interaction between the distribution of human capital, technological progress, and economic growth. It demonstrates the significant role of the distribution of human capital in the process of economic development. The evolutionary pattern of the human capital distribution, the income distribution and economic growth are determined by the interplay between a local home environment externality and a global technological externality. In periods during which the home environment externality is the dominating factor, the distribution of human capital becomes polarized, whereas in periods during which the global technological externality dominates, convergence ultimately takes place. The study suggests that a poor uneducated economy which values equity as well as prosperity may confront a trade-off between equity in the short run and equity and prosperity in the long run. An economy that prematurely implements a policy designed to enhance equality may be trapped at a low output equilibrium.

Galor, Oded
PD August 1995. TI The Evolution of Intracorporate Domains: Divisional Charter Losses in High Technology, Multidivisional Corporations. AU Galor, D.C.; Eisenhardt, K.M. AA Galor: INSEAD. Eisenhardt: Stanford University. SR INSEAD, Working Papers: 95/75/OB/SM; INSEAD, Boulevard de Constance, Fontainebleau, 77305 Cedex, FRANCE. PG 55. PR not available. JE D23. L22. KW Evolution. Strategic Process. Multidivisional Firm. Organizational Structure. Organizational Change. AB Modern corporations have become synonymous with the multidivisional form of organization. Various interdependent divisions are "chartered" to look after one or more business areas, in effect defining the "turf" of the division and its purpose within the corporation, and collectively defining the corporate domain. However, once created, these divisional charters should not be regarded as rigid: they are susceptible to change. Particularly in fast-paced environments, such as in high technology industries, divisional charters are liable to change as divisions add or subtract businesses to their charter responsibilities. These charter changes are seen as an adaptive device for large, multidivisional corporations in fast-paced environments. This paper presents a process model of how divisions change their domains in hypercompetitive contexts, focusing on the specific question of how divisions lose all or portions of their business charters. The paper is based on a larger inductive study of charter changes in 10 divisions, both domestic and foreign, of a large, multinational, high technology corporation. Data were collected over an 18 month period and included formal interviews, questionnaires, company documents, group interviews, media publications and direct observations of strategy formation sessions. Over 80 informants were interviewed across several managerial levels. Our data revealed three distinct patterns and logics of charter loss depending upon what phase of core business development a division found itself: (1) Divisions starting up new core businesses lost these charters because of a combination of their failure in the new area and competition with other divisions in the company -- the process revealed a competitive market for new charters; (2) Divisions rapidly growing new core businesses lost peripheral business areas in order to focus on the core business -- the process emphasized a focus logic for charter change; finally (3) Divisions with mature charter areas were found to shed their core business areas because of an emerging misfit between their skills and culture and the nature of competition in the industry -- the process emphasized the emerging nature of corporate misalignment and the abrupt charter changes that can follow. This paper contributes to organizational theory by exploring the evolution of large, diversified corporations, focusing on the organizational responses to fast-moving, competitive environments. It also contributes to strategy by revealing a "Re-combinant" multidivisional organizational form, by which timely charter changes can be used by large corporations to keep pace in these turbulent contexts.

Gatignon, Hubert
TI Order-of-Entry and the Diffusion of Trials in a New Category. AU Parker, Philip M.; Gatignon, Hubert.

TI Development Mode: A Transaction Cost
Conceptualization. AU Robertson, Thomas S.; Gatignon, Hubert.

TI Order of Entry as a Moderator of the Effect of the Marketing Mix on Market Share. AU Bowman, D.; Gatignon, Hubert.


AB See the abstract for Gatignon and Vanden Abeele (1995). INSEAD Working Papers, 95/40/MKT.


AB This research seeks to understand which of three different strategic orientations of the firm (customer, competitive, and technological orientations) is more appropriate, when, and why, in the context of developing product innovations. We propose a structural model of the impact of the strategic orientation of the firm on the performance of a new product. This impact is hypothesized to occur as a chain of events. Strategic orientation is viewed first as an antecedent of the characteristics of the innovation marketed by the firm. The subsequent market performance of the innovation is hypothesized to be a function of both the innovation's characteristics and the firm's strategic orientation. The ability of the firm to take advantage of its orientation to market the innovation successfully is also hypothesized to be moderated by the firm's environment. The results provide evidence for best practices as follows: (1) A firm wishing to develop an innovation superior to the competition must have a strong technological orientation. (2) A competitive orientation in high growth markets is useful because it enables firms to develop innovations with lower costs, a critical element of success. (3) Firms should be consumer oriented and technology oriented in markets where demand is relatively uncertain. These orientations together lead to products which perform better, and the firm will be able to market innovations better, thereby achieving a superior level of performance. (4) A competitive orientation is useful to market innovations when demand is not too uncertain but should be de-emphasized in highly uncertain markets. In short, these results suggest that the appropriateness of a given strategic orientation, even a customer orientation, is not unconditional.

Gatignon, Hubert


PD June 1995. TI Incumbent Defense Strategies Against New Product Entry. AU Gatignon, Hubert; Robertson, Thomas S.; Fein, Adam J. AA Gatignon: INSEAD.

AB See the abstract for Gatignon and Xuereb (1995). INSEAD Working Papers, 95/60/MKT.

Geroski, Paul

TI Trade with Central and Eastern Europe: The Case of Greece. AU Dimelis, Sophia; Gatsios, Konstantine.

AB The objective of this study is to estimate the effectiveness of different defense strategies when faced with a new product introduction by a competitor. Using a sample of incumbents across a wide range of industries, we find that faster reactions to the new entrant have a positive impact on the perceived success of the defense strategy. However, the greater the breadth of reaction (number of marketing mix instruments used), the less successful the defense. The ability of an incumbent to maintain its market position is also significantly affected by industry characteristics and the degree of competitive threat posed by the entrant.


AB In this paper, we estimate a dynamically recursive model of the relationship between innovations, patents and cash flow. Our results suggest that (i) lagged patents are significant predictors of current innovation, but lagged innovations do not affect the conditional expectation of current patents; (ii) patents are influenced primarily by advances in the science base as measured by R&D intensity and spillovers, while innovations are more sensitive to cash flow or demand shocks; (iii) innovations have a greater impact on cash flow than patents; and, finally, (iv) both patents and innovations show strong history dependence. We use our model to simulate the effects of spending 500 million pounds on any one of three different types of government policies (non-discretionary R&D subsidies, cuts in corporate tax and stimulation of macroeconomic demand growth) on the innovative activities of firms. These simulations suggest that the role for state intervention in promoting technological advance is decidedly limited.

Ghosh, Atish R.


AB The effect of the exchange rate regime on inflation and growth is examined. The 30-year data set includes over 100 countries and nine regime types. Pegged regimes are associated with lower inflation than intermediate or flexible regimes. This anti-inflationary benefit reflects lower money supply growth (a discipline effect) and higher money demand growth (a credibility effect). Output growth does not vary significantly across regimes: Countries with pegged regimes invest more and are more open to international trade than those with flexible rates, but they experience lower residual productivity growth. Output and employment are more variable under pegged rates than under flexible ones.

Ghura, Dhaneshwar


AB The paper investigates empirically the determinants of economic growth for a large sample of sub-Saharan African countries during 1981-92. The results indicate that (i) an increase in private investments has a relatively large positive impact on per capita growth; (ii) growth is stimulated by public policies that lower the budget deficit in relation to GDP (without reducing government investment), reduce the rate of inflation, maintain external competitiveness, promote structural reforms, encourage human capital development, and slow population growth; and (iii) convergence of per capita income occurs after controlling for human capital development and public policies.

Giddy, I.


AB A prerequisite for the development of an integrated international equity market that permits investors to achieve optimum asset-allocation and corporations to tap pools of capital most efficiently is a supportive transactions infrastructure comprising the clearance, settlement, payment and custody of cross-border. This infrastructure is the "plumbing" of the market, a structure that is composed of many different parts that must operate as a seamless and integrated system in order to achieve maximum efficiency for the end-users and thus promote the ultimate objective, optimum capital allocation. Blockages and discontinuities in the utilities that comprise the transactions infrastructure make themselves felt in the form of increased transaction costs. At present, Europe, notably the EU, falls far short of having a functional transactions infrastructure for equity securities, and this will remain an important shortcoming as other dimensions of financial integration proceed. This paper enumerates these shortcomings, identifies benchmarks for their alleviation, and evaluates the pros and cons of specific models for a high-performance European approach to this issue.

Gilli, Mario


AB This paper proposes a general model of repeated strategic interaction with possibly private information, which is particularly suitable for studying learning processes. In this context, the author analyzes the asymptotic behavior of Bayesian rational players facing strategic uncertainty, showing the need for stationarity assumptions so that the individual inference problem could become soluble within the structure of rational learning models. The author then proves convergence to Conjunctural Equilibria of the component game. The emphasis of the paper is thus on how to model rational learning in game theory and on the notion of equilibrium for imperfect monitoring games.
Gilo, David
AB This paper investigates the role of partial ownership of and by an oligopolist as a strategic device to facilitate tacit collusion. The paper discusses partial ownership as a decision variable in the hands of the firms, and as not an exogenous parameter, as in previous literature. Once partial ownership is acknowledged as a decision variable, it is unambiguously shown that it improves the prospects of sustaining tacit collusion. Moreover, it will be shown how a firm’s controller who partially owns a competing firm can further facilitate tacit collusion by selling out part of her own firm’s stock. The analysis concentrates on a Bertrand model with and without cost asymmetries. It will also be demonstrated how the qualitative results of the paper carry over to the Cournot framework as well.

Giulietti, Monica
AB This paper investigates the determinants of price dispersion between staple and non-staple goods in grocery retailing, as the result of pricing decisions of multiproduct firms. Contradictory theoretical predictions about the nature of supermarkets’ pricing behavior are compared by highlighting the main underlying behavioral assumptions. These theoretical predictions are tested empirically using disaggregated data from the Italian grocery trade. The empirical results provide evidence for the existence, in all types of retail organization, of dispersion between staple and non-staple goods in grocery retailing. The empirical results are consistent with discrimination due to the exploitation of customers’ switching costs.

Gjerstad, Steven
AB Markets have the capacity to resolve complex coordination problems. Hayek (1945) asked how privately held market information is organized through the trading process to arrive at competitive equilibrium. We propose strategies for sellers and buyers in a double auction (DA) market that result in transaction prices at or near competitive equilibrium in a variety of market environments. A large experimental literature documents convergence in many market environments to competitive equilibrium, but the theoretical literature treating the bargaining behavior in this institution is relatively small, and the models presented to date do not account for the many regularities observed in the data from experiments. We provide a model that accounts for several important regularities of double auction data. We model an informationally decentralized decision making procedure for sellers and buyers. Sellers form beliefs that an ask will be taken by some buyer. Similarly, buyers form beliefs that a bid will be taken by a seller. These beliefs are formed on the basis of observed market data, including frequencies of asks, bids, accepted asks, and accepted bids. Then traders choose an action that maximizes their own expected surplus. While traders in this model form beliefs about the probability that a given action they choose will result in a transaction, they have no beliefs about the types (costs or valuations) or strategies of other traders. The trading activity resulting from these beliefs is sufficient to achieve transaction prices near competitive equilibrium and complete market efficiency after several periods of trading.

Glower, Michel
AB This study considers the role that seller motivation plays in determining sales price and selling time. We find that sale prices are directly related to the estimated value of the property and to the amount of over-pricing, which is directly related to the seller’s level of motivation. Further, a seller who has a planned date of move will over-price less (set lower list prices relative to market value) and sell more quickly than a seller with no definite move data. A seller who is willing to move later will over-price more and sell more slowly than a seller who wants to move sooner.

Gonzalez-Paramo, Jose M.
AB This study considers the role that seller motivation plays in determining sales price and selling time. We find that sale prices are directly related to the estimated value of the property and to the amount of over-pricing, which is directly related to the seller’s level of motivation. Further, a seller who has a planned date of move will over-price less (set lower list prices relative to market value) and sell more quickly than a seller with no definite move data. A seller who is willing to move later will over-price more and sell more slowly than a seller who wants to move sooner.

Gonzalo, Jesus
TI Multicointegration and Present Value Relations. AU Engsted, Tom; Gonzalez, Jesus; Haldrup, Niels.
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Goodhart, Charles
Banks, European Union. 
AB The paper discusses the way in which the strategy and tactics of monetary policy are being articulated at present in Europe and other countries. This is done in a context where price stability has become the primary objective of monetary policy and where an increasing number of central banks are being given increasing autonomy to pursue this goal.

Gourieroux, Christian 
AB We consider different test statistics based on integrated quadratic forms measuring the proximity between a kernel estimator of a function and the function's null-hypothesis value, or between the kernel estimator and its expected value computed under the null. We compare their asymptotic local power functions, and discuss the possibility to obtain unbiased tests. Finally we explain how to obtain kernel-based goodness of fit tests, which are asymptotically locally uniformly most powerful (LUMPJ) for testing the null against a parametric hypothesis including the null.

Gowers, Robin 
AB This paper examines the effects on wages and employment of the minimum wage in agriculture in the United Kingdom during the interwar period. We find that the impact of the minimum wage was to raise the wage for agricultural laborers by 13 percent when it was (re)introduced in 1924, by 15 percent in the late 1920s, and by more than 20 percent in the 1930s. The effect on farm employment was to reduce it by about 54,000 (6.5 percent) in 1929 up to a peak of 97,000 (13.3 percent) in 1937. The minimum wage lifted many families of farm laborers who remained employed out of poverty, but it significantly lowered the incomes of farmers, particularly during the 1930s.

Grada, Cormac O. 
TI Irish Economic Growth, 1945-88. AU O'Rourke, Kevin; Grada, Cormac O. 

Granger, Clive W. J. 
AB The notion of separation in cointegrated systems helps to identify possible sub-system structures that may reduce the complexity of larger systems by yielding a more parsimonious representation of the time series. In this paper we demonstrate that although the sub-system cointegration analysis in such systems can be conducted in case of both completely and partially separated systems, the dual approach (i.e., calculation of the common stochastic trends) may turn out to yield properties of the trends that differ depending upon the type of separation under consideration. In particular, we demonstrate how persistent-transitory decompositions and long- and short-memory factorizations of a multivariate time series will be affected when considering different types of separation. Generalizations to non-linear error correction models are also discussed.

Green, David A. 
AB Immigration may contribute to a host economy, to the extent that immigrant skills are complementary to those of the native born, by reducing wage variability and aiding in growth. Further, if immigrants are particularly mobile across occupations, then they may improve the efficiency of the economy in responding to future demand and technology shocks even if no new immigration occurs. This study provides evidence on these potential contributions by comparing immigrant and native born male occupational distributions in Canada in 1981, 1986 and 1991. The paper centers around three main questions, first, do immigrants differ from the native born in their occupational distribution just after arrival and in subsequent years, and if so, how? Second, are immigrants more occupationally mobile than the native born over time, in the sense of having greater changes in their occupational distribution? Third, how do immigrant occupational choices and mobility relate to observable characteristics that are used in the immigrant selection process? Results indicate that immigrants are in more skilled occupations relative to the native born, as measured by their intentions at time of landing, but that this difference is declining across successive cohorts. Immigrants are much more occupationally mobile than the native born even after substantial time in Canada, indicating that immigration may be a valuable resource in contributing to a more flexible labor force. Immigrants who are not assessed on their skills when they enter or are not fluent at time of arrival tend to be in less skilled occupations and to be less occupationally mobile. Thus, there is a significant role for immigration policy to shape the economic benefits from immigration.
PD November 1995. TI Unemployment Insurance and Job Durations: Seasonal and Non-Seasonal Jobs. AU Green, David A.; Sargent, Timothy C. AA University of British Columbia. SR University of British Columbia, Department of Economics Discussion Paper: 95/47; Department of Economics, University of British Columbia, 1873 East Mall, Room 997, Vancouver, B.C. V6T 1Z1 CANADA. PG 55. PR 20 cents per page Canadian to other than educational institutions. JE J65, J64, C41. KW Job Duration. Unemployment Insurance. Hazard Models.

AB We use regional and individual variation in unemployment insurance (UI) parameters to estimate the impact of UI incentives on job durations. In doing so, we distinguish between seasonal and non-seasonal jobs. This is done in part because of differing theoretical predictions for UI incentive effects in the two types of jobs and in part because one may want to design different UI related policies for agents for whom the timing of layoffs is known in advance. Further, seasonal workers and firms interact with the UI system repeatedly and thus may be most capable of adjusting their behavior to it. We find evidence of substantial tailoring of job durations to UI incentives in seasonal but not non-seasonal jobs. Even for seasonal jobs, we find that adjusting the parameters of the existing UI system has only small impacts on average job duration apart from jobs in high unemployment regions. Lengthening the UI entrance requirement leads to some jobs being extended but also results in creation of more very short jobs. Thus, policies that adjust the parameters of the current UI system without affecting the proportion of jobs that are seasonal are unlikely to have substantial effects in altering average job lengths and may lead to the creation of more short, unstable jobs.

Grodal, Birgit

TI Profit Maximization, Relative Prices, and the Maximization of Shareholders’ Real Wealth. AU Dierker, Egbert; Grodal, Birgit.

TI The Price Normalization Problem in Imperfect Competition and the Objective of the Firm. AU Dierker, Egbert; Grodal, Birgit.

Grossman, Gene M.


AB This paper makes the case that purposive, profit-seeking investments in knowledge play a critical role in the long-run growth process. First, we review the implications of neoclassical growth theory and the more recent theories of "endogenous growth." Then we discuss the empirical evidence that bears on the modeling of long-run growth. Finally, we describe in more detail a model of growth based on endogenous technological progress and discuss the lessons that such models can teach us.

Griffith, Rachel

TI Market Share, Market Value and Innovation in a Panel of British Manufacturing Firms. AU Blundell, Richard; Griffith, Rachel; Van Reenen, John.

Griliches, Zvi


AB Some aspects of the econometric estimation of production functions are discussed, focusing primarily on the issue of simultaneity and reviewing the stream of criticisms of Douglas's work and the response to it. We look in particular at the work that uses panel data on micro data for plants or firms and at some more recent multi-equation models. We find that researchers, in trying to evade the simultaneity problem, have shifted to the use of thinner and thinner slices of data, exacerbating thereby other problems and misspecifications. We describe the need for better data, especially on product prices at the individual observation level and on relevant cost and demand shifters, and for better behavioral theories which would encompass the large amount of heterogeneity observed at the micro level.

Grodal, Birgit

TI Profit Maximization, Relative Prices, and the Maximization of Shareholders’ Real Wealth. AU Dierker, Egbert; Grodal, Birgit.

TI The Price Normalization Problem in Imperfect Competition and the Objective of the Firm. AU Dierker, Egbert; Grodal, Birgit.

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AB Suppose that an opportunity arises for two countries to negotiate a free trade agreement (FTA). Will an FTA between these countries be politically viable? And if so, what form will it take? We address these questions using a political-economy framework that emphasizes the interaction between industry special interest groups and an incumbent government. We describe the economic conditions necessary for an FTA to be an equilibrium outcome, both for the case when the agreement must cover all bilateral trade and when a few, politically sensitive sectors can be excluded from the agreement.


AB Using data assembled by the Global Environmental Monitoring System we examine the reduced-form relationship between various environmental indicators and the level of a country's per capita income. Our study covers four types of indicators: concentrations of urban air pollution; measures of the state of the oxygen regime in river basins; concentrations of fecal contaminants in river basins; and concentrations of heavy metals in river basins. We find no evidence that environmental...
quality deteriorates steadily with economic growth. Rather, for most indicators, economic growth brings an initial phase of deterioration followed by a subsequent phase of improvement. The turning points for the different pollutants vary, but in most cases they come before a country reaches a per capita income of $8,000.


AB This paper uses panel data from the Aerometric Information Retrieval System maintained by the U.S. Environmental Protection Agency to study the relationship between the composition and level of local economic activity and concentrations of six criteria pollutants in counties across the United States. We relate ambient air quality at a monitoring station to a cubic function of current county income, a cubic function of lagged county income, the percentage of earnings deriving from different sectors of the economy, and other variables. We find that the composition of output significantly affects local air quality but that changes in the composition do not account for the observed relationship between output levels and pollution. We discuss the various measurement problems that we confronted in trying to estimate the nature of the relationship between income and pollution.

Groth, Christian

AB The paper investigates optimal taxation in a model where growth is the combined effect of public R&D and private human capital accumulation. A tax smoothing formula is called for. This leads to a long-run debt-income ratio related to the initial configuration of the stocks of technical knowledge, human capital and physical capital.

Grover, Philip

AB It is commonly accepted that the decline of the West's woollen industry was in large part due to the greater employment of steam power by the Yorkshire industry. Using the account books of the Stroudwater Canal Company, the article examines the role of the Stroudwater Canal in bringing coal to the mechanizing woollen industry in the Stroudwater region of the Gloucestershire industry. It is shown that distance was not the main factor in the movement of coal, but that toll levels were more important. The article shows that the toll levels significantly affected the amount of steam power employed in the Gloucestershire woollen industry and that the Stroudwater Canal Company therefore played a significant role in the industry's decline during the early nineteenth century.

Gruber, Jonathan
TI Health Insurance Eligibility, Utilization of Medical Care, and Child Health. AU Currie, Janet; Gruber, Jonathan.

AB Despite the growing reliance on payroll taxation worldwide, there is limited evidence on the incidence of payroll taxes. I provide new evidence by examining the experience of Chile before and after the privatization of its Social Security system. This policy change led to a sharp exogenous reduction in the payroll tax burden on Chilean firms; the average payroll tax rate in my sample fell from 30 percent to 5 percent over this six year period. I use data from a census of manufacturing firms, which contains information on firm specific tax payments and average wages. I find strong evidence that the incidence of payroll taxation was fully on wages, with no effect on employment. A potential weakness with this approach is that some of the variation in firm-specific tax rates may be spurious, for example due to measurement error in wages. I attempt to surmount this problem by using a variety of different estimators, all of which yield consistent evidence of full shifting.

Gruen, David
TI Price Stickiness and Inflation. AU Lawrence, Richard De Abreau; Gruen, David.

Gual, Jordi
TI Trade and Foreign Direct Investment with Central and Eastern Europe: Its Impact on Spain. AU Martin, Carmela; Gual, Jordi.

Guerre, Emmanuel
TI The Limit Distribution of Level Crossings of a Random Walk, and a Simple Unit Root Test. AU Burridge, Peter; Guerre, Emmanuel.

Gulde, Anne-Marie
TI Does the Nominal Exchange Rate Regime Matter? AU Ghosh, Atish R.; Gulde, Anne-Marie; Ostry, Jonathan D.; Wolf, Holger C.

Gunnarsson, Jan
Expectations, Learning, Firm Behavior.

AB This paper extends learning concepts developed in economics to take into account the fact that agents are not fully rational. Contrary to scholars who model individuals as if they know the equilibrium relationships between market prices and private signals, a dynamic process is proposed, by means of which beliefs about macroeconomic properties are acquired. At the center of concern is the formation of expectations in business firms. A perspective on the kind of decision discussed in this paper will refer to bounded rationality and Standard Operating Procedures. Learning in enterprises is analyzed in terms of ongoing reasoning processes, which, unlike the maximizations based on classical definitions of mathematical concepts, are framed by common sense concepts.

Gunning, Jan Willem

TI Trade Policy and Regional Integration: Implications for the Relations between Europe and Africa. AU Collier, Paul; Gunning, Jan Willem.

Gutierrez, J.M


AB This paper explores the properties of alternative measurement systems in financial accounting, using deductive methods supported by mathematical proofs. It extends the earlier analysis of Gutierrez (1990 and 1992) to complete accounting systems and explores the temporal consistency of such systems. Temporal consistency requires two properties: perdurability and valuation neutrality. Of the systems studied, only pure historical cost accounting satisfies these criteria.

Haaland, Jan I.


AB Using a numerical general equilibrium model we examine the possible production, trade and welfare effects of successful implementation of the Uruguay Round results. The model includes trade in manufactures and (some) services among industrial regions and countries; there is imperfect competition in most markets in the model, and we account for reductions in both tariffs and non-tariff barriers (NTBs). Our results indicate that the welfare effects of the liberalization we consider (i.e. ignoring both agriculture and trade with developing countries) may be fairly limited. Compared with a scenario of GATT failure and global protectionism, on the other hand, the gains are significant, and we conclude that the Uruguay Round plays an important role in avoiding a trade war in manufactures. We also show that the dynamic effects through endogenous growth might be just as important as the static effects reported.

Hadjimichael, Michael T.

TI Growth in Sub-Saharan Africa. AU Ghura, Dhaneshwar; Hadjimichael, Michael T.

Hadri, Kaddour


AB This paper investigates whether there is any relationship between farm size, technical efficiency and the use of agrichemicals which are potentially environmentally contaminating. These questions are pertinent in the context of current EU policy decisions. Using two models of stochastic frontier production and a set of panel data on 35 farms from the South West of England for the years 1987-1991, we obtain an indication, that there is a positive, though weak relationship between technical efficiency and use of contaminants, and between technical efficiency and farm size. However, there is a negligible negative relationship between farm size and use of contaminants.

Hagemann, Robert P.


AB Generational accounts provide answers to a simple question: how much will future generations have to pay in net taxes as compared to today's generations? In this paper, we review the concept of generational accounting and provide estimates for Sweden, where public finances deteriorated substantially after 1990. Accounts are computed on the basis both of policies in place in September 1994 and of subsequent measures adopted before end-1994. The results suggest that the measures will improve significantly the relative position of future generations, who would nevertheless continue to face a large net tax burden.

Haldane, Andrew G.

TI Volatility Transmission Along the Money Market Yield
Restoy, Fernando. 
TI The Interest Rate Transmission Mechanism: Sectorial Estimates for Spain. AU Escriva, Jose Luis; Haldane, Andrew G.

Haldrup, Niels 
TI Multicointegration and Present Value Relations. AU Engsted, Tom; Gonzalo, Jesus; Haldrup, Niels.

TI Estimating the LQAC Model With I(2) Variables. AU Engsted, Tom; Haldrup, Niels.

TI Multiple Unit Roots in Periodic Autoregression. AU Boswijk, Peter; Franses, Philip Hans; Haldrup, Niels.


Hallett, Andrew Hughes 
TI Unification and the Policy Predicament in Germany. AU Ma, Yue; Hallett, Andrew Hughes; Melitz, Jacques.

Halpern, Laszlo 

AB The paper investigates the comparative advantage of Central and East European Countries (CEECs) through the analysis of commodity patterns of foreign trade. Due to rapid changes in production and trade structures the revealed comparative advantage may reflect both the old and the emerging capacities. Hence, outward processing trade, labor cost, human capital and foreign direct investment are also treated to assess the likely future trade pattern.

Hansen, Henrik 

AB We study the Danish unemployment experience 1905-92 using a multivariate common trends model with cointegration constraints. To interpret the empirical results we analyze a simple macroeconomic model of the labor market. The empirical results indicate that there are three cointegration relations and two common trends among the five variables we examine, and the economic model suggests that the trends are due to technology and labor supply. Moreover, Danish unemployment appears to be nonstationary. Based on the identifying assumption of constant returns to scale in production, from the empirical common trends analysis we find that shocks to labor supply are the source behind hysteresis in unemployment.

Hansen, Lill 
TI Public Policy and Economic Growth in an Imperfectly Competitive World of Interdependent Economies. AU Blackburn, Keith; Hansen, Lill.

Hansen, Nico A. 

AB We present a general equilibrium model of imperfect competition to analyze Rosenstein-Roden's idea of the "Big Push". Simultaneous investment of many sectors of the economy can be profitable for everyone although no sector can break even industrializing alone. The mechanism that generates such multiple macroeconomic equilibria is a demand spillover that influences how factor-saving the chosen production technologies are. Contrary to the existing "Big Push" literature, we show that pure profit spillovers can cause multiple equilibria. Equilibria with modern technologies are preferable to others. Adoption of highly productive technologies may be the only way to get out of a "bad" equilibrium. Technology choice crucially depends on the property rights on profits and is shown to be extremely fragile with respect to policy.


AB We present a general equilibrium model of imperfect competition to analyze different policy measures in transition economies. Due to strategic complementarities in technology choice and demand spillovers, the possibility of multiple macroeconomic equilibria arises. Those equilibria can be Pareto-ranked. Equilibria where modern technologies are employed are preferable. Technology adoption crucially depends on how property rights are distributed and which method of privatization is chosen. The existence and occurrence of "good" equilibria is extremely fragile with respect to policy. Contrary to conventional wisdom, we show that a broad distribution of ownership rights can have favorable influence on micro-economic efficiency and may therefore lead to a "good" aggregate outcome. Sales to single or core investors, if accompanied by workers' equity shares, may perform worse. Furthermore, only a Big Bang approach to privatization might lead to favorable outcomes.

Hansen, Per Svejstrup 
PD November 1995. TI Permanent Effects of Monetary Policy in a Dynamic Menu Cost Model. AA University of Aarhus. SR University of Aarhus, Department of Economics, Memo: 1995/15; Department of Economics, University of Aarhus, Building 350, Universitetsparken,
Hansen, Wendy L.
PD March 1995. TI Cumulation and ITC Decision-Making: The Sum of the Parts is Greater Than the Whole. AU Hansen, Wendy L.; Prusa, Thomas J. AA Hansen: University of New Mexico. Prusa: State University of New York at Stony Brook and National Bureau of Economic Research. SR National Bureau of Economic Research. Working Paper: 5062; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 28. PR $5.00. JE F13, H25. KW International Trade. Dumping. Duties. AB In 1984 Congress amended the antidumping (AD) and countervailing duty (CVD) laws, mandating that the International Trade Commission (ITC) “cumulate” imports across countries when determining injury. Since 1984 the cumulation provision has been invoked in over 50 percent of the AD and CVD cases. We estimate that cumulation increases the probability of an affirmative injury determination by 20 to 30 percent and has changed the ITC’s decision (from negative to affirmative) for about one-third of cumulated cases. We also show that the protective effect of cumulation increases as the number of countries involved increases, holding import market share constant. That is, cumulated imports have a super-additive effect on ITC decision-making.

Hao, Kang
PD October 1995. TI A Modified Fluctuation Test for Structural Change. AU Hao, Kang; Inder, Brett A. AA Monash University. SR Monash University, Department of Econometrics Working Paper: 1895; Department of Econometrics, Monash University, Clayton, Victoria 3168, AUSTRALIA. PG 19. PR no charge. JE C52. KW Structural Change. Fluctuation Test. SupF Test. AB This paper investigates the problem of testing for structural change for diagnostic purposes. We propose a modified form of the fluctuation test of Ploberger et al. (1989). The modified fluctuation test has the same asymptotic distribution as the fluctuation test but much better finite sample performance. A comparison of the supF test of Andrews (1993) shows that both tests are actually based on the same components.

Hariri, A.M.A

Harris, David C.
TI The Application of the Durbin-Watson Test to the Dynamic Regression Model Under Normal and Non-Normal Errors. AU King, Maxwell L.; Harris, David C.

Harris, Mark N.
TI Combining Choice Set Partition Tests for the Independence of Irrelevant Alternatives Properties: Size Properties in the Four Alternatives Setting. AU Brooks, Robert D.; Fry, Tim R.L.; Harris, Mark N.

Harriri, A.M.A

Harms, Philipp
TI Mass Privatization, Management Control and Efficiency. AU Boes, Dieter; Harms, Philipp.

Hayton, Timothy J.
TI The Origins and Early Impact of the Minimum Wage in Agriculture. AU Gowers, Robin; Hatton, Timothy J.

Haurin, Donald R.
This paper describes the wealth accumulation of American youth and relates this behavior to their eventual housing choices. We develop a data set that links wealth profiles of youth with constant-quality house prices and tenure choice. A panel data set is compiled for youth age 20-33 for the years 1985 through 1990. We construct wealth profiles for each household over the six year period and indicate how wealth varies with labor supply, marriage, fertility, gender, education, race/ethnicity, and tenure choice. We find renters' wealth accumulates rapidly in the year before and year of first home ownership. The factors related to this increase are marriage, increased labor supply by married women, and gifts/inheritances. Of particular interest is the finding of an inverse U-shaped relationship between the local real price of housing and middle and upper income renters’ wealth and married female labor supply. Also, youth in high housing cost localities tend to live in groups at a greater rate compared to those in low cost areas.

Selling Price and Selling Time: The Impact of Seller Motivation. AU Glower, Michel; Hendershott, Patric H.; Haurin, Donald R.

Heckman, James
PD May 1994. TI Accounting for Dropouts in Evaluations of Social Experiments. AU Heckman, James; Smith, Jeffrey; Taber, Christopher. AA University of Chicago. SR Economics Research Center/NORC Discussion Paper: 94/3; Economics Research Center/NORC, 1155 E. 60th Street, Chicago, IL 60637. PG 22. PR $2.00; send requests to Librarian, NORC. JE C81, C34. KW Social Experiments. Dropouts. Identification. JTPA Data.

Hebling, Thomas

Hellerstein, Judith K.

One potentially important form of sex discrimination in labor markets is a wage gap between women and men that is larger than the gap (if it exists) between their marginal products. In contrast to wage regression tests for this form of discrimination, we obtain direct estimates of sex differences in
required to estimate production functions. There is a statistically significant negative association between wages and workforces, average labor costs of the firm, and variables that contains information on the sex composition of firms' productivities. However, there is also a statistically significant negative association between marginal productivity and the percent of female employees. The estimates suggest that the wage gap is larger than the productivity gap. But the difference between the wage and productivity gaps is small relative to wage regression estimates (two to eight percentage points), and it is not statistically significant. We also present some evidence that the lower wages and productivity associated with female workers is not attributable to the crowding of women into particular jobs.

Helpman, Elhanan
TI Endogenous Innovation in the Theory of Growth.
AU Grossman, Gene M; Helpman, Elhanan.

Hendershott, Patric H.

AB This paper explores changes in university patenting behavior between 1965 and 1988. We show that university patents have increased 15-fold while real university research spending almost tripled. The causes of this increase are unclear, but may include increased focus on commercially relevant technologies, increased industry funding of university research, a 1980 change in federal law that facilitated patenting of results from federally funded research, and the widespread creation of formal technology licensing offices at universities. Up until approximately the mid-1980s, university patents were highly cited, and were cited by more technologically diverse patents, than a random sample of all patents. This difference is consistent with the notion that university inventions are more important and more basic than the average invention. The differences between the two groups disappeared, however, in the middle part of the 1980s, partly due to a decline in the citation rates for all universities, and partly due to an increasing share of patents going to smaller institutions, whose patents are less highly cited throughout this period. Moreover at both large and small institutions there was a large increase in the fraction of university patents receiving zero citations. Our results suggest that the rate of increase of important patents from universities is much less than the overall rate of increase of university patenting in the period covered by our data.

Henderson, Ebbe

AB A matching and bargaining model in a market for a single good with one seller and two different buyers is analyzed under the assumption that resale is possible (buying the good does not necessarily mean consuming it). It is known that the model without resale has inefficient equilibria in which the low buyer receives the good with high probability, even as friction becomes negligible. We show that in case the good is a non-durable (i.e., it yields no interests) resale opportunities do not ensure efficiency. Whereas in case the good is durable the resale model has a unique and efficient equilibrium.

Henderson, Rebeca

AB This paper gives a definition of adaptive learning for extensive form games and provides sufficient conditions for
convergence points of adaptive learning sequences to be sequential equilibria.


AB A Nash equilibrium can be interpreted as a common theory about the players' actions. It is required that the theory is consistent with each player choosing an optimal response to the theory. It is usually required that the theory takes the form of a combination of probability measures on players' strategies. We analyze the effects of relaxing this requirement, allowing the theory to take the form of a lower probability measure, also called a belief function. In particular this allows for a strategy that is never a best reply against probability measures on other players to be part of an equilibrium.

Hendricks, Ken
PD July 1995. TI Entry and Exit in Hub-Spoke Networks. AU Hendricks, Ken; Ficociene, Michele; Tan, Grofu. AA University of British Columbia. SR University of British Columbia, Department of Economics Discussion Paper: 95/20; Department of Economics, University of British Columbia, 1873 East Mall, Room 997, Vancouver, B.C. V6T 1Z1 CANADA. PG 26. PR 20 cents per page Canadian to other than educational institutions. JE L11, L93. KW Hub-Spoke Networks.

AB In this paper, we offer an explanation for why regional carriers have difficulty surviving in hub-spoke networks. In a hub-spoke network within cities, the connecting flights that service a nonhub city-pair market are complementary goods. Travelers must purchase two tickets: one to fly from the nonhub city to the hub city and one to fly from the hub city to the destination city. If a regional carrier invades a spoke, competition between it and the hub operator lowers prices and profits for flying on the spoke. The hub operator can partially offset the loss by adjusting prices on the n-2 complementary flights. If instead the hub operator decides to exit, the price for traveling on the spoke increases and demands in the associated connecting markets decrease. Consequently, if the size of the network is large enough, the hub operator's optimal response to entry in a spoke is not to withdraw its flights from that spoke, even if the regional carrier stays. As a result, regional carriers are forced to exit and entry is deterred.

Henry, S.G.B
TI Aspects of the Swiss Labor Market. AU De Masi, Paula; Henry, S.G.B.


AB In the standard CAPM with a riskless asset we prove existence of equilibria without assuming concavity of the investor's utility functions. Moreover, we give a uniqueness result using assumptions on the risk aversion of investors.

Hibon, M.

TI Evaluating Accuracy (or Error) Measures. AU Makridakis, S.; Hibon, M.

TI ARMA Models and the Box Jenkins Methodology. AU Makridakis, S.; Hibon, M.

TI ARMA Models and the Box Jenkins Methodology. AU Makridakis, S.; Hibon, M.

TI Metonymy and Cross Section Demand. AU Evstigneev, Igor V.; Hildenbrand, Werner; Jerison, Michael.

Hildenbrand, Werner
TI Metonymy and Cross Section Demand. AU Hildenbrand, Werner; Jerison, Michael.

Hoedemaker, G.M

AB In the global race to bring new products to market, many firms have adopted concurrent engineering as a technique to shrink development lead time. Due to the many concurrent engineering success stories in the business and engineering literature, a common misconception has grown that more concurrency is always better. The major contribution of this paper is a rigorous mathematical proof that limits to concurrency exist even in the simplified situation in which concurrency is modeled as the number of design modules to be executed in parallel. As complexities such as communication linkages between modules are layered onto our basic model, we show that the expected project completion time is minimized at a finite number of modules that decreases with added
complexity. In general, the more complex the project, the stricter the limits to concurrency. This strongly suggests that project managers should be cognizant of the potentially adverse effects of pushing concurrency too far.

Hoekman, Bernard M.

AB This paper explores the possibility of governments seeking to agree to apply competition policy-based considerations and disciplines in the context of unfair trade allegations before turning to "standard" antidumping remedies. The premise of proponents of antidumping action is that the existence of market power in an exporter's home markets, or potential market dominance in the importing, host market is an important source of perceived "unfairness". The existence of such situations is not investigated by antidumping authorities, however. A proposal is made that allegations of dumping first be investigated by the competition authorities to determine the contestability of the relevant markets. The proposal avoids any need for harmonization of competition laws. All that would change in comparison to the status quo is that a necessary condition for antidumping is a finding by the competition authorities that the exporting firm's home market is not contestable, and the conclusion that no remedial action is possible through the application of the competition law. While ideally agreement along these lines would be sought in the multilateral (GATT) context, bilateral or regional trade agreements could also be concluded. For example, EU competition laws and maintenance of a liberal trade policy will be crucial not only for national welfare, but also in terms of EU firms. It is suggested that a link be sought between competition law enforcement and antidumping investigations in the context of the Association Agreements with the EU.

Hofbauer, Josef

AB A class of evolutionary selection dynamics is defined, and the defining property, convex monotonicity, is shown to be sufficient and essentially necessary for the elimination of strictly dominated pure strategies. More precisely, in any convex-monotone dynamics all strictly dominated strategies are eliminated along all interior solutions. On the other hand, for all selection dynamics where the growth rates of pure strategies are determined by a non-convex function of their current payoffs we construct games with strictly dominated strategies that survive along a large set of interior solutions.

Hoffmaister, Alexander W.
TI North-South Research and Development Spillovers. AU Coe, David T.; Helpman, Elhanan; Hoffmaister, Alexander W.

Hommes, Cars

AB Recently it has been shown that complicated (forward) output equilibrium time paths exist in discrete time two-dimensional overlapping generations (OLG) model with productive investment and capital accumulation, even when the two goods, current leisure and future consumption, are gross substitutes. However, along the periodic and chaotic equilibrium cycles investment may become negative. In this paper we impose a non-negative investment constraints on the model. The global equilibrium dynamics is analyzed by a "return map" technique, which in fact reduces the dimension of the dynamic system from two to one. We show that complicated endogenous business cycles for an even larger set parameter values.

Honohan, Patrick

AB There has been a resurgence of interest in currency boards as a possible approach to achieving a stable currency in newly established or hyperinflationary financial systems. This
paper draws attention to one of the more successful currency board experiences, namely that of Ireland. We review the institutional arrangements which underpinned the Irish pound for a half-century and consider the benefits and costs which resulted. While the regime did have a credibility which led to low interest rates and a degree of price stability, its resilience was partly due to the large weakness of sterling, to which the Irish pound was pegged. As a result, the inflexibility of the system was not severely tested. An attempt in 1955 to evade the interest rate discipline of the regime was quickly punished, however, with far reaching policy consequences.

Hu, T.C
AB The current leading question of P=NP? is crucial in understanding why a given problem is intrinsically hard. The dividing line between easy and hard problems is the existence of the polynomial algorithm, and the model of computation is the Turing Machine. Here we examine the intrinsic nature of a class of combinatorial optimization problems and show why some problems have polynomial algorithms and others do not. We use a high-level model, and define the length and width of a combinatorial optimization problem. The new model is based on certain assumptions and includes some basic combinatorial structures very much like the basic assumptions of a matroid.

AB We describe a modification of the Hu-Tucker algorithm for constructing an optimal alphabetic tree that runs in O(n) time for several classes of inputs. These classes can be described in simple terms and can be detected in linear time. We also give simple conditions and a linear algorithm for determining if two adjacent nodes will be combined in the optimal alphabetic tree.

Hu, Zuliu
AB Despite concerns are often voiced on the so called "excess volatility" of the stock market, little is known about the implications of market volatility for real economy. This paper examines whether the stock market volatility affects real fixed investment. The empirical evidence obtained from the US data shows that market volatility has independent effects on investment over and above that of stock returns. Volatility and its changes are negatively related to investment growth. To the extent volatility depresses fixed capital formation and hence future income growth, the results suggest the desirability of reducing stock market volatility.

Huertas, Juan Ayuso
AB In this paper we look to model the volatility of money market interest rates and the transmission of volatility along the money market yield curve in four countries: the UK, Germany, France and Spain. We use a conditional variance specification which is based on Nelson's Exponential ARCH. We find a significant volatility transmission effect from overnight to longer term money markets for France, Spain and the UK. We also find that, in our small cross section of countries, those with lower (higher) reserve requirements tend to have higher (lower) interbank interest rate volatility. However, reserve requirements generate a perverse seasonal effect: at the end of the maintenance period, both the level of the overnight interest rate volatility and the magnitude of the transmission effect to the rest of the yield curve are higher.

AB This paper proposes an indicator of exchange rate risk for currencies subject to exchange rate regimes which are not perfectly credible. This indicator is applied to several EMS currenies for periods before and after the widening of the fluctuation bands. We find that, contrary to what standard (GARCH-type) estimates suggest, exchange rate risk within the ERM is generally lower after the band widening than before. However, exchange rate risk for currencies that left the ERM is currently higher than for ERM currencies and also higher in the period when they belonged to the mechanism.

AB This paper presents a simple macroeconomic model based on Svensson (1994). The model incorporates innovations that provide for a simultaneous explanation of the three basic findings in the empirical literature concerning the effects of the EMS on the levels of exchange rate risk and interest rate risk: the reduction in exchange rate variability when the degree of rigidity in the exchange rate commitment increases; the indetermination in the sign of the behavior of exchange rate risk when this commitment eases; and, lastly, the possibility of...
that, in some cases, a trade-off exists between exchange rate risk and interest rate risk, and that in other cases, both move in the same direction.


AB This paper proposes a method to estimate separately the size of the expected depreciation in an eventual devaluation of the central parity in the ERM, and the probability assigned by agents to this devaluation occurring in the short-run. The proposed method complements the information provided by the jumps observed in market exchange rates around realignments with the information contained in interest rate differentials on the future behavior of exchange rates. The separation of probability and size allows a richer analysis of the effects of devaluations on exchange rate credibility in the ERM.

Hurwicz, Leonid

AB We prove implicit and inverse function theorems for non-continuously differentiable functions, and characterize non-continuously differentiable diffeomorphisms.

Ikeda, Kiyohiro
TI Mathematical Mechanism Underlying Ecolon-Mode and Shear-Band Formations. AU Murota, Kazuo; Ikeda, Kiyohiro.

Inder, Brett A.
TI A Modified Fluctuation Test for Structural Change. AU Hao, Kang; Inder, Brett A.

TI "Homogeneity of Variance Test" for the Comparison of Two or More Spectra. AU Maharaj, E. A.; Singh, N.; Inder, Brett A.

Irmen, Andreas

AB This paper reexamines a 3-stage game previously applied by Gal-Or (1991) to model manufacturers' choice of vertical restraints with downstream exclusive dealers. We show that the main result of the original paper hinges upon the used linear demand specification. Employing a modified demand technology we find that a (LP, LP)-equilibrium can be compatible with high product differentiation as long as industry demand is sufficiently steep. The elasticity of industry demand turns out to have a decisive but so far neglected influence on double marginalization and on manufacturers' choice of contract.

Ishii, Shogo

Jacobsen, Hans Jorgen
TI Adaptive Learning in Extensive Form Games and Sequential Equilibrium. AU Hendon, Ebbe; Jacobsen, Hans Jorgen; Sloth, Birgitte.

TI NASH Equilibrium in Lower Probabilities. AU Hendon, Ebbe; Jacobsen, Hans Jorgen; Sloth, Birgitte; Tranaes, Torben.

Jaffe, Adam B.

Jeanne, Olivier
TI Adam Smith's Second Invisible Hand. AU Comeo, Giacomo G.; Jeanne, Olivier.

TI Status-Seeking Can Generate Long-Run Growth in the Solow-Cass Model. AU Comeo, Giacomo G.; Jeanne, Olivier.

Jensen, Henrik

AB We present an economic example of an affine-quadratic differential game where in Markov-perfect Nash equilibrium, the value function of a player is discontinuous in the model's parameters, implying that the strategy of that player is also discontinuous, even though the data of the game (state equation and pay-offs) are continuous in the parameters. Sufficient conditions ruling out such discontinuities are presented for the general scalar case.

Ab 70 ABSTRACTS

Unemployment Persistence. Dynamic Games.
AB A simple folk theorem of repeated games states that Pareto-efficient outcomes can be achieved in a perfect equilibrium where deviations are punished by a reversion to Nash equilibrium strategies of the associated stage game (Nash threat equilibrium), provided that players are sufficiently patient. In a dynamic version of a well-known monetary policy game we show that such asymptotic efficiency may not be possible, as the presence of a state variable introduces the possibility of state manipulation. Moreover, the lowest inflation rate in Nash threat equilibrium may be increasing as players become more patient.

Jeong, Byeongju
AB I offer differences in uncertainty of the industry-level investment environment as an explanation for the observed differences in the investment good price and output level across countries. I present a model economy where the tax rate on industry investment follows a stochastic process. In this environment, a higher level of uncertainty makes investment more inefficient (i.e. increase the expected cost of producing unit of capital), and this is reflected in higher investment good prices. An investigation of industry-level investment data across countries shows that the patterns of investment dynamics (i.e. features or statistics of the investment sequence) in relation to output level are consistent with the implication of the model. I assign model parameter values to countries of different output levels so that the simulated investment sequences from the model mimic the actual investment sequences. I find that uncertainty can account for all of the observed differences in the investment good price, and a significant portion of the differences in the output level across countries. Differences in uncertainty between the US and Ethiopia can account for the difference in the investment good price by a factor of up to 4, and for the difference in the output level by factor of up to 16 between the two countries.

Jerison, Michael
TI Metonymy and Cross Section Demand. AU Evstigneev, Igor V.; Hildenbrand, Werner; Jerison, Michael.

Jitsuchon, Somchai
AB This paper constructs a simple endogenous growth model in order to quantitatively analyze the effect of incomplete insurance on saving, growth and welfare in a closed economy, and to examine the growth experience of the OECD countries. In this economy, precautionary saving motivated by uninsured shocks raises growth rates and lowers risk-free returns. Given the wealth level, the welfare of the resident in this economy is measured by the sum of growth rates and risk-free returns, not growth rates alone. This welfare measure can take a negative impact of precautionary saving on welfare into consideration. The paper shows that (i) the heterogeneous performance of growth and saving across the countries reflects different degrees of insurance incompleteness, (ii) since the externality of growth on productivity is very strong in the 1960's, the heavily constrained insurance market itself improves productivity by promoting growth, thereby enhancing welfare, (iii) while the externality of growth becomes weaker in 1980's, the development of insurance markets lowers growth, but can still contribute to welfare.

John, Christoph
TI A Fiscal Stance in Sweden: A Generational Accounting Perspective. AU Hagemann, Robert P.; John, Christoph.

John, Reinhard
AB It is shown that a well known necessary first order condition for pseudomonotone and quasimonotone functions is also sufficient for these properties provided that the functions are regular. This main result extends recent contributions which can be traced back to Kihlstrom, Mas-Colell and Sonnenschein (1976) as well as to Mituschin and Polterovich (1978) and provides a solution to an open problem posed by Hildenbrand and Jerison (1989). Its application to gradient functions yields immediately a second order characterization of pseudoconcave and quasiconcave functions which generalizes the one by Diewer, Avriel, and Zang (1981). Furthermore, it implies a stability theorem closely related to Hartman and Olech (1962).

AB This note is a short comment on recent contributions by Peters and Wakker who extended classical examples in revealed preference theory by Gale and Shafer to the case of more than three commodities. It is shown that there is a much simpler proof of their results.

Johnston, Barry R

AB This paper analyzes the different channels through which financial variables and financial sector reform can affect economic growth and efficiency, using panel data for 40 countries which reformed their financial systems. Financial sector reform is hypothesized to affect economic growth and efficiency through three main channels: the real interest rate, representing the interest cost of capital, the volume of intermediation, and financial sector efficiency. The results indicate that financial reforms have structural effects; that financial variables and reforms are important determinants of economic performance; that the impact depends on whether countries did or did not face a financial crisis; and that the "quality" of financial sector reform matters.

Johnstone, Nick


AB In this paper a model of passenger demand, energy consumption and pollution emissions in the transport sector is described. The Model is designed to serve as a sub-model to the Cambridge Multisectoral Dynamic Model of the United Kingdom economy. It combines the strengths of economic modeling (the determination of passenger demand, ownership rates and key technological characteristics) with the strengths of engineering modeling (the determination of fuel efficiency and pollution emission rates). It is sufficiently detailed to model the effects of vehicle substitution, fuel switching and changes in mode splits and sufficiently flexible to analyze the effects of a broad range of policies in this sector.


AB In this paper an analysis of the United Kingdom government's environmental policy for the domestic sector is undertaken. Using an integrated economic-engineering model, the effects of the Energy Savings Trust and the imposition of Value-added Tax on domestic fuel in terms of energy consumption and pollution emissions are evaluated. It is found that the initial proposed policy was not sufficiently stringent to meet the government's environmental objectives, and that subsequent events have undermined the government's program even further. Unless alternative policies are introduced, emissions from the domestic sector will play an important role in jeopardizing the ability of the UK government to meet its international obligations.

Jones, Stephen R.G


AB The categorization of labor market states, and particularly the definition of unemployment, has been much debated on an a priori basis. This paper extends the debate by using a framework which enables the appropriate survey criteria to be determined on empirical grounds. This framework involves examining whether different labor force groups differ in terms of their transition probabilities among labor force states. In particular, we assess whether the marginally attached (those who "want work" but are not actively searching) are behaviorally distinct from those counted as unemployed. We also evaluate whether members of the marginal attachment group differ behaviorally from the balance of those classified as out of the labor force. Our main findings are that members of the marginally attached group are behaviorally distinct from those not in the labor force across almost all demographic groups and regions, and that the marginally attached are typically closer in behavioral terms to the unemployed, especially for men and for those aged over 25. Further, there is a significant degree of heterogeneity within the "marginal" group itself, most notably according to whether the individual is "waiting" or not. Our results suggest that existing criteria for counting "temporary layoffs" and "future job starts" as unemployed -- which exclude those in the "waiting" group of the "marginally attached" -- may be too stringent on behavioral grounds.

Jurado, Maria Perez


AB Purchasing power parity (PPP) is an equilibrium condition often assumed in both theoretical and practical economic analysis. Empirical testing of PPP has not, however, provided clear evidence that justifies its broad application -- on the contrary, numerous studies have reached negative conclusions regarding its validity. This paper attempts to reconcile the broad use of purchasing power parity and the empirical evidence by using more appropriate methods to test the hypothesis within a multivariate and multi-country setting for Spain, Germany, the United Kingdom, the United States, France and Italy in the period 1970-1992.

TI Is Exchange Rate Risk Higher in the E.R.M. After the Widening of Fluctuation Bands? AU Huertas, Juan Ayuso; Jurado, Maria Perez; Restoy, Fernando.
Devaluations and Depreciation Expectations in the
E.M.S. AU Huertas, Juan Ayuso; Jurado, Maria Perez.

Juselius, Katarina

Discussion Paper: 96/02; Institute of Economics, University of
Monetary Policy. AA University of Copenhagen.
F41. KW Capital Controls. Liberalization. VAR.

DENMARK. PG 47. PR not available. JE C32, E41,
F41. KW Capital Controls. Liberalization. VAR.

Cointegration. Money Demand.

controls on the capital movements were lifted. Identifying
restrictions are imposed both on the long-run and the short-run
structure. The final model describes the dynamic adjustment to
short-run changes of the process, to deviations from long-run
steady-states, and to several political interventions. It has stable
parameters, good statistical properties, and provides some new
insights about the effects of capital liberalization on the
determination of money, income, prices, and interest rates in a
small open economy.

Kaiser, K.M.J

PD July 1995. TI Prospects for Reorganisation Within
European Bankruptcy Laws. AA INSEAD. SR INSEAD,
Working Papers: 95/94/FIN; INSEAD, Boulevard de
Constance, Fontainebleau, 77305 Cedex, FRANCE. PG 49.
PR not available. JE G33, K19. KW Bankruptcy Laws.
European Study.

This study presents brief summaries and comparisons of the
reorganization opportunities within current bankruptcy
codes in the U.S., the U.K., France, and Germany. We also
discuss the main implications for firms facing financial distress
according to the provisions available. The focus is on the
usefulness of the applicable legal framework in ameliorating the
difficulties facing a distressed debtor; mainly, asymmetries of
information, conflicts of interest, distorted incentives, and
ability to obtain financing to remain in business. In spite of
some efforts to remedy the situation, continental European
nations continue to provide mixed opportunities and provisions
for resolving the problems facing a viable, liquidity constrained
firm. We present some very coarse summary data which
support our insights. In the conclusion we discuss very briefly
some of the different philosophies and policies behind the
different codes, and how these views impact the nature of the
codes and the availability of reorganization in the different
countries.

Kalb, Guyonne R.J

PD September 1995. TI Mixtures of Tails in Clustered
Automobile Collision Claims. AU Kalb, Guyonne R.J;
Kofman, Paul; Vorst, Ton C.F. AA Kalb and Kofman:
Monash University. Vorst: Erasmus University. SR Monash
University, Department of Econometrics Working Paper: 11/95;
Department of Econometrics, Monash University, Clayton,
Victoria 3168, AUSTRALIA. PG 30. PR no charge. JE
C13, C24, G22. KW EM-Algorithm. Extreme Value

Knowledge of the tail shape of claim distributions
provides important actuarial information. This paper discusses
how two techniques commonly used in assessing the most
appropriate underlying distribution can be usefully combined.
The maximum likelihood approach is theoretically appealing
since it is preferable to many other estimators in the sense of
best asymptotic normality. Likelihood based tests are, however,
not always capable of discriminating among non-nested classes
of distributions. Extremal value theory offers an attractive tool
to overcome this problem. A much larger set of distribution
classes is nested by their tail parameter. This paper shows that
both estimation strategies can be usefully combined when the
data generating process is characterized by strong clustering in
time and size. We find that the extreme value theory is a useful
starting point in detecting the appropriate distribution class.
Once that has been achieved, the likelihood-based EM-
algorithm is proposed to capture the clustering phenomena.
Clustering is particularly pervasive in actuarial data. An
empirical application to a four year data set of Dutch
automobile collision claims is therefore used to illustrate the
approach.

Kalyvitis, Sarantis C.

PD August 1995. TI Efficiency and Expectations Revisited: A Foreign
Exchange Market with Bayesian Players. AU Christodoulakis, Nicos M; Kalyvitis, Sarantis C;
Karamouzis, Nicos V.

Kamecke, Ulrich

PD August 1995. TI The Role of Tying Contracts for the
Optimal Marketing of Durable Products. AA University of
Bonn. SR Universitat Bonn Sonderforschungsbereich,
Discussion Paper: A/488; Sonderforschungsbereich 303 an der
Universitat Bonn, Lennestrasse 37, D53113, Bonn 1,
DEUTSCHLAND. PG 17. PR no charge. JE L15,

Tying contracts are well-known for their anti-competitive
potential. This paper questions their negative image by
showing that tying contracts can be necessary to implement
price signals which overcome problems of asymmetric
information in the introductory phase of a new durable product.
The argument is applied to two antitrust cases against tying
arrangements, the German Meto case and the US American
SCM case.

Kandori, Michihiro

PD January 1994. TI Private Observation and
Communication in Implicit Collusion. AU Kandori,
Michihiro; Matsushima, Hitoshi. AA Kandori: Princeton
University. Matsushima: University of Tsukuba.
SR Princeton University. Woodrow Wilson School
Discussion Paper in Economics: 168; Woodrow Wilson School,
PG 39. PR no charge. JE C72, C73, D43, D82, L13.
KW Discounted Repeated Games. Folk Theorem. Imperfect
Review Strategy.

We examine the possibility of cooperation in a long term
relationship, where agents receive diverse imperfect
information about each other’s actions. "Secret price cutting" in
the industrial organization literature is a leading example. In a
differentiated product market, a firm may not be able to
perfectly detect secret price cutting by others, but its own sales
may imperfectly indicate what is going on. Since the firm’s
sales levels are subject to random shocks, they may well end up
having diverse expectations: firms with low sales may suspect
price cutting while others may not. This causes a serious
difficulty in sustaining collusion in such a market. In fact, the
characterization of equilibria of this class of games --
discounted repeated games where each player receives a
different signal -- has been an open question, despite the large
body of literature on repeated games. The present paper shows
that communication is a powerful way of resolving possible
confusion among the players in this class of games. In
particular, we prove folk theorems where players voluntarily
communicate what they have observed. Our results thus provide
a possible theoretical support for the conventional wisdom that communication is vital in sustaining collusion.

Karamouzis, Nicos
TI Efficiency and Expectations Revisited: A Foreign Exchange Market with Bayesian Players.
AU Christodoulakis, Nicos M; Kalyvitis, Sarantis C.; Karamouzis, Nicos V.

Katsoulacos, Yannis
AB Emission taxes under oligopoly with both fixed number and endogenous market structure (perhaps the most relevant market structures for policy issues) are examined. In the latter case, and contrary to what is expected under imperfect competition, the optimal tax could exceed marginal external damages, which implies that externalities generated by oligopolistic firms could be optimally controlled by over-internalizing environmental damages. Under endogenous market structure, a scheme consisting of a license fee and a second-best under-internalizing emission tax can increase social welfare when compared with the use of a single emission tax exceeding marginal damages.

AB We evaluate the social welfare loss (WL) that arises in an oligopolistic industry under technological competition and product differentiation. The main novelty of our approach concerns the decomposition of the WL into “dynamic” losses (from too little cost reduction and an inappropriate number of research laboratories) and “static” losses (from suboptimal output levels and from “rent-seeking” behavior). This allows us to explore the possibility of trade-offs between static and dynamic losses in the effect of competition policy (driving price towards marginal cost) and industrial policy (lengthening patent life). It also allows for an evaluation of the relative significance of these losses. We find that generally there is no trade-off with respect to industrial policy, but a trade-off emerges with respect to competition policy. The dominant components of WL are the dynamic loss from too little cost reduction and, especially, the “rent-seeking” losses. We also find that WL is increasing as regulation pushes price towards marginal cost and is decreasing as patent life increases.

Keiding, Hans
AB An important result of Hurwicz states that a performance correspondence assigning Pareto optimal allocations to exchange equilibria, which is Nash implementable, must be the Walras equilibrium correspondence. In the present paper, this result is extended to economies over time with the associated notion of dynamic implementation. It is shown that if the performance correspondence is implementable in renegotiation proof Nash equilibrium, then it must be the Walras equilibrium correspondence. Some applications of this result are considered.

Kelsey, David
AB This paper proposes a measure of uncertainty-aversion analogous to the Arrow-Pratt measure of risk aversion. We apply it to the multiple priors and non additive probability models of uncertainty. In these models there is no distinction between uncertainty and aversion to it. Hence our theory can also be interpreted as a measure of uncertainty.

Kende, M.
AB This paper shows the profit-maximizing pricing strategy of a monopolist selling a fixed capacity before a certain time. The driving example is an airline filling a plane before
ABSTRACTS

Kesselman, Jonathan R.
PD March 1995. TI Policy Implications of Tax Evasion and the Underground Economy. AA University of British Columbia. SR University of British Columbia, Department of Economics Discussion Paper: 95/10; Department of Economics, University of British Columbia, 1873 East Mall, Room 997, Vancouver, B.C. V6T 1Z1 CANADA. PG 20. PR not available. JE D16, H21. L35. KW Underground Economy, Tax Evasion, Tax Compliance, Benefit Fraud. AB The economic and social significance of the underground economy and tax evasion stem from their impacts on economic efficiency and the distribution of the tax burden. This study examines these impacts by applying the findings of the conceptual and theoretical economic literature. A distinction is drawn between activities of pure tax evasion and those in the underground economy (UGE). Both involve noncompliance to taxes, but only the latter involves substantive changes in the organization of productive activities. Benefit fraud and its relation to the UGE is further considered. The economic framework includes both choices under risk and the broader impacts of noncompliance on resource allocation and economic efficiency. The private benefits from evasion can be transmitted through the market place to the consumers of goods and services produced in the UGE as well as the producers. Evasion and UGE activity can also affect efficiency and distribution through the compensatory taxation or spending reactions of governments to their revenue shortfalls. This analytical framework is then directed to implications for the conduct of tax enforcement policy as well as the substantive design of tax and transfer policies. Topics considered include penalty rates, tax rates and progressivity, the methods of relieving low-income households from tax, the direct-indirect tax mix, use of excise and property taxes, and the design and enforcement of income-transfer programs.

Kessler, Anke S.
PD April 1995. TI The Value of Ignorance. AA University of British Columbia, Sonderforschungsbereich 303 an der Universitat Bonn, Lennestrasse 37, 53113, Bonn 1, DEUTSCHLAND. PG 23. PR no charge. JE D82. D83. L63. KW Information Acquisition. Contracts. Adverse Selection. AB The objective of this paper is to endogenize the information structure of an agent in a standard model of adverse selection. Before contracting takes place, the agent has the opportunity to choose among different information technologies in order to gather information on the future state of nature. I allow for the possibility that, when using a certain
technology, the agent is ignorant (remains uninformed about the state of nature during the entire game) with some probability. The agent’s optimal choice of information structure is derived and it is shown that in the case of 2 states of nature, the possibility of remaining ignorant has a strictly positive strategic value for the agent for a wide range of information technologies. In such a case, there will be no equilibrium in which the agent is perfectly informed even if additional information is costless.

Kets De Vries, M.F.R
AB This article explores the factors that contribute to building vanguard companies. Effective leadership is considered a determining factor in the creation of high performance organizations. In making this happen, leaders assume two roles: a charismatic role and an instrumental one. Envisioning, empowering and energizing are characteristics of the charismatic role, while in the instrumental role the leader becomes an organizational architect who sets appropriate structures and systems in place. To illustrate the various factors that help create vanguard companies, this article describes three CEOs who have achieved renown for successful management of their respective organizations: Richard Branson, of Virgin, is the helmsman of a rapidly growing entrepreneurial company; Jack Welch, of General Electric, hailed by the press as one of the few leaders able to transform a corporation suffering from organizational arteriosclerosis; and, finally, Percy Barnevik, of ABB, who has risen to the challenge of creating a truly global organization capable of integrating many companies and national cultures. In spite of their disparate histories, these three companies nevertheless share a number of common characteristics. The way these companies have been managed can be seen as a paradigm for the corporate world in the twenty-first century. In this article a number of the characteristics of the high performance organization are identified. First, there is a brief overview of the role of entrepreneurship and in particular, the work behavior of entrepreneurs. The intensity of this type of treatment means that continuity in observation is provided. This case study therefore offers a unique insight into the complex “inner theater” of one particular entrepreneur. Previous research on entrepreneurship has identified a number of themes common among some entrepreneurs. In the entrepreneurial theater, a need for control, a sense of distrust, a desire for applause, and resorting to primitive defensive mechanisms such as splitting, projection, denial, and the flight into action (“the manic defense”) appear to be common. The behavior of a number of entrepreneurs also seems to have a cyclothymic quality. Moreover, for many of them, their narcissistic development tends to be of a “reactive” nature reflecting difficulties in the regulation of self-esteem. This case history illustrates these themes, and furthermore, shows that running a business is not necessarily a rational process. On the contrary, in many instances, the process seems to be more a question of retrospective “rationalizing” of decisions already made. Finally, inferences are made about the person-organization interface by identifying some of the characteristics of the dramatic organization, a configuration typically created by a number of entrepreneurs.

AB In psychoanalytic theory, studies of work behavior have been relatively scarce. Most of the existing literature concerns itself with cases of work inhibition or compulsion. Occasionally, one finds a discussion of people in the creative professions. No attention has been paid, however, to a major contributor to economic development in society, the entrepreneur. This contrasts sharply with the amount of attention given to entrepreneurs by other disciplines. The object of this study is to better understand the dynamics of entrepreneurship, and in particular, the work behavior of entrepreneurs. First, there is a brief overview of the role of work in psychoanalytic theory. Then a number of factors important to entrepreneurship are reviewed from the perspective of economic, sociological, anthropological, psychological and organizational theory. A case history is presented of one entrepreneur who chose to be treated through psychoanalysis. The intensity of this type of treatment means that continuity in observation is provided. This case study therefore offers a unique insight into the complex “inner theater” of one particular entrepreneur. Previous research on entrepreneurship has identified a number of themes common among some entrepreneurs. In the entrepreneurial theater, a need for control, a sense of distrust, a desire for applause, and resorting to primitive defensive mechanisms such as splitting, projection, denial, and the flight into action (“the manic defense”) appear to be common. The behavior of a number of entrepreneurs also seems to have a cyclothymic quality. Moreover, for many of them, their narcissistic development tends to be of a “reactive” nature reflecting difficulties in the regulation of self-esteem. This case history illustrates these themes, and furthermore, shows that running a business is not necessarily a rational process. On the contrary, in many instances, the process seems to be more a question of retrospective “rationalizing” of decisions already made. Finally, inferences are made about the person-organization interface by identifying some of the characteristics of the dramatic organization, a configuration typically created by a number of entrepreneurs.
AU Keuschnigg, Christian; Kohler, Wilhelm.

AB We assess some likely consequences of commercial policy in an intertemporal CGE model of an imperfectly competitive, small open economy. Specifically, we combine an overlapping generations model of aggregate savings with capital accumulation by forward-looking investors and production under monopolistic competition and increasing returns to scale. The model replicates Austrian data. We find that unilateral tariff cuts have an expansionary effect resulting both in rationalization of industrial production and in new products supplied by new firms entering the market. Small export subsidies are self-financing. The expansionary effects and the welfare increases get magnified under monopolistic competition when compared with a more competitive case. Although all generations are able to participate in the efficiency gains, we note uneven generational gains. Finally, we report large overshooting in the net asset position which we attribute to a life-cycle type savings mechanism.

Kiley, Michael

AB A large literature demonstrates that changes in aggregate tax rates are basically unpredictable. This has been taken as evidence for the optimal theory of government finance as a positive description of government behavior. We show that the permanent income hypothesis implies that savings should predict income tax changes. The evidence for a range of countries supports this implication, in contradiction to the martingale hypothesis of the optimal theory of government finance.

Kim, N.
TI National Brands Versus Private-Labels: An Empirical Study of Competition, Advertising and Collusion. AU Parker, Philip M.; Kim, N.

Kim, Se-Jik

AB This paper presents a general equilibrium model of interenterprise arrears, characterized by n-stage production technology with random productivity shocks. The model shows that large interenterprise arrears in transition economies may reflect substantial business risks in those countries and that rapid privatization and commercialization may contribute to a huge initial accumulation of trade credits and arrears. The paper also suggests that administrative measures aimed at immediate reduction of IEA such as imposition of prepayments and penalty charges, would not be as effective as partial equilibrium frameworks suggest. Consequently, a fundamental solution should be sought instead in reducing business risks or improving enterprise information. Finally, the paper discusses the relevance of the model to Russian experience in 1993 and 1994.

King, Maxwell L.

AB Until recently, a difficulty with applying the Durbin-Watson (DW) test to the dynamic linear regression model has been the lack of appropriate critical values. Inder (1986) used a modified small-disturbance distribution (SDD) to find approximate critical values. King and Wu (1991) showed that the exact SDD of the DW statistic is equivalent to the distribution of the DW statistic from the regression with the lagged dependent variables replaced by their means. Unfortunately, these means are unknown although they could be estimated by the actual variable values. This provides a justification for using the exact critical values of the DW statistic from the regression with the lagged dependent variables treated as non-stochastic regressors. Extensive Monte Carlo experiments are reported in this paper. They show that this approach leads to reasonably accurate critical values, particularly when two lags of the dependent variable are present. Robustness to non-normality is also investigated.

TI Small-Sample Power of Tests for Inequality Restrictions: The Case of Quarter-Dependent Regressor Errors. AU Wu, Ping; King, Maxwell L.

TI Marginal Likelihood Based Tests of a Subvector of the Parameter Vector of Linear Regression Disturbances. AU Ara, Ismat; King, Maxwell L.

TI A Small Sample Variable Selection Procedure. AU Forbes, Catherine Scipione; King, Maxwell L.; Morgan, Alan.

King, Robert
TI Policy, Technology Adoption and Growth. AU Levine, Ross; Easterly, William; King, Robert; Rebelo, Sergio.

Kirman, Alan P.
Dynamics. Evolution.


AB This paper discusses economic models in which agents interact directly with each other rather than through the price system as in the standard general equilibrium model. It is suggested that the relationship between micro and macro behavior is very different than that in the standard model and that the aggregate phenomena that can arise are rich. The models considered include ones with global interaction in which all agents can interact with each other and ones in which agents can only interact with their immediate neighbors. Both static and dynamic models are considered and the latter includes the class of evolutionary economic models. Finally, models in which communication networks evolve are discussed.

Kjerstad, Egil

PG 32. PR no charge. JE D44, D82, L51.
AB Laffont and Tirole (1987) study a procurement auction with a fixed number of bidders. They trade off cost efficiency against information rent left with the firms, and prescribe a mechanism involving cost distortions instead of a plain auction. In contrast, we study a situation in which potential suppliers must sink an entry investment before they can participate in the auction. Then, decreasing the firms’ rent also weakens their incentive to enter. We show that i) if the auction is designed after the firms have invested, there is a tendency toward underinvestment; ii) the possibility of entry reduces the benefits of incentive contracts; and iii) whenever auctioning incentive contracts reduces entry compared to a plain auction, the procurer would benefit if incentive contracts could be prohibited.

Kneip, Alois

AB The paper deals with aggregate demands of a large population of households. It is based on an attempt to take aggregation seriously. The approach relies on a distributional property of the population by requiring that demand functions are very different in between households such that households react “heterogeneously” to changes in prices and income. A theoretical framework is developed which does not rely on specific models of individual behavior. Sufficient heterogeneity implies some important structural features of aggregate demand like, for example, the Law of Demand, which cannot be derived from the general microeconomic assumptions on individual rationality. Emphasis lies upon a discussion of the conceptual approach.

Kohler, A.

AB This paper introduces the notion of procedural fairness in decision-making as a means for building commitment and understanding in the innovation organization assembled around changing teams. The meaning of procedural fairness in the context of innovation team management is defined and a conceptual rationale is given for why procedural fairness takes on a central role in the team organization. A company case study illustrates how procedural fairness sheds light on managerial questions that the leading approaches to innovation
team management provide only incomplete answers to. The case study provides the basis for a discussion of practical implications.

Korosi, Gabor
AB The INTTB.TEX file consists of a macro collection designed to write books in a form standard to many textbooks using TEX. It has been used to prepare the camera ready hard copy of several books published by Kluwer Academic Publishers, Avebury, etc. It is easy to use and requires only a basic knowledge of TEX.

Kortian, Tro
AB In recent years, there has been much re-assessment and re-evaluation by academic economists of the Efficient Markets Hypothesis. The traditional view, stressing the ability of speculative markets to keep asset prices in line with economic fundamentals, has been challenged by an approach more sympathetic to the role of self-fulfilling expectations, psychology, herd behavior and other seemingly irrational influences on asset prices. Greater appreciation of the institutional features of real world asset markets also distinguishes this modern approach. The paper summarizes this influential and rapidly growing body of theoretical literature on asset price formation.

Kortum, Samuel
TI Trade in Ideas: Patenting and Productivity in the OECD. AU Eaton, Jonathan; Kortum, Samuel.

Kovanen, Arto
AB This study analyzes structural changes in the determinants of private sector capital flows that resulted from the reforms both in the domestic financial market and in the external capital account of Finland during the 1980s and early 1990s. A Kouri-Porter type of model of the capital account is used which is applicable for a fixed exchange rate expectations, using the recent target zone literature. In order to capture breaks in the estimated structural parameters during the course of capital account liberalization, a recursive estimation technique is also used. The results show that capital controls were ineffective for policy purposes even before their elimination.

Krelle, Wilhelm
AB A market economy is constructed on the idea that the price system should do the job which no person or no organization could do; to coordinate the economic activities of millions of household and firms in such a way that the households maximize their utility given their budget constraint, and the firms maximize their profit, given the production function and that all markets of commodities and factors of production are cleared. In the present model, optimal policy depends upon the social planner’s discount rate. In the low discount rate scenario, the planner provides large subsidies and commits to end those subsidies quickly.
TI Transition from a Planned to a Market Economy: the Interrelation of Subsidization of Firms, Budget Deficit, Unemployment and Inflation. AU Ackermann, Mihael; Krelle, Wilhelm.

Krishna, Vijay
TI The Folk Theorems for Repeated Games: A Synthesis. AU Benoit, Jean-Pierre; Krishna, Vijay.

Krueger, Alan B.

Kruger, Malte
AB This study attempts to estimate the amount of speculation in foreign exchange markets. Such an estimate is hard to make because it is theoretically as well as empirically difficult to delimit speculation in relation to other activities. In particular, the distinction between speculation and hedging is highly problematic. Notwithstanding these difficulties, it is shown how the composition of gross flows can be used to derive information about speculation and hedging. In an extensive analysis of the interconnections of various foreign exchange market activities it is shown that hedging may generate large short-term capital flows which cannot be easily distinguished from speculation. The size of these flows does not only depend on capital and trade flows but also on net and gross stocks of
foreign assets and liabilities. Based on these findings, an analysis of capital flows between Spain and the rest of the world shows that a larger part than previously believed of the capital outflows during the EMS crisis may have been due to hedging. The second case study which focuses on Japan reveals remarkable changes in the behavior of Japanese and/or foreign investors. What are the implications for economic policy? This study highlights the significance of stocks of open foreign exchange positions of foreigners and residents. If these stocks have been accumulating over many years, any crisis of confidence may trigger large outflows due to hedging, the size of which may be far more important than the potential amount of speculation. Such hedging activities would hardly be deterred by a Tobin tax or similar devices.

Krugman, Paul

AB The paper considers a model in which an imperfectly competitive manufacturing sector produces goods which are used both for final consumption and as intermediates. Intermediates usage creates cost and demand linkages between firms and a tendency for manufacturing agglomeration. How does globalization affect the location of manufacturing and the gains from trade? At high transport costs all countries have some manufacturing industry, but when transport costs fall below a critical value a core-periphery pattern forms spontaneously, and nations that find themselves in the periphery suffer a decline in real income. As transport cost continue to fall there comes a second stage of convergence in real incomes, in which the peripheral nations gain and the core nations may well lose.

Kumar, Manmohan S.
TI International Integration of Equity Markets and Contagion Effects. AU Cashin, Paul; Kumar, Manmohan S.; McDermott, John.

Kwok, Siu-Kit Claudian

AB This paper studies the implications of an agency problem on the equilibrium outcome of an intertemporal model. The model considered is a two-period lived overlapping generations model with an aggregate productivity shock. In each generation, a subset of the agents, the entrepreneurs, choose the asset specificity of their projects. An agency problem exists because the entrepreneurs cannot commit to supplying their human capital which is essential to the project. I compare equilibria with and without commitment. The main result is that in the long run, the equilibrium without commitment has lower asset specificity and per capita output, and the productivity shocks have more lasting effects. However, it need not have larger aggregate fluctuations.

Kwon, Goohoon
TI A General Equilibrium Approach to Interenterprise Arrears in Transition Economies with Application to Russia. AU Kim, Se-Jik; Kwon, Goohoon.

Kyei, Alexander

AB This paper is a survey of deposit protection arrangements and it compares the key elements of deposit protection schemes around the world. There are more implicit arrangements that guarantee deposits than explicit ones, but there has been a growing tendency since the 1980s for countries to adopt explicit ones largely in response to emerging problems with their financial systems.

L'Horty, Yannick
TI Une Estimation d'Equation d'Emploi et de Salaire au Niveau Sectoriel Sur Données Trimestrielles. AU Lauffargue, Jean-Pierre; L'Horty, Yannick.

La Cour, Lisbeth Funding

AB This paper examines the relation between monetary asset components and some of the variables that traditionally enter into aggregate money demand relations. The analysis is performed on Danish data within the natural framework of a multivariate econometric model. The purpose of the study is to investigate issues in relation to the level and weighting of a monetary aggregate. We show that within this model it is possible to identify monetary aggregates at different levels of aggregation and that for the narrow aggregate (M1) equal weighting of the components is permitted. For the broader aggregates (M2) or (M2-M1) equal weighting is no longer appropriate. These findings are not contradictory to what we would expect from aggregation and index number theory. Finally, an attempt to identify the whole stationary (or long-run) structure of the system is made, and we find a coexistence of a liquid and a less liquid money demand relation pointing towards the possibility of splitting the total money demand relation with respect to different motives for holding money.

LaFayette, William C.
TI Debt Usage and Mortgage Choice: Sensitivity to Default Insurance Costs. AU Hendershot, Patric H.; LaFayette, William C.
Laffargue, Jean-Pierre
AB Since 1980 unemployment has increased much faster for unqualified than for qualified people. Thus we may think that employment policy must focus on the first category of labor. This paper tries to analyze the economic effects, especially on employment, of a decrease in employer’s social contributions on unqualified labor. For this purpose we use a model of the French economy which adopts a framework of monopolistic competition, is dynamic, considers that agents optimize over time with rational expectations, and includes a labor market which is modeled in some detail. Of course the results we get depend on the financing of our fiscal measure. These results are the most favorable when the financing consists of reducing transfers to households. They are a little less good when it consists of increasing either social contributions on qualified labor, or VAT. They are still less good if it consists of creating a tax on investment. They become unfavorable if the financing consists of increasing income taxation or the “CSG”, because of the distortions take time to take effect, and in the short run these two last financing methods have favorable effects.

AB This paper gives estimations of two equations of demand for labor and wage determination on French quarterly data for the main sectors of the economy. These equations rest upon a theoretical model of monopolistic competition between firms and of wage bargaining between firms and trade unions. The estimation methods use recent developments of cointegration theory at the univariate level. Many tests check for the specification of the equations and the stability of the parameters. Employment appears to be rather sticky and presents a positive elasticity in relation to the cost of labor. This cost is more flexible and increases with the replacement ratio and with the wedge, but decreases with the progressivity of this last variable. The effects of technical progress and working hours on these two variable are also investigated.

Lafontaine, Francine
AB We examine theories that explain contractual relationships between manufacturers and exclusive retailers and build a model that unifies these theories. One group of theories of retail-organizational form is based on traditional incentive motives. With these models, there exists a tradeoff between providing agents with insurance against risk and incentives to exert effort. A second group is based on strategic motives. With these models, vertical forms of organization affect the outcome of the horizontal game that is played by manufacturers. We construct a model that combines both incentive and strategic motives and derive some comparative statics. We then contrast the predictions from the model with the evidence reported to date in studies of cross sections of standard franchising contracts across industries as well as cross sections of individual contracts from single industries. The role that industry and firm characteristics play in determining organizational form is assessed, and reasons why simple models might fail to explain empirical regularities are considered.

Laity, James

Lajeri, F.
AB This paper evaluates the impact of unexpected inflation on the stock returns of a sample of French banks. It offers an empirical test of theories that have predicted an impact of inflation on the stock returns of banks. The paper complements a large literature that has focused exclusively on the impact of
unexpected interest rates. The analysis provides empirical support to the hypothesis that, in periods of volatile inflation, there exists an inflation risk factor which is independent of the well documented interest rate factor.

Lal, Rajiv
TI Retail Competition in the Fast-Moving Consumer Goods Industry: The Case of France and the UK. AU Constjens, Judy; Constjens, Marcel; Lal, Rajiv.

Lambelet, Jean-Christian

AB Combining, as it does, three fundamental propositions (uncovered interest rate parity, relative PPP, international equalization of the real return on capital), the double equality is found to hold in the long run with a striking degree of precision and reliability when tested by means of a sample of 18 industrialized OECD countries over the 1976-1994 period. It must therefore rank as an economic law applicable to a world of floating exchange rates and free circulation of capital. The issue is examined of how long the long run might be in this context. A rough compensation index is calculated to check to what extent each individual currency’s tendency to overvaluation (undervaluation) for given inflation differentials is offset by low (high) national interest rates. The most precisely verified part of the double equality is used to estimate a series of equilibrium spot exchange rates. It is argued that knowledge of these equilibrium exchange rates is a necessary condition for rational long-term international investment strategies, although not a sufficient one.

Lambert, Peter J.

AB This paper makes a new attack on the old problem of measuring horizontal inequity in the income tax. Local measures of inequality of posttax income among pretax equals are proposed, which reflect alternative value judgments about the nature and magnitude of an inequity. These measures are aggregated into global indices. The welfare gain from eliminating horizontal inequity revenue-neutrally, and the revenue gain from eliminating it welfare-neutrally, in each case preserving the vertical performance of the tax, are captured by these indices. Difficulties of implementation arising from the “identification problem” are discussed. A variation in the methodology validates banding the income data to create “close equals” groups. Simulations show that the banding procedure works well. A range of potentially fruitful applications is discussed.

Lapre, M.A
TI Knowledge Driven Quality Improvement. AU Mukherjee, A.S.; Lapre, M.A.; Van Wassenhove, Luk N.

Laskar, Daniel

AB We determine the conditions under which a partial monetary union, which does not contain all countries, is a solution. The solution concept used corresponds to the core in cooperative game theory. We consider a three-country world, where the countries have different inflationary tendencies, and we focus on issues of credibility and of coordination of monetary policies. Partial monetary unions appear as a compromise between a flexible exchange rate system and a global monetary union, provided both issues of credibility and of coordination are present. The three partial monetary unions have different properties that we make explicit.

Leahy, Dermot

AB This paper examines the implications for strategic trade policy of different assumptions about precommitment. In a dynamic oligopoly game with learning by doing, the optimal first-period subsidy is lower if firms cannot precommit to future output than if they can; and is lower still if the government cannot precommit to future subsidies. In the linear case the optimal subsidy is increasing in the rate of learning with precommitment, but decreasing in it if the government cannot precommit. The infant-industry argument is thus reversed in the absence of precommitment, which has important implications for economic policy in dynamic environments.

Leamer, Edward E.

AB We develop a novel Bayesian pooling technique to estimate aggregate production functions for the previously centrally planned economies (PCPEs) of Eastern Europe and for Western economies, as well as for a group of developing countries. This technique adjusts for the low quality of the
PCPE data and also possible differences between PCPE and Western and developing-country technologies. We then apply our estimates to study various privatization scenarios concerning the adoption of Western technology. If the transferability of assets to the new technology is low and Western capital is unavailable, it can be better not to privatize at all, than to have full (big-bang) privatization. Large-scale privatization is also less desirable if Western capital is available for new projects. Thus, it may in some instances be desirable to use Western support to slow the rate of privatization, rather than hasten it. 

Lee, Jong-Wha

TI How Does Foreign Direct Investment Affect Economic Growth? AU Borensztein, Eduardo; De Gregorio, Jose; Lee, Jong-Wha.


AB This paper investigates the impact of government industrial policy and trade protection of the manufacturing sector in Korea. Empirical results are provided, using 4-period panel data for the years 1963-83, for 38 Korean industries in which trade protection reduced growth rates of labor productivity and total factor productivity, while industrial policies, such as tax incentives and subsidized credit, were not correlated with total factor productivity growth in the promoted sectors. The evidence, thus, implies that less government intervention in trade is linked to higher productivity growth.

Lehrer, M.


AB Empirical research on the European operations of American and Japanese MNCs suggested revealed, first, that regional management and regional headquarters in Europe are a less interrelated phenomena than one might suppose, and secondly, that American and Japanese MNCs differ in their organizational responses to regional management challenges. Among American MNCs, the preferred method of handling European issues in the 1990s appeared to be the prudent carving up of regional tasks for delegation to local subsidiaries (especially appointed lead countries), with coordination assured not by central functions, but by formal or informal "councils" periodically bringing top European managers together. Among Japanese MNCs, substantive issues of regional management are usually attended to without altering the formal organizational structure; regional headquarters, where they exist, exercise a largely nominal function.

Leiderman, Leonardo


AB While the Israeli stabilization of 1985 has received significant attention in previous work, much less is known about the process of financial opening and liberalization which began shortly afterwards. In contrast to the disinflation policy of 1985, the process of financial liberalization that started in 1987 proceeded in a slow and gradual mode. No official announcement was made about either the precise policy measures or the timetable for the process. As a result of these and other political economy factors, the process has not been completed and there are no strong incentives for policy-makers to further deepen the reforms at the present time. This paper discusses the main elements of financial liberalization in Israel and draws implications that could be relevant for financial opening policies in other countries.

Leigh, M.


AB This paper investigates some analytic properties of portfolios that are rebalanced to a benchmark. These results are of interest to Tactical Asset Allocation practitioners as they show the extent to which transaction costs impact upon the mean and volatility of returns. Applications to mature and emerging markets and currencies are discussed from the perspective of a UK investor. In the case of emerging markets, passive rebalancing is still likely to be profitable despite the fact that costs are higher. The results also have implications for the optimum periodicity of rebalancing.

Leisen, Dietmar


AB Binomial models, which rebuild the continuous setup in the limit, serve for approximate valuation of options, especially where formulas cannot be derived mathematically. Even with the valuation of European call options distorting irregularities occur. For this case, sources of convergence patterns are explained. Furthermore, it is proved order of convergence one for the Cox-Ross-Rubinstein model as well as...
for the tree parameter selections of Jarrow and Rudd, and Tian. Then, we define new binomial models, where the calculated option prices converge smoothly to the Black-Scholes solution and remarkably, we even achieve order of convergence two with much smaller initial error. Notably, solely the formulas to determine the constant up-and down-factors change. Finally, all three approaches are compared with respect to speed and accuracy, calculating relative root-mean-squared error of approximative option values for a sample of randomly selected parameters across a set of refinements. Approximation of American type options with the new models exhibits order of convergence one but smaller initial error than previously existing binomial models.

Leleux, B.
TI Trade-Offs in the Venture Capital Decision.
AU Muzyka, Daniel F.; Birley, S.; Leleux, B.

Lepski, O.V

AB The present paper treats the problem of minimax nonparametric hypothesis testing. The null hypothesis assumes that the function observed with a noise is identically zero (i.e., no signal is present). The alternative is composite and minimax: the function is assumed to be separated away from zero in an integral norm and also to possess some smoothness properties. In this paper we focus on the case of an inhomogeneous alternative corresponding to the situation when the smoothness properties of the functions are measured. The optimal rate of minimax testing is evaluated. Then an optimal test is proposed which essentially uses a pointwise adaptive estimation procedure.

Leunig, Timothy

Levine, Phillip B.
PD March 1995. TI The Effect of Medicaid Abortion Funding Restrictions on Abortions, Pregnancies, and Births.

AB This paper considers whether state Medicaid abortion funding restrictions affect the likelihood of getting pregnant, having an abortion, and bearing a child. Aggregate, state-level data and microdata from the National Longitudinal Survey of Youth (NLSY) are applied in the empirical work. Changes in laws resulting from Supreme Court decisions create a natural experiment which is utilized to examine fertility behavior. Multivariate models controlling for state and, in the NLSY, personal characteristics are also estimated using alternative fixed effect specifications. We find that Medicaid funding restrictions are associated with a reduction in both the number of abortions and pregnancies, resulting in either no change or a reduction in births.

Levine, Ross
PD May 1994. TI Policy, Technology Adoption and Growth.

AB This paper describes a simple model of technology adoption which combines the two engines of growth emphasized in the recent growth literature: human capital accumulation and technological progress. Our model economy does not create new technologies. It simply adopts those that have been created elsewhere. The accumulation of human capital is closely tied to this adoption process: accumulating human capital simply means learning how to incorporate a new intermediate good into the production process. Since the adoption costs are proportional to the labor force, the model does not display the counterfactual scale effects that are standard in models with endogenous technical progress. We show that our model is compatible with various standard results on the effects of economic policy on the rate of growth.

Levy, Dominique
TI The Great Depression: a Paradoxical Event?
AU Dumenil, Gerard; Levy, Dominique.

Licandro, Omar
TI Idiosyncratic Uncertainty, Capacity Utilization and the Business Cycle. AU Fagnart, Jean-Francois; Licandro, Omar; Portier, Franck.

Lindbeck, Assar

AB The paper shows how prolonged price inertia can arise in a macroeconomic system in which there are temporary price rigidities as well as production lags in the use of intermediate goods. In this context, changes in product demand -- generated, say, by changes in the money supply -- have long-lasting price and quantity effects. Specifically, a temporary demand shift generates "persistence" in price-quantity decisions, in the sense that the price-quantity effects of this shift persist for long after the shift has disappeared. A permanent demand shift generates "sluggishness" in price-quantity decisions, in the sense that the full price effects of the shift take a long time to appear and that meanwhile quantity effects are present.
ABSTRACTS


The paper presents a stochastic insider-outsider model that accounts for the following stylized facts: (1) unemployment rates display a high degree of serial correlation, or "persistence"; (2) the average rate of unemployment has been higher in the United States than in Europe over the 1950s and 1960s, but the opposite has been the case in the 1980s; and (3) the long-run unemployment rate is independent of the level of productivity and the magnitude of the labor force. The model also generates other empirically testable hypotheses, concerning cyclical variations in unemployment persistence, the influence of firing costs and the "discouraged worker" effect on unemployment persistence, and the effect of barriers to the entry of firms on the long-run unemployment rate.

Linz, Susan J.


Results from 3 different surveys are employed to analyze job rights, the institution of guaranteed employment despite individual or firm performance, in the Soviet and post-Soviet economy. Characteristics of job rights in the Soviet economy prior to perestroika, based on data collected in 1983 and 1985 from Soviet emigrants to the United States, are examined in Section 2. Changes in the nature and scope of job rights associated with perestroika and the dissolution of the Soviet Union in 1991 are explored in Section 3. Section 4 presents the results of a 1994 survey of managers and workers in privatized firms in Russia, two years after the initiation of the transition from a planned to a market economy, Section 5 contains a summary of the main findings presented in the paper, as well as concluding remarks.

Lippman, S.A

Barriers to Imitation and the Incentive to Innovate. AU Cadot, Olivier; Lippman, S.A.


The paper presents an analytical model of concurrent engineering, where an upstream and a downstream task are overlapped to minimize time-to-market. The gain from overlapping activities must be weighed against the delay from engineering changes and rework, which are caused by uncertainty in the development process. Communication reduces the negative effect of rework, with an additional time investment. The model incorporates uncertainty via the average rate of engineering changes coming from the upstream task, and it incorporates evolution via the change of the modification rate over time. In addition, we model dependence by the impact the modifications impose on the downstream task. The model yields three main results about the connection between uncertainty, communication, and overlap. First, the optimal communication to sustain a given level of concurrency increases with uncertainty, dependence, and slower evolution. The optimal dynamic communication policy increases over the course of the overlapped phase if evolution is slow, and it decreases over time if evolution is fast. Second, dependence and uncertainty reduce the optimal degree of overlapping, while slower evolution may increase or decrease optimal overlap. Third, pre-communication can help to shift the tradeoff between overlap time gains and rework, and it thus results either in both optimal pre-communication and overlap being high, or neither being worthwhile.

Lockwood, Ben


This paper investigates how unemployment persistence affects the various proposals advanced as solutions to the problem of inflation bias (namely delegation, contracts and reputations). First, the contract solution is extended to cover the dynamic case. However, as such contracts are not used in practice, we focus on delegation solution. We find that the delegation of policy to a conservative Central Banker still proves attractive in a setting where unemployment persists; but the degree of conservatism depends critically on how the Central Banker discounts the future. Where the Central Banker discounts the future hardly at all, we find that the appropriate strategy is to delegate to candidates who are more conservative the more persistent the unemployment. Finally, we consider briefly how reputational factors might affect this result.

Lippman, S.A


This paper investigates whether it is possible to find Pareto-improving commodity tax reforms that harmonize taxes between two countries when governments supply public goods and thus have revenue requirements. It is shown that, with two
goods, and starting from Nash equilibrium taxes, any harmonizing reform will always make both countries worse off (better off) if the imported good is taxed less heavily (more heavily) than the exported good by both countries. An example suggests that harmonization is unlikely to be Pareto-improving if the revenue requirement is high, and the demand for imports is relatively price elastic. An alternative definition of harmonization, difference harmonization, which may yield Pareto-improvements under more general conditions, is proposed.

TI A Note on Discontinuous Value Functions and Strategies in Affine- Quadratic Differential Games. AU Jensen, Henrik; Lockwood, Ben.


AB This note shows that the government can achieve its precommitment outcome in monetary policy when output follows an autoregressive process by offering the central banker a linear inflation contract, where the parameters of the contract depend on lagged output. This note therefore offers an extension of recent results of Walsh to the case of persistence in real economic variables such as output or unemployment.

TI State Manipulation and Asymptotic Inefficiency in a Dynamic Model of Monetary Policy. AU Jensen, Henrik; Lockwood, Ben.


AB This paper analyzes the impact of changes in product market competition on the marginal cost of public funds and public goods supply when distortionary commodity taxes are used to raise revenue. First two benchmark results are established: a very general setting, a change in conduct of firms (as measured by the conjectural variation) has no effect on the marginal cost of public funds or on public good provision if (i) the number of firms is fixed and profits can be taxed at 100%; (ii) there is free entry and an entry tax on firms may be levied. The effects of restricting taxation of profits and ruling out entry taxes are investigated; more competitive behavior of firms does not necessarily lower the marginal cost of public funds and increase public good provision.

Loeffler, Andras

TI Market Demand Functions in the CAPM. AU Bottazzi, Jean-Marc; Hens, Thorsten; Loeffler, Andras.

TI Existence and Uniqueness of Equilibria in the CAPM with a Riskless Asset. AU Hens, Thorsten; Loeffler, Andras.

Lourenco, Richard De Abreu


AB A recent model of firms' pricing behavior by Laurence Ball and Gregory Mankiw has novel implications for the effect of relative price shocks on inflation. This paper examines these implications and establishes the importance of expected inflation for this story. We derive the model relationship between expected inflation, the economy- wide distribution of industry price changes and actual inflation, and show that both Australian and U.S. industry-price data strongly support this derived relationship. The inflationary impact of relative price shocks depends strongly on expected inflation. When expected inflation is high, a rise in the economy-wide dispersion of shocks is inflationary in the short-run. By contrast, when expected inflation is low, a rise in the dispersion of shocks has minimal impact on inflation. Economy-wide relative price shocks, like terms of trade shocks, are an unavoidable feature of the economic landscape. Their disruptive effect on inflation is minimal, however, when average inflation, and therefore average expected inflation, is kept low.

Lozano, Alejandro

TI Business Implications of Multimedia: The Case of Spain. AU Angelmar, Albert A.; Lozano, Alejandro.

Luelfesmann, Christoph

TI The Hold-Up Problem in Government Contracting. AU Boes, Dieter; Luelfesmann, Christoph.

Lusardi, Annamaria

TI Household Saving: Micro Theories and Micro Facts. AU Browning, Martin; Lusardi, Annamaria.

Ma, Yue


AB We argue that wages have increased so far ahead of labor productivity in East Germany as to produce a problem that will continue to hound German policy-makers for the next two decades. Despite rapid rates of capital accumulation (around 9 percent) and growth (around 5 percent) in East Germany over the coming ten years, our estimates show that even if wage catch-up decelerates greatly, as long as it continues, the rate of unemployment in the East will still be twice as high as in the West in another ten years. Alternatively, if wage discipline forces the Eastern unemployment rate to come down to the Western level, wage differentials will widen substantially over these next ten years. Thus serious problems loom ahead.
Machin, Stephen
AB In this paper I document changes in the distribution of employment in the UK labor market in the 1980s. I use two longitudinal data sources, an industry-level panel data set between 1979 and 1990, and the panel component of the 1984 and 1990 establishment-level Workplace Industrial Relations Surveys. There is evidence of a considerable shift towards the increased relative use of what may be termed more skilled labor (i.e. towards non-manual work, away from manual work and towards more highly-educated labor). This seems to be principally driven by within-industry and establishment factors rather than by industry/establishment shifts in product demand. There is some support for the notion that manual employment-saving changes, perhaps due to the increased use of computer technology and/or innovation, are of empirical importance.

TI Intergenerational Mobility in Britain. AU Dearden, Lorraine; Machin, Stephen; Reed, Howard.

Maharaj, E. A.
AB In many real world situations there is a need to compare two or more spectra. Tests to compare spectra already exist in the literature. In this paper we propose a test, based on Bartlett's modification of the likelihood ratio criterion, for comparing two or more spectra. Simulation studies show that for two independent stationary processes, this test is comparable and in some cases better than existing test procedures. The performance of this test for three independent stationary processes is also assessed.

Mairesse, Jacques
TI Production Functions: The Search for Identification. AU Griliches, Zvi; Mairesse, Jacques.

Makridakis, S.
AB This paper surveys all major accuracy measures found in the field of forecasting and evaluates them according to two statistical and two user oriented criteria. It is established that all accuracy measures are unique and that no single measure is superior to all others. Instead there are tradeoffs in the various criteria that must be considered when selecting an accuracy measure for reporting the results of forecasting methods and/or comparing the performance of such methods. It is concluded that symmetric MAPE and Mean Square Error are to be preferred for reporting or using the results of a specific forecasting method while the difference between the MAPE of NAIVE 2 minus that of a specific method is a preferable way of evaluating some specific method to some appropriate benchmark.

AB See the abstract for Makridakis and Hibon (1995). INSEAD Working Papers, 95/45/FRM.

AB The impact of the industrial revolutions on all aspects of our society, work and life has, undoubtedly, been substantial. Will all the talk about the information revolution produce similar, far-reaching changes? By examining analogous inventions of the industrial and information revolutions, this paper argues that the latter is on target and that by around the year 2015 it will be at about the same stage of development as the industrial revolution is today. This would mean extensive changes which will affect the way we shop, obtain services, work, educate and entertain ourselves. Furthermore, the impact of information technology on firms and management will be considerable, resulting in flat, horizontal organizations and an intensified competitive market place that spans our entire planet as people will be capable of buying goods and obtaining services from anywhere in the world by using computer networks like Internet.

AB The purpose of this paper is to study the Box-Jenkins methodology to ARIMA models and determine the reasons why in empirical tests it is found that the post-sample forecasting accuracy of such models is worse than much simpler time series methods. It is concluded that the major problem is the way of making the series stationary in its mean (i.e., the method of differencing) that has been proposed by Box and Jenkins. If alternatives approaches are utilized to remove and extrapolate the trend in the data, ARMA models outperform the corresponding methods involved in the great majority of cases.
In addition it is shown that using ARMA models to seasonally adjust data slightly improves post-sample accuracies while simplifying the use of ARMA models. It is also confirmed that the application of the Box-Jenkins methodology transforms slightly improves post-sample forecasting accuracy, particularly for lone forecasting horizons. Finally, it is demonstrated that AR(1) and AR(2), or their combination, produce as accurate post-sample results as those found through the use of Box-Jenkins methodology.

Maravall, Agustin

AB The paper deals with the statistical treatment of macroeconomic data for short-run economic analysis, monitoring and control. The main applications are short-term forecasting and unobserved components estimation, including trend and cycle estimation, and most often, seasonal adjustment. The paper briefly reviews some of the recent developments in the field, both at the methodological and applied levels. Then, it is argued that a fairly general approach, based on signal extraction methods and ARIMA models, will gradually spread as the dominant methodology. The last section contains a word of caution and illustrates the danger of applying these short-term statistical tools to long-term economic analysis.
Filters. Seasonal Adjustment. Detrended Data. VAR.

The paper addresses the situation in which an economic variable for which a series of observations is available, can be seen as the combination of several unobserved components (UC). UC models have been intensively used in applied economic research; they are often found, for example, in business cycle analysis. UC are also important in short-term policy and monitoring of economic variables, and an important example is seasonal adjustment. UC used in these two fields of applications (applied econometric research and statistical practical applications) often share the same basic structure. This paper deals with UC models displaying that type of structure. First, the limitations of ad hoc fixed filters are briefly discussed; attention is focused on the Hodrick-Prescott filter to detrend a series, and on the X11 filter to seasonally adjust a series. The paper develops then a general set up for a model based approach common to the vast majority of UC model applications. The basic feature is that the components follow linear stochastic processes. The problems of model identification, estimation and forecast of the components, diagnosis, and inference are sequentially addressed. The properties of the estimators (preliminary and historical) and of their associated estimation and forecasting errors are derived.

Two examples are discussed: the quarterly series of US GNP (to illustrate business cycle analysis) and the monthly series of the UK money supply (to illustrate seasonal adjustment). The paper contains some implications for applied econometric research. Two important ones are, first, that invertible models, such as AR or VAR models, cannot in general be used to model seasonally adjusted or detrended data. The second one is that to look at the business cycle in detrended series that are seasonally adjusted is a misleading procedure, since detrending plus seasonal adjustment will always induce a non trivial spectral peak for a cyclical frequency.

Maret, Isabelle
AB Structural properties of the demand of a large population introduced by the aggregation process are studied. The idea is to consider assumptions on the distribution of household characteristics rather than focusing on the modelling of individual behavior. In contrast to the existing literature where the Law of Demand is deduced from distributional requirements, the expectation about future prices are explicitly introduced in the household decision rule. Hence, heterogeneity of household behavior can be interpreted as reflecting heterogeneity in tastes and risk aversion which generates the distribution of expectation functions. It is proved that the introduction of assumptions on the distribution of these expectation rules (in addition to reasonable assumptions on the distribution of demand functions) allow an account of the Law of Demand, independent of strong restrictions on the Jacobian matrix of market demand.

Marin, Dalia
AB In the aftermath of the international debt crisis of the 1980s reciprocal trade arrangements experienced a resurgence. This paper examines how countertrade can help highly indebted countries to finance imports if they are not able to use standard credit arrangements. It compares the credit enforcement mechanisms discussed by the sovereign debt literature with those available under countertrade agreements and shows under what conditions countertrade can increase the debt capacity of highly indebted countries. The implications of our model for the design of optimal countertrade contracts are consistent with empirical evidence from a data set of 230 countertrade transactions.

Markides, C.C
AB We argue that the strategy of Related Diversification will enhance performance only when it allows a business to obtain preferential access to "strategic assets" -- that are valuable, rare, imperfectly tradable and costly to imitate. Even then, the advantage afforded by this access will eventually decay as a result of asset erosion and imitation by single-business rivals. In the long-run, therefore, only accumulated competences that enable the firm to build new strategic assets more quickly and efficiently than competitors will allow the firm to sustain supernormal profits. Both these short- and long-run advantages are conditional, however, on the diversified firm putting organizational structures in place that allow it to share its existing strategic assets and transfer the competence to build new ones between divisions in an efficient manner.

Martens, Martin
AB Index futures arbitrageurs only enter into the market if the deviation from the arbitrage relation is large enough to compensate for transaction costs and associated interest rate and dividend risks. We estimate the band around the theoretical futures price within which arbitrage is not profitable for most
arbitrageurs, using a threshold autoregression model. Combining these thresholds with an error correction model, we can make a distinction between the effects of arbitrageurs and infrequent trading on index and futures returns.

**TI** Interaction Between the London and New York Stock Markets During Common Trading Hours. AU Kofman, Paul; Martens, Martin.

**Martin, Carmela**

AB The increased integration of the economies of Central and Eastern Europe with the European Union (EU), as the Europe Agreements are progressively implemented, is projected to have a significant impact on trade flows with Spain, as exports and imports grow very rapidly, albeit starting from a very low base. In particular, the effect will be important for labor-intensive industries, which will confront export displacement in third (EU) markets and some foreign direct investment (FDI) diversion. Trade with Central and Eastern Europe is projected to increase, although it will still be a minor component of total Spanish trade or of EU trade with the Central and East European Countries (CEECs). The product composition of this trade will probably respond to the relative factor endowments underlying current trade patterns. Spain is likely to increase its exports of physical and human capital-intensive goods from these countries to the CEECs. An increase in Spanish imports of labor-intensive goods from these countries is also predicted. The comparatively small part of FDI which has been attracted by relatively low unit labor costs (and tends to be geographically concentrated in the less developed regions of Spain) may be seriously affected by FDI diversion, however, since alternative locations in the CEECs provide lower cost export bases and a significantly better access to the main EU markets.

**Martin, Gael**

AB The concept of fractional cointegration, whereby deviations from an equilibrium relationship are allowed to follow a fractionally integrated process, has attracted some attention in the literature of late. The long memory aspect of the fractional process is seen as an appropriate characterization of slow reversion to an equilibrium relationship. This paper presents a Bayesian method for conducting inference within the context of a fractional cointegration model. The analysis is based on an approximate likelihood function, which is motivated by the need both to solve a fundamental identification problem and to produce a posterior density with a relatively simple algebraic form. Inferences are based on the associated marginal posterior densities, estimated by a hybrid of the Gibbs and Metropolis Markov Chain Monte Carlo methods.


AB This paper presents a strategy for conducting Bayesian inference within the context of the triangular cointegration model. The numerical analysis is based on a hybrid of the Gibbs and Metropolis Markov Chain Monte Carlo methods. The use of a combination of two Markov Chain algorithms rather than a straight Gibbs Sampler occurs as a consequence of the complications induced by the prior specification. The specific form of the latter is, in turn, required for two purposes: First, in order to offset an identification problem which occurs when the cointegration model is extended to allow for the possibility of no cointegration; Second, in order to allow for an objective prior density on the parameter which determines the existence of cointegration.

**Martinas, Katalin**
**TI** Eco-Thermodynamics: Exergy and Life Cycle Analysis. AU Ayres, Robert U.; Ayres, Leslie W.; Martinas, Katalin.

**Masson, Paul R.**

AB The last two decades have diverged from earlier experience, with many countries having peacetime deficits. Widespread deficits are shown to be linked to expansion of social programs, unmatched by tax revenue increases. Contributing to this were the output slowdowns in the 1970s, and inflation declines and increases in real interest rates in the 1980s. Anticipated effects on pension and health-care spending of population aging make future prospects worrisome, and urgent measures are needed to limit increases in spending. Developing countries have typically not put in place such generous social programs. In designing pension systems, they need to ensure fiscal sustainability by limiting the scope of public pensions and encouraging funding.

**Mather, Dineli**
Simulation. Markov Processes.
AB The paper presents a generic interactive simulation model for Hepatitis C. The model can be used to predict the long-term outcome of existing or custom-made cohorts by changing numerous parameters simultaneously. It can also be used to estimate threshold values for parameters and immunization strategies.

Matousek, Roman
AB This paper reviews the method, adopted in the Czech Republic, of collecting non-performing loans in a consolidation bank. Its main focus lies in the financial analysis of the Consolidation Bank. The principal target of this analysis is to reveal the key weaknesses and shortcomings of the above-mentioned bank and the consolidation bank solutions to bad debt problems in transition economies. On the basis of this analysis we try to answer questions concerning how the Consolidation Bank should proceed in the near future with respect to dealing with its unfavorable loan portfolio.

Matsushima, Hitoshi
TI Private Observation and Communication in Implicit Collusion. AU Kandori, Michihiro; Matsushima, Hitoshi.

Matyas, Laszlo
TI Misspecified Heterogeneity in Panel Data Models. AU Blanchard, Pierre; Matyas, Laszlo.

Mavroidis, Petros C.
TI Antitrust-based Remedies and Dumping in International Trade. AU Hoekman, Bernard M.; Mavroidis, Petros C.
TI Linking Competition and Trade Policies in Central and East European Countries. AU Hoekman, Bernard M.; Mavroidis, Petros C.

Maxwell, K.
AB The limitations of existing software development effort estimation models suggest the need for the development of simple effort estimation models based on the prior determination of the independent factors which explain the productivity variation of a given database. This paper builds on our previous research which investigated the software productivity of a European Space Agency database consisting of 108 software development projects. The objectives of this paper were firstly, to develop and evaluate simple empirical effort estimation models which include only those productivity factors found to be significant for these projects; and secondly, to determine if models based on a multi-company database can be successfully used to make effort estimations within a specific company. This was accomplished by developing company-specific effort estimation models based on the significant productivity factors of a particular company and by comparing the results with those of the general ESA model. To our knowledge, no other published research has yet developed and analyzed software development effort estimation models in this way. Our study found that the best general effort estimation models were based on the size of the project and the main factors found to effect the productivity of the ESA dataset: application category, language, required software reliability, main storage constraint and the use of modern programming practices or software tools. The best company specific model was based on the two factors which explained the productivity of the individual company. Effort predictions made for the individual company’s projects using the general models were a great deal less accurate than the company specific model. However, it is likely that in the absence of enough resources and data for a company to develop its own model, the application of general models may be more accurate than the use of guessing and intuition.

Mazon, Cristina
AB This paper presents some evidence on the correlation between profits and market share in Spanish manufacturing firms at the industry level. The interest of this correlation is that a broad class of oligopolistic models is consistent with a positive correlation between these two variables. Establishing the correlation as a stylized fact would be useful as a guide to theoretical work and would allow some insight into market behavior in Spanish manufacturing over the period considered.

McAndrews, James J.
AB We observe that many wholesale switches in ATM networks are jointly owned by their members and that this tendency occurs more frequently when the wholesale industry is highly concentrated. We also observe that network switches are "natural monopolies," their costs being largely fixed and their demand exhibiting substantial network externalities. Motivated by these observations, we model the competition for members between wholesale switches and the role joint ownership can play in attracting members. The model analyzes both the adoption decision (which network a bank chooses to join) and
the subsequent pricing of switch and ATM services. We compare competition between two solely owned switches with competition between one solely owned and one jointly owned switch. Our analysis shows that a more concentrated structure results under the latter and that retail prices are higher. This calls into question the leniency of antitrust policy toward jointly owned structures.

McCall, Brian P.
TI Is Workers' Compensation Covering Uninsured Medical Costs? Evidence from the "Monday Effect". AU Card, David; McCall, Brian P.

McDermott, C.

McDermott, John
TI International Integration of Equity Markets and Contagion Effects. AU Cashin, Paul; Kumar, Mammohan S.; McDermott, John.

McDonald, Ronald
TI Consumption, Income, and International Capital Market Integration. AU Bayoumi, Tamim A.; McDonald, Ronald.

TI On the Optimality of Consumption Across Canadian Provinces. AU Bayoumi, Tamim A.; McDonald, Ronald.

McKitrick, Ross R.

AB The standard calibration method for constructing Computable General Equilibrium (CGE) models has been criticized for using weak parameter selection criteria, intrinsically-biased data and restrictive functional forms. An econometric methodology (Jorgensen, 1984) remedies these weaknesses, but has been used very little to date. The two methods are contrasted, and an exercise in comparative modeling is undertaken to assess the strength of the critique. It is argued that the numerical structure of a CGE model (that is, the parameters used in the cost and utility functions) influence specific sectoral results, but that the macroeconomic effects are largely determined by the overall theoretical framework and the functional forms used. Evidence is provided by developing a new CGE model using the econometric approach, and comparing its performance to a similarly-structured, calibrated CGE model, whose parameterization is significantly different.

McLaren, Keith R.

AB The adding up condition of budget share equations is known to imply restrictions for the autoregressive structure of errors. The implications of these restrictions when estimation is in terms of additive normal errors or additive logistic normal errors is clarified, and a byproduct is a specification of the autocorrelation matrix with a structure consistent with the model, but with number of parameters equal to the number of goods. This is more appealing than the scalar diagonal matrix form, but more parsimonious than having the number of parameters proportional to the square of the number of goods.

Meade, N.

Meeks, Geoffrey

AB It is widely accepted that a major role for financial reporting is to help participants in the financial markets to forecast a company's income. Why then do companies not routinely publish forecasts? It is not because providers and users of accounts are unaccustomed to using forecast data: many forecast variables are already embedded in conventional ex post accounts. A more important obstacle is that any forecast is inevitably contingent on the future "state of the world" which will confront the company-on exogenous economic conditions. This paper explores the difficulties this creates and proposes a partial solution.


AB This paper concerns the relationship between the numbers conventionally produced in company accounts and the numbers which would be required from accounts to inform rational economic decisions. It contrasts the legal conditions for insolvency, on the one hand, and the economic conditions for exit, on the other. And it outlines cases where the use of conventional accounts in legal contracts may trigger the failure of companies which on economic criteria should, and on
orthodox natural selection theory would survive.

Meeks, J. G. T.

TI The Loser's Curse: Accounting for the Transactions Costs of Takeover and the Distortion of Takeover Motives. AU Meeks, Geoffrey; Meeks, J. G. T. AA University of Cambridge. SR University of Cambridge, Discussion Papers in Accounting and Finance: AF18; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 15. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE G34, M41. KW Takeover. Transactions Costs.

AB British and American studies of share price movements in the period up to a takeover show that target company shareholders typically experience large gains in wealth but that acquiring company shareholders on average experience little or no gain. The reasons for this asymmetry and, in particular, for the absence of gains for the shareholders of the companies which initiate the deal are imperfectly understood. This note suggests one factor contributing to those results. It argues that standard accounting practice in the UK is non-neutral towards "successful" and "unsuccessful" bidders with respect to reporting the transactions costs of bidding. It shows how the prescribed accounting treatment of these costs affects performance measures used in salary contracts as well as in markets for executives and for corporate control. The result is that the managers of bidding companies will have an "artificial" incentive to inflate their bid price or to go ahead with a bid which offers no benefit to their shareholders.

Meeks, Geoffrey; Meeks, J. G. T.

TI The Loser's Curse: Accounting for the Transactions Costs of Takeover and the Distortion of Takeover Motives. AU Meeks, Geoffrey; Meeks, J. G. T. AA University of Cambridge. SR University of Cambridge, Discussion Papers in Accounting and Finance: AF18; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 15. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE G34, M41. KW Takeover. Transactions Costs.

AB British and American studies of share price movements in the period up to a takeover show that target company shareholders typically experience large gains in wealth but that acquiring company shareholders on average experience little or no gain. The reasons for this asymmetry and, in particular, for the absence of gains for the shareholders of the companies which initiate the deal are imperfectly understood. This note suggests one factor contributing to those results. It argues that standard accounting practice in the UK is non-neutral towards "successful" and "unsuccessful" bidders with respect to reporting the transactions costs of bidding. It shows how the prescribed accounting treatment of these costs affects performance measures used in salary contracts as well as in markets for executives and for corporate control. The result is that the managers of bidding companies will have an "artificial" incentive to inflate their bid price or to go ahead with a bid which offers no benefit to their shareholders.

Melitz, Jacques


AB The paper develops two economic grounds for gradualism in the context of the Russian move towards a market economy: one for the support of output through subsidies, and another for similar support through subsidies, and another for similar support through credit. The first argument relates to the usual case for softening the blow to a sector hit by an adverse, permanent shock. The other argument depends on the absence of a well-functioning capital market. Having presented the two arguments, we discuss the extent to which they justify the course of Russian policy. Essentially we show that the arguments support much less gradualism than actually took place in Russia in 1992 and 1993.

Menezes-Filko, Naercio

TI R&D and Union Bargaining: Evidence From British Companies and Establishments. AU Menezes-Filko, Naercio; Ulph, David; Van Reenen, John. AA Menezes-Filko and Ulph: University College London. Van Reenen: University College London and Institute of Fiscal Studies. SR University College London Discussion Paper: 95/11; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 44. PR 3 Pounds; checks payable to Department of Economics, University College London. JE O33, J51. KW R&D. Union Bargaining. Selectivity. Research and Development.

AB This paper investigates some micro-econometric models of R&D investment paying particular attention to the role of union bargaining. Recent theoretical work on R&D allows for strategic interactions in the product markets and R&D race. In this more general framework, the negative effect of unions on R&D only holds true when unions bargain only over the wage. When unions bargain over wages and employment but not R&D ("ex post") bargaining) R&D may initially rise with union power, before eventually falling. Using establishment and company data sets a simple negative correlation between union power and R&D is uncovered which appears consistent with the notion that union wage gains act as a tax on innovation. However, this association is never significant when human capital and technological opportunity are controlled for. Furthermore, there seems to be some evidence that enterprises with moderate union density have higher R&D intensities although very strong unions have consistently negative effects on R&D. This is broadly consistent with the theoretical model of ex post efficient bargaining.

Mertens, Antje


AB Why did it take only a couple of years for the CECs' ostensibly liberal trade regimes to be so much undermined by piecemeal protectionism? First, CEC trade policies were based on the wrong belief that regional disciplines were a good substitute for non-discriminatory world-wide disciplines. Second, CEC trade laws ignore the potential substitutability between instruments of protection -- an issue particularly acute in the case of contingent protection (antidumping, safeguard, and antisubsidy). If a CEC government wants to adopt contingent protection laws, national laws should do more than incorporate all the GATT provisions. The paper reviews a few suggestions, including the replacement of all the existing contingent protection under the Europe Agreements with the more economically sound Treaty of Rome Articles 91 and 92-93. By signing these batches of the Treaty of Rome, the CECs will become immediate (yet partial) members of the
Mestre Ricardo
AB The monetary policy transmission mechanism is analyzed in this paper with the help of a relatively standard macroeconometric model of the Spanish economy. A temporary increase in policy-set interest rates under different exchange rate regimes is simulated, and a careful decomposition of the channels of transmission of the shock is performed. The exercise highlights the importance of both business investment and the exchange rate in the transmission process. The influence of the business cycle is also taken into consideration.
Metcalfe, David
TI Spanish Pay Setting Institutions and Performance Outcomes. AU Milner, Simon; Metcalf, David.

Miller, Marcus
TI Designing Monetary Policy When Unemployment Exists. AU Lockwood, Ben; Miller, Marcus; Zhang, Lei.
PG 16. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE E42, F31, F33, F42. KW Target Zones. Regulated Brownian Motion. Time Consistent Policy. ERM.
AB Using Krugman's (1991) target zone model, we find an explicit, sub-game perfect solution for a central bank wishing to stabilize the exchange rate given proportional costs of intervention. We demonstrate, however, that precommitment to narrower bands would yield a welfare gain -- which provides a theoretical rationale for an Exchange Mechanism (ERM). Numerical simulations suggest that the optimal currency band with precommitment via an ERM is only half as wide as that under discretion.

Milner, Simon
PD not available. TI Spanish Pay Setting Institutions and Performance Outcomes. AU Milner, Simon; Metcalf, David.
AB Links between Spanish industrial relations institutions and performance outcomes are examined. Part I considers changes in various institutions since the end of the Franco period: the structure of collective bargaining; trade union organization; the activities and structure of management; the scope of bargaining; and the extent of informal bargaining. It goes on to see how such changes have affected macroeconomic performance. Part II examines the flexibility of the industrial wage structure. It considers how the relative job performance by sector is influenced by the flexibility in the pay structure and by minimum wage legislation.

Mollgaard, H. Peter
PD August 1995. TI Dynamic Bargaining in a Market With Multiple Encounters and a Time Constraint. AA University of Aarhus. SR University of Aarhus, Department of Economics, Memo: 1995/11; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK/8000 Aarhus C, DENMARK.
AB Most bargaining models of markets have agents trade an indivisible good only once. The quantity traded is determined by the number of agents. I retain the assumption of indivisibility but let agents trade with downward sloping net-demand curves in multiple periods. Matching is random in every period. There is a fixed time constraint. Agents trade in order to extract all possible gains from trade before the market closes. The Markov perfect equilibrium of the model is found. It is shown that it may well differ from the Walrasian equilibrium and that it need not be efficient.

Morgan, Alan
TI A Small Sample Variable Selection Procedure. AU Forbes, Catherine Scipione; King, Maxwell L.; Morgan, Alan.

Morgenthaler, J.D
TI Optimum Alphabetic Binary Trees. AU Hu, T.C.; Morgenthaler, J.D.

Muhleisen, Martin
PD November 1995. TI Monetary Policy and Inflation Indicators for Finland. AA International Monetary Fund.

This paper is assessing various leading indicators of inflation in Finland and their practical role in framework for Finnish monetary policy under a floating exchange rate. Following Friedman (1990) who argued for the explicit inclusion of a broad set of economic indicators in the monetary decision process, absent a practical intermediate target, this paper tests a large number of indicators for their relevance in determining future inflationary pressure and guiding monetary policy. The robustness of the indicators is examined under different models, guided by alternative views of the monetary transmission process. The results indicate that a monetary conditions index, stumpage prices, and real and nominal effective exchange rates are among the strongest indicators, affecting inflation with a lag of between 4 and 11 quarters.

Mukherjee, A.S


Although the literature has suggested that both organizational learning and quality improvement are crucial for competition, the link between the two is ill-understood. We explore this link by studying 62 quality improvement projects undertaken in one factory over a decade. A factor analysis identifies three learning constructs that characterized the learning process: scope, conceptual learning and operational learning. We use OLS regressions to study the impact of these learning constructs on project performance. We offer explanations based on the organizational learning literature. The mix of conceptual and operational learning is found to play a crucial role in consistently improving quality, creating new technological knowledge, and changing factory personnel’s attention. We formulate managerial recommendations and questions for future research.

Mullineux, Andy

TI Financial Innovation, Monetary Aggregates and Monetary Policy in the UK and Germany. AU Gaub, Werner; Mullineux, Andy.


The role of monetary aggregates in monetary policy in the UK and Switzerland is reviewed. The construction of Divisia monetary indices is then discussed and their potential usefulness as alternatives to traditional (simple-sum) monetary aggregates is considered. Finally, empirical evidence concerning the usefulness of various simple-sum and Divisia monetary aggregates in Switzerland and the UK is surveyed. It is concluded that there is accumulating evidence in both countries that Divisia indices are useful indicators of economic conditions, and especially inflation. The targeting of Divisia monetary indices is not, however, advocated.

Murota, Kazuo


Based on the optimality criteria established in Part I, we show a primal-type cycle-canceling algorithm and a primal-dual-type augmenting algorithm for the valuated independent assignment problem. The proposed algorithms generalize the previous algorithms for the independent assignment problem as well as for the weighted matroid intersection problem, including those due to Lawler (1975), Iri-Tomiwa (1976), Frank (1981), and Zimmermann (1992).


The weighted matroid intersection problem has recently been extended to the valuated matroid intersection problem. This paper develops a Fenchel-type duality theory related to this problem. By way of a concave extension of matroid valuations to the base polytopes, the dual problem is derived naturally. This generalizes the well-known primal-dual pair for the ordinary weighted matroid intersection problem. A Fenchel-type min-max theorem and a discrete separation theorem are given. Furthermore, the subdifferentials of matroid valuations are investigated.


Two equivalent axioms are given for valuations of a matroid. Let there be matroid on a finite set with, the family of bases. For a given function equivalent conditions are given. A similar result is obtained for valuations of a delta-matroid.


Recently, Dress and Wenzel introduced the concept of valuated matroid in terms of a quantitative extension of the
basis exchange axiom for matroids. This paper gives two sets of cryptomorphically equivalent axioms of valuated matroids in terms of a function defined on the family of the independent sets of the underlying matroid.

PD March 1995. TI Submodular Flow Problem with a Nonseparable Cost Function. AA University of Bonn. SR Universität Bonn Sonderforschungsbereich, Discussion Paper: 95843; Sonderforschungsbereich 303 an der Universität Bonn, Lennestasse 37, D53113, Bonn 1, DEUTSCHLAND. PG 25. PR no charge. JE C44, C61. KW Submodular Flow. Valuated Matroid. Negative Cycle. Combinatorial Optimization. AB The submodular flow problem with a nonseparable cost function is considered. The objective function is assumed to enjoy a variant of Steinitz's exchange property, which is satisfied, e.g., by a separable concave function on the base polyhedron and by a matroid valuation (in the sense of Dress and Wenzel). Two optimality criteria are established, one in terms of potentials and the other in terms of negative cycles in an auxiliary graph. These are natural extensions of the previous results for the submodular flow problem (with a linear or separable convex cost function) and for the valuated matroid intersection problem.

PD March 1995. TI Mathematical Mechanism Underlying Ecolon-Mode and Shear-Band Formations. AU Murota, Kazuo; Ikeda, Kiyohiro. AA Murota: University of Bonn. Ikeda: Tohoku University. SR Universität Bonn Sonderforschungsbereich, Discussion Paper: 95844; Sonderforschungsbereich 303 an der Universität Bonn, Lennestasse 37, D53113, Bonn 1, DEUTSCHLAND. PG 34. PR no charge. JE C44, C61. KW Echelon Mode. Cylindrical Domain. Group Theory. Shear Band. Successive Bifurcation. AB This paper presents a theory on the underlying mathematical mechanism of the ecolon mode (a series of parallel short wrinkles that look like a flight of stairs or wild geese arranged in formation) which has been observed ubiquitously with uniform materials, such as cylindrical soil specimens undergoing triaxial compression tests, but which has long denied successful numerical simulations. It is shown by means of the group-theoretic bifurcation theory that the ecolon mode formation can be explained as a recursive (secondary, tertiary, ...) symmetry-breaking bifurcation if O(2) x O(2) is chosen as the underlying symmetry to model the local uniformity of materials. This implies, for example, that the use of periodic boundaries is essential to successfully realize the oblique stripe patterns and the subsequent ecolon mode formation in numerical simulations.

PD June 1995. TI The Algorithms for Valuated Delta-Matroids. AA University of Bonn. SR Universität Bonn Sonderforschungsbereich, Discussion Paper: 95846; Sonderforschungsbereich 303 an der Universität Bonn, Lennestasse 37, D53113, Bonn 1, DEUTSCHLAND. PG 6. PR no charge. JE C44, C61. KW Valuated Delta-Matroid. Concavity. Degree of Subdeterminant. AB Two algorithms are proposed for computing the maximum degree of a principal minor of specified order of a skew-symmetric rational function matrix. The algorithms are developed in the framework of valuated delta-matroid of Dress and Wenzel, and are valid for valuated delta-matroids in general.

PD June 1995. TI Convexity and Steinitz's Exchange Property. AA University of Bonn. SR Universität Bonn Sonderforschungsbereich, Discussion Paper: 95848; Sonderforschungsbereich 303 an der Universität Bonn, Lennestasse 37, D53113, Bonn 1, DEUTSCHLAND. PG 43. PR no charge. JE C44, C61. KW Combinatorial Optimization. Exchange Property. Convex Analysis. Valuated Matroid. AB A theory of "convex analysis" is developed for functions defined on integer lattice points. We investigate the class of functions which enjoy a variant of Steinitz's exchange property. It includes linear functions on matroids, valuations on matroids (in the sense of Dress and Wenzel), and separable concave functions on the integral base polytope of submodular systems. It is shown that a function has the Steinitz exchange property if and only if it can be extended to a concave function such that the maximizers of (the concave function plus any linear function) form an integral base polytope. A Fenchel-type min-max theorem and discrete separation theorems are given, which contain (e.g., Frank's discrete separation theorem for submodular functions) Edmonds' intersection theorem, Fujishige's Fenchel-type min-max theorem for submodular functions, and also Frank's weight splitting theorem for weighted matroid intersection.

PD August 1995. TI Characterizing a Valuated Delta-Matroid as a Family of Delta-Matroids. AA University of Bonn. SR Universität Bonn Sonderforschungsbereich, Discussion Paper: 95849; Sonderforschungsbereich 303 an der Universität Bonn, Lennestasse 37, D53113, Bonn 1, DEUTSCHLAND. PG 16. PR no charge. JE C44, C61. KW Valuated Delta-Matroid. Exchange Axiom. Bisubmodularity. AB Two characterizations are given for a valuated delta-matroid. It is shown that a certain function is a valuation if and only if its conjugate function is "locally bisubmodular" at each point.

PD January 1996. TI Valuated Matroid Intersection, I: Optimality Criteria. AA University of Bonn. SR Universität Bonn Sonderforschungsbereich, Discussion Paper: 95837; Sonderforschungsbereich 303 an der Universität Bonn, Lennestasse 37, D53113, Bonn 1, DEUTSCHLAND. PG 21. PR no charge. JE C44, C61. KW Assignment Problem. Valuated Matroid. Combinatorial Optimization. AB The independent assignment problem (or the weighted matroid intersection problem) is extended using Dress-Wenzel's matroid valuations, which are attached to the vertex set of the underlying bipartite graph as an additional weighting. As natural extensions of the previous results for the independent assignment problem, two optimality criteria are established; one in terms of potentials and the other in terms of negative cycles in an auxiliary graph.

Mussa, Mihael
TI Long-Term Tendencies in Budget Deficits and Debt. AU Masson, Paul R.; Mussa, Mihael.

Muzyka, Daniel F.
considerable effort is being put into their transformation. In both the cry and the corporate response thereto, there has been an increasing focus on making organizations more "entrepreneurial", that is, opportunity-seeking. We have identified a small group of companies which have recognized their problems they have set their goal of creating companies that describe the end state that is being sought, the transformation process, we develop a series of propositions that are better able to adapt and seize opportunity on a sustained basis. Beginning with a summary of our understanding of the entrepreneurial corporation and the entrepreneurial transformations, and we close by showing how that, when once transformed, the organizations become self-regenerating.

TI Finding the High Flying Entrepreneurs: A Cautionary Tale. AU Birley, S.; Muzyka, Daniel F.; Dove, C.; Rossell, G.


AB By their very nature, new ventures carry high levels of risk for those involved. Moreover, the more complex the business and the larger the levels of investment required, the greater are likely to be the chances of failure. Yet it is in these circumstances that entrepreneurs are less likely to be able to fund the business from their own or their family resources. As a result, they seek external investors, usually from within the Venture Capital community. Here, the people with whom they are dealing are unlikely to be able to draw upon personal knowledge of the entrepreneurial team or upon the business "track record", so they must rely upon other criteria to inform their decision. Several studies of venture capital investment criteria have been carried out previously, often utilizing traditional Likert-scaled survey methods. They have produced some general findings which indicate that the "human factor" is of utmost importance. However, virtually all of these studies have been undertaken with U.S. base venture capitalists. In addition, they have generally been exploratory and have assumed a single hierarchy of decision criteria in all cases and across all venture capitalists. We do not accept that this latter is a valid assumption. Therefore, this research aims to test this presumption by investigating the "trade offs" made by venture capitalists in Europe.


Myles, Gareth D.


AB The optimal audit policy is analyzed for an independent revenue service when a social custom exists that rewards honest tax-paying. The implication of the existence of the social custom is that in equilibrium the income level of a taxpayer cannot always be inferred exactly from their report. The structure of the optimal audit policy is determined both for a fixed (report-invariant) audit probability and for when the audit it is shown that an interior solution exists to the decision problem of the revenue service and comparative statics results are given. When the audit probability can vary, the audit function is proved to be a decreasing function of the income report which reaches zero at the highest income report of a tax evader. Increases in the fine for evading and in the tax rate raise the optimal audit probability.


AB The level of economic activity is never measured perfectly because of problems of definition, inaccuracies in data collection and the existence of the hidden economy. Such mismeasurement implies that government policies based on official statistics can be optimal only by chance. The analysis formalizes this observation in a two-sector economy and attempts to quantify the direction and extent of the bias introduced into policy by the failure to account for the true size of the economy.


AB The paper shows how the differing incidence of specific and ad valorem taxation in imperfectly competitive markets can be exploited to control international oligopoly. If countries are using their tax instruments in combination achieve the same outcome, either the first-best or the constrained second-best, as direct production control. When a single country regulates the oligopoly, circumstances are shown to exist in which taxation is superior to production control.

Nadiri, M. Ishaq

This paper explores the use of joint ventures as a potentially powerful tool to facilitate corporate restructuring. It argues that forming a joint venture with a prospective future owner who will buy out the business following a transition period has important advantages for both parties, especially where the corporate challenge is to exit a non-core business whose main value lies in under-utilized intangible assets like brands, distribution relationships, business systems and experienced teams. The joint venture process can help the seller avoid the destructive impact of putting a business up for auction and gain some of its future upside potential in a higher, final exit price once the potential for performance improvement has been demonstrated. For the prospective buyer it proves the opportunity to observe the business as an “insider” before making final commitments on acquisition terms, time to disentangle the business unit from its former parent, and the opportunity to avail itself of continued managerial and technical input from the restructurer during the process of hand-over. This joint venture solution does, however, carry the penalty of higher administrative costs. In order to minimize this burden and to reflect their transitory nature, restructuring joint ventures need to be structured and managed differently from their more traditional joint venture cousins.

AB This paper addresses the issue of selecting pricing institutions in a bilateral monopoly. Suppose a buyer and seller can benefit from exchanging one unit of a good. The seller is entitled to select the pricing institution. He can either make a take-it-or-leave-it offer or enter a bargaining game. Under incomplete information, a take-it or leave-it offer performs two tasks. When information is one-sided incomplete, it prevents the occurrence of a Coase conjecture outcome. When uncertainty is two-sided, it signals the seller’s cost in providing the good. Thus, a seller who finds it unprofitable to commit under one-sided incomplete information, may be prepared to do so when the buyer is uncertain about his type. This leads to conclude that pricing institutions are endogenous with respect to the information available to the trading parties.

Naylor, Robin A.
AB Theoretical models of the adverse selection component of bid-asked spreads predict the component arises from asymmetric information about a firm’s fundamental value. We test this prediction using two well known models (Glosten and Harris (1988) and George, Kaul, and Nimalendran (1991)) to estimate the adverse selection component for closed-end funds. Closed-end funds hold diversified portfolios and report their net asset values on a weekly basis. Thus, there should be little uncertainty about their fundamental values and their adverse selection components should be minimal. Estimates of the component from the two models, however, average 19 and 52 percent of the spread. These estimates, while smaller than corresponding estimates from common stocks, are large enough to raise doubts about the reliability of these models.

Neal, Robert
AB Previous tests of stock index arbitrage models have rejected the no-arbitrage constraint imposed by these models. This paper provides a detailed analysis of actual S&P 500 arbitrage trades and directly relates these trades to the predictions of index arbitrage models. An analysis of arbitrage trades suggests that (I) short sales rules are unlikely to restrict arbitrage, (ii) the opportunity cost of arbitrage funds exceeds the Treasury Bill rate, and (iii) the average price discrepancy captured by arbitrage trades is small. Tests of the models provide some support for a version of the arbitrage model that incorporates an early liquidation option. The ability of these models to explain arbitrage trades, however, is relatively low.
Neary, Hugh M.
AB We examine firm profitability in mixed duopoly equilibrium with one labor managed (LM) firm and one profit maximizing (PM) firm, and with strategic investment. We show (1): no mixed-duopoly equilibrium exists in which the firms simultaneously earn zero profits; (2) parameter values such that the LM (resp. PM) firm has zero profits ensure losses for the PM firm (resp. profits for the LM firm); (3) in a mixed duopoly that replaces a zero-profit PM (resp. LM) duopoly, the LM firm is always profitable, but the PM firm may or may not be profitable (resp. is never profitable).

Neary, J. Peter
TI Learning by Doing, Precommitment and Infant-Industry Protection. AU Leahy, Dermot; Neary, J. Peter.

Nedde, Ellen
AB This paper reviews the structure and trends of the U.S. welfare system and the U.S. Administration’s reform proposals. It shows that, despite the attention the program receives, the welfare program is actually quite small and has experienced moderate rates of growth. However, the system does face serious problems. In particular, its structure sets up strong financial disincentives to paid employment and saving at the same time that its low level of benefits fails to lift low-income children and their families out of poverty.

AB The Administration’s proposals to reform the U.S. health care system sought to provide for universal health insurance coverage while containing the growth of health care spending. This paper focuses on the latter issue and discusses the ability of regulatory and market-oriented reforms to achieve health care cost containment from several angles: an international comparison of national cost containment measures, a review of past cost containment efforts in the United States, and a discussion of the estimated effects on health care costs of alternative proposals to reform the U.S. health care system.

Neumann, Manfred J.M
AB This paper presents a comparative study of the generation and distribution of seigniorage in Japan and Germany. The focus is on the contribution that seigniorage has made to the finance of budget deficits. It is shown that over decades this has been much less than one would expect applying the traditional concept of monetary seigniorage or the Drazen-concept of the real resource burden carried by the private sector. The study reveals for both countries that the differential loss of seigniorage results from negative real returns on the portfolio of non-government debt. A major factor is the repeated revaluation of the yen and the D-mark which has reduced the annual rate of return by about 2 percentage points on average over the sample period 1961-91 in both countries.

AB This paper discusses alternative explanations of trends in the velocity of different money aggregates put forward in the literature. We make a fresh approach towards explaining changes in velocity trends by introducing a hypothesis on the distribution of money holdings. This leads to a number of new hypotheses about the impact of different kinds of structural change on the velocity of money, such as permanent immigration, rising unemployment or the growing importance of the services sector. We present some evidence for Germany that suggests that trend changes in the structure of the economy may have induced a negative velocity trend.

AB The paper reexamines the inflation bias of time-inconsistent monetary policy. A benevolent government may eliminate the bias by using two policy instruments instead of one. However, the time-inconsistency result can be kept formally, provided a non-benevolent government has the private interest of preserving the level of distortionary regulation and of collecting the inflation tax. Such government has no use for normative solutions of the inflation problem. The paper also presents a positive theory of central-bank independence. Goal independence should be defined as the right for bankers of choosing target values. On the hypothesis that the bankers’ non-pecuniary payoff depends on expected inflation, they will deliver zero inflation.

PD January 1996. TI Problems in Measuring Central-Bank Independence. AA University of Bonn. SR Universität Bonn Sonderforschungsbereich, Discussion
Bonn, Lennestrasse 37, D53113, Bonn 1, DEUTSCHLAND.

Bank Independence. Central-Bank Indicators.

While the government suffers from the time-inconsistency problem to monetary policy at full scale if the central banker is completely dependent executor of government directives, the problem can be diminished by providing the central banker with the power of running monetary policy differently by himself. Rogoff (1985) has shown that a government gains from appointing a more "conservative" central banker who puts a larger weight on the objective of zero inflation than the objective function of the government implies. The Rogoff-banker achieves lower inflation on average at the cost of reducing the degree of output stabilization. In the theoretical literature Rogoff's more conservative central banker is considered to be an independent banker. However, this is a misleading interpretation, given that this banker does not enjoy goal independence but is subordinated to the government's objective function (Neumann, 1995).

Neumark, David


Neven, Damien


AB This paper analyzes the political economy of trade liberalization by the European Community towards Eastern nations. We identify the sectors that are both sensitive and politically effective. We find that Eastern nations may have a comparative advantage in industries that use capital and (relatively) unskilled labor intensively. We suggest that a shift in the distribution of income away from capital and labor in favor of human capital and regional distribution may drive the political economy of protection in the North of Europe. By contrast, the protection of specific factors may be the most important element in the South of Europe.


AB This paper reports the results of a model whose purpose is to estimate the impact that Airbus's presence has had on the market for large commercial airliners. Our model reproduces (in a multi-stage game) a stylized characterization of six main stages in the development of the large commercial airliner in a triopoly with four products segments. Then the model is used to ask a number of counterfactual questions about what would have happened in a variety of circumstances (notably ones in which Airbus did not enter the market). Besides product developments, we also model decisions about the level of expenditure on research and development, in order
to see whether Airbus’s presence has had an impact on the type and technological specification of aircraft produced as well as on their quantity and price. We find that given the prior presence of McDonnell-Douglas in this market, Airbus has had only a modest impact on the prices of commercial airliners (an average of 3.5%).

Neves, Joao C.
TI Business Cycles in a Small Open Economy.
AU Correia, Isabel; Neves, Joao C.; Rebelo, Sergio.

Nielsen, Carsten Krabbe
AB The paper introduces some simplifying tools and methods for studying Rational Beliefs and for proving existence of Rational Belief Equilibria: We identify a set of stable non-stationary stochastic processes, named SIDS processes. Furthermore, we introduce the concept of a Rational Belief Structure, which formulates the Rational Beliefs of the agents as beliefs about the distribution of exogenous variables and the beliefs of other agents. The use of the developed apparatus is demonstrated by showing existence of a set of Rational Belief Equilibria in an Overlapping Generations Model with money and one commodity.

Nielsen, J. Aase
AB The purpose of this paper is to analyze the effect of stochastic interest rates on the pricing of Asian options. It is shown that a stochastic, in contrast to a 'deterministic', development of the term structure of interest rates has a significant influence. The price of the underlying asset, e.g. a stock or oil, and the prices of bonds are assumed to follow correlated two dimensional Itô processes. The averages considered in the Asian options are calculated on a discrete time grid, e.g. all closing prices on Wednesdays during the lifetime of the contract. The value of an Asian option will be obtained through the application of Monte Carlo simulation, and for this purpose the stochastic processes for the basic assets need not to be severely restricted. However to make comparison with published results originating from models with deterministic interest rates we will stay within the setting of a Gaussian framework.

Nilles, Delia
KW Competition Policy. Switzerland. Political Economy.
AB This paper provides a critical review of competition policy in Switzerland. We analyze the legal statute, the institutional arrangements for its implementation and the case law since 1985. We find that Cartel Commission which was given wide discretion by the law has been relatively immune from judicial and political challenge and vulnerable to interest groups. The analysis of the relevant markets, the evaluation of dominance and that of countervailing benefits tend to be poorly motivated. In addition, the concept of effective competition, which is central to the implementation of the law, has not been substantiated by the case law. Accordingly, the decisions tend to be highly judgmental, which reflects the weak accountability of the Commission. Fortunately, both the substantial provisions of the law and institutional framework have been improved by the recent revision of the statute. Being more accountable, the Commission may have no choice but to improve its practice.
Stability.
AB In this paper we develop a game-theoretic model of alliance formation in three-country systems to examine the effects of inter- and intra-alliance competition on alliance stability. In our model, countries first choose what alliances to form and then decide how many resources to invest in defense. Our analysis suggests that both types of competition affect every country’s investment decisions and alliance strategies. Four main conclusions can be drawn from our theoretical results. First, in order for a grand coalition to be stable, the distribution of initial resource among the three countries must be fairly symmetric. Second, the stand-alone system can never be stable. Third, the bipolar system with the two weaker countries forming an alliance can never be stable. Finally, a high degree of intra-alliance cooperation can reduce the likelihood of inter-alliance conflict.

Noeldeke, Georg
TI A dynamic Model of Equilibrium Selection in Signaling Markets. AU Samuelson, Larry; Noeldeke, Georg.

Norman, George
PD June 1994. TI Product Variety and Welfare Under Discriminatory and Mill Pricing Policies. AU Norman, George; Thisse, Jacques-Francois. AA Norman: University of Edinburgh. Thisse: CERAS and Ecole Nationale des Ponts et Chaussées. SR Centre for Economic Policy Research, Discussion Paper: 972; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 19. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE L13, L41, R32. KW Discriminatory Pricing, Mill Pricing, Product Variety. Regulation. Spatial Contestability. AB We re-examine the economic justification for the regulation of firms’ spatial price policies. Existing analysis, by treating market structure as exogenous, loses an important trade-off. Discriminatory pricing is more competitive between incumbents but acts as a strong deterrent against entry. Product variety is determined by the degree of spatial contestability of the market (the ability of entrants to make binding location commitments) and by whether firms can price discriminate. The entry deterring effect of discriminatory pricing is dominant whatever the degree of spatial contestability. The lower the degree of spatial contestability, the more effective is discriminatory pricing at limiting entry and the more likely is it that mill pricing is socially desirable.

Nowakovski, Joerg
PD March 1996. TI Using the Generalized Assignment Problem in Scheduling the ROSAT Space Telescope. AU Nowakovski, Joerg; Schwaerzler, Werner; Triesch, Eberhard. AA University of Bonn. SR Universität Bonn Sonderforschungsbereich Werkstoffwissenschaft, Discussion Paper: 95852; Sonderforschungsbereich 303 an der Universität Bonn, Lennestraße 37, D53113, Bonn, DEUTSCHLAND. PG 20. PR no charge. JE C44, C61. KW Assignment Problem. AB ROSAT is a satellite-borne X-ray observatory. Mission planning consists of scheduling up to half a year in advance a preselected large collection of targets. It is shown that a relaxation of the ROSAT scheduling problem can be modeled as a generalized assignment problem and that the solutions obtained with this method lead to good solutions of the non-relaxed problem. Other heuristics as well as upper bounds on the quality of solutions are discussed.

O’Rourke, Kevin
PD June 1994. TI Irish Economic Growth, 1945-88. AU O’Rourke, Kevin; Grada, Cormac O. AA University College Dublin. SR Centre for Economic Policy Research, Discussion Paper: 975; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 46. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE N14, O47. KW Economic Growth. Convergence. Ireland. AB The paper reviews the economic performance of the Republic of Ireland since 1945. Its focus is comparative: Ireland’s record is assessed against the evidence in OECD and Penn Mark V datasets for “convergence club” of European economies, and is found wanting. The comparison confirms that the 1950s were a particularly bleak decade for Ireland but, more surprisingly, Ireland also performed less well than predicted by convergence criteria in both the 1960-73 and 1973-88 periods. The paper then assesses a range of explanations for this poor performance.

Oates, Wallace E.
PD December 1994. TI Green Taxes: Can We Protect the Environment and Improve the Tax System at the Same Time? AA University of Maryland. SR University of Maryland, Department of Economics, Working Paper: 94/10; University of Maryland, Department of Economics. College Park, MD 20742. PG 19. PR no charge. JE H21, H23, Q28. KW Pollution Taxes. Environmental Regulation. AB This paper explores the emerging literature on the “double dividend:” the claim that pollution taxes can both reduce environmental damage and provide a more efficient tax system that relies less heavily on distorting taxes. The initial findings in this literature suggest somewhat surprisingly that there may be no such double dividend. Moreover, the results have some troubling implications for the properties of other types of regulatory programs. The paper then goes on to discuss the central issues in the design and implementation of environmental taxes.

Offer, Avner
PD January 1996. TI Between the Gift and the Market: The Economy of Regard. AA Nuffield College, Oxford. SR University of Oxford, Discussion Papers in Economic and Social History: 3; Avner Offer, Nuffield College, Oxford, OX1 1NF. PG 42. PR not available. JE D51, D52, D64. KW Exchange Markets. Gifts. Intergenerational Transfers. AB "The Great Transformation" from customary exchange to impersonal markets has not been completed. Reciprocal exchange pervades modern societies. It takes the form of "gifts" which are reciprocated without certainty. It is driven by the pursuit of "regard": the approbation of others. The idea is found in Adam Smith’s work. Money is avoided in regard exchange, because it is impersonal. Instead, the regard signal is embodied in goods, services or time (attention). The personalization of gifts authenticates the signal. Large-scale reciprocal exchange persists in family formation and in inter-generational transfers. It features in labor markets, in agriculture, in the professions, in marketing, in entrepreneurship, and also in corruption and crime. Reciprocal exchange is constrained by time and psychic...
Oppers, Erik
AB This paper formalizes Irving Fisher's century-old model of bimetallism and adds the important disequilibrium dynamics to deal with the long periods during which bimetallist countries were on effective monometallic standards. It resolves a long-standing puzzle in the bimetallism literature regarding the remarkable stability of the gold/silver price ratio in the nineteenth century by modeling the bimetalltic mint ratio as a regulating barrier to the gold/silver price ratio. It thus provides a clean-cut example of target-zone model that, in contrast to other such models in the literature—exhibits the main predicted nonlinearities in the data.

Ord, J.K
AB A class of dynamic, nonlinear, statistical models is introduced for the analysis of univariate time series. A distinguishing feature of the models is their reliance on only one primary source of randomness: a sequence of independent and identically distributed normal disturbances. It is established that the models are conditionally Gaussian. This fact is used to define a conditional maximum likelihood method of estimation and prediction. A particular member of the class is shown to provide the statistical foundations for the multiplicative Holt-Winters method of forecasting. This knowledge is exploited to provide methods for computing prediction intervals to accompany the more usual point predictions obtained from the Holt-Winters method. The methods of estimation and prediction are evaluated by simulation. They are also illustrated with an application to Canadian retail sales.

Ostry, Jonathan D.
TI Does the Nominal Exchange Rate Regime Matter? AU Ghosh, Atish R.; Guilde, Anne-Marie; Ostry, Jonathan D.; Wolf, Holger C.
TI Macroeconomic Shocks and Trade Flows Within Sub-Saharan Africa: Implications for Optimum Currency Arrangements. AU Bayoumi, Tamim A.; Ostry, Jonathan D.
AB In this paper we develop a fully game-theoretic version of the right-to-manage model of firm-level bargaining where strategic interactions among firms are explicitly recognized. Our main aim is to investigate how equilibrium wages and employment react to changes in the labor and product markets, the business cycle and economic policy. We show that our comparative statics results hinge crucially on the strategic nature of the game, which in turn is determined by the relative bargaining power of unions and managers.

Otker, Inci
AB This paper estimates a speculative attack model of currency crises in order to identify the role of economic fundamentals and any early warning signals of a potential currency crisis. The data from the Mexican economy was used to illustrate the model. Based on the results, a deterioration in fundamentals appears to have generated high one-step-ahead probabilities for the regime changes during the sample period 1982-1994. Particularly, increases in inflation differentials, appreciations of the real exchange rate, foreign reserve losses, expansionary monetary and fiscal policies, and increases in the share of short-term foreign currency debt appear to have contributed to the market pressures and regime changes in that period.

Ours, Jan van
TI Temporal Aggregation Bias in Stock-Flow Models. AU Coles, Melvyn G.; Burdett, Kenneth; Ours, Jan van.

Overmeer, W.J.A.M
TI Strands of Practice in OR (The Practitioner's Dilemma). AU Corbett, C.J.; Overmeer, W.J.A.M.; Van Wassenhove, Luk N.
TI What the Cases Don't Tell Us. AU Corbett, C.J.; Overmeer, W.J.A.M.; Van Wassenhove, Luk N.

Paarsch, Harry J.
TI Differences in Earnings and Wage Distributions Between Canada and the U.S.: An Application of a Semi-Parametric Estimator of Distribution Functions with Covariates. AU Donald, Stephen G.; Green, David A.; Paarsch, Harry J.

Padilla, A. Jorge

Pages, Carman
TI The Cost of Business Cycles and the Stabilization Value of Unemployment Insurance. AU Beaudry, Paul; Pages, Carman.

Palomba, Geremia
PD April 1995. TI How to Combine Pareto Optimality and Individual Liberty Using Welfare Interpersonal

AB This paper examines the possibility of using welfare interpersonal comparisons to solve the "Impossibility of a Pareto Liberal" paradox of Sen. It discusses previous results by Suzimura and Wriglesworth, who sought a solution to Sen's paradox by using justice principles.

Papell, David H.
TI The Great Wars, the Great Crash, and the Unit Root Hypothesis: Some New Evidence About an Old Stylized Fact.
AU Ben-David, Dan; Papell, David H.

Paque, Karl-Heinz

AB This paper examines whether the different macroeconomic performances of the German economy in two post-war decades provide evidence for the theory (first advanced by Mancur Olson) that sharp institutional breaks are conducive to economic growth because they destroy the existing network of distributional coalitions. It is shown that the answer to this question is negative because the institutional break in Germany after World War II was much less complete than assumed by Olson and others: all major interest groups quickly regained their traditional strength, and they did so in organizational forms that were not substantially more encompassing than before in the sense of Olson's theory. The paper proposes an alternative interpretation of the relevant periods in terms of stable corporatist institutions that reduce the absorptive capacity of an economy in a symmetric way, thus exacerbating the growth and employment effects of negative and positive exogenous shocks that originate in changes of the terms of trade or the speed of productivity growth.

Parker, Philip M.

AB The deregulation of the telecommunications industry has resulted in a variety of industry structures which have been created in the hope of increasing competition. One example is the licensing of cellular telephone services in the United States. In the face of scarce radio spectrum, the Federal Communications Commission (FCC) has created duopolies in which two firms are granted licenses to compete in strictly defined product and geographic markets. Rate regulation typically imposed for natural monopolies is forgone because it is believed that two firms provide sufficient competition to prevent collusive pricing. We test this assertion using data collected from the cellular telephone industry in the United States. We find that cellular prices are significantly above competitive, as well as non-cooperative duopoly levels.

TI Marketing Information: A Competitive Analysis. AU Sarvary, M.; Parker, Philip M.

AB This paper builds on the recent literature on order-of-entry effects which indicates that it is critical to model the diffusion phenomenon of a new brand in order to estimate marketing mix elasticities and order-of-entry effects. More specifically, we test hypotheses regarding the role of order-of-entry on the brand level trial process within a category. Consistent with these research hypotheses, the results demonstrate that a brand's trials and its pricing and advertising elasticities vary systematically as a function of competitive entry. Competitive influences (which are negative) increase as order-of-entry is delayed. Short-term price elasticities are found to be an inverted U relationship with the order-of-entry, whereby early followers have the highest elasticities, as compared to the pioneer and to the later followers. Advertising elasticities decline as the number of competitors increases.
AB Economic growth in Denmark in the post-war years has been close to the OECD average. The “golden age” of very high growth was, however, of shorter duration in Denmark than in most other OECD countries. The main emphasis in this paper is on the description of productivity performance in the post-war years, and growth performance in a long-run international context. Growth perspectives originating in the 1930s and 1940s are included before the analysis of growth determinants in the post-war years is taken up. Sectoral shifts in production and shifts in relative prices contribute significantly to a reduction of growth some years before the OPEC oil price shocks. Finally, economic policy in the post-war years is discussed with special emphasis on the implications for growth.

Peitz, Martin

AB In a differentiated oligopoly a finite number of firms compete in prices. Using aggregation procedures of Grandmont and Prekopa I derive the existence and uniqueness of an equilibrium from distributional assumptions on the customers’ characteristics. Furthermore, I apply the theory of games with strategic complementarities to obtain results on comparative statics and learning.


AB In various common models of discrete choice it is assumed that consumers either choose one variant of a good of which they consume one unit and none of the other variants or they choose the outside option. Articles analyzing this class of models usually commence with an evaluation function which is called a conditional indirect utility function. A consumer chooses the variant with the highest value: if for some variant the value is positive, a consumer buys one unit of the variant which gives him the maximal value. Otherwise, he chooses the outside option. Duality theory suggests that there is an associated direct utility function. However, the results of duality theory cannot be applied to this problem because continuity is not satisfied. Therefore, there are some doubts whether the evaluation function is indeed an indirect utility function and whether it is consistent with utility maximization. I will construct a direct utility function such that the underlying preference relation satisfies reflexivity, transitivity, completeness, and local nonsatiation. I will then show that this direct utility function has as its counterpart the indirect utility function I was looking for. Hence consumer behavior in discrete choice models of the type presented can be derived from utility maximization.

TI The Differentiation Triangle. AU Canoy, Marcel; Peitz, Martin.
that the associated game is dominance solvable.

AB One model is a duopoly, where the two firms are differentiated. They compete in prices on a market with differentiated goods. Goods are defined in the spirit of Hotelling: When they are the same. The other model is a duopoly with differentiated goods. Goods are defined in the spirit of Hotelling: When they are the same. Two one-product firms compete in prices on a market with differentiated products. Goods are differentiated because consumers switch from one good to the other at different relative prices. With the specification that total expenditure in the market is price-independent I give new results on the existence and uniqueness of equilibrium.

PD March 1995. TI Models a la Lancaster and a a Hotelling: When They are the Same. AA University of Bonn. SR Universität Bonn Sonderforschungsbereich, Discussion Paper: A/479; Sonderforschungsbereich 303 an der Universität Bonn, Lennestrasse 37, D53113, Bonn 1, DEUTSCHLAND. PG 13. PR no charge. JE D11, D43, L13. KW Duopoly Equilibrium. Price Competition. AB Two one-product firms compete in prices on a market with differentiated goods. Goods are defined in the spirit of Hotelling: When they are the same. They are differentiated because consumers switch from one good to the other at different relative prices. With the specification that total expenditure in the market is price-independent I give new results on the existence and uniqueness of equilibrium.

Peng, Wensheng
PD November 1995. TI The Fisher Hypothesis and Inflation Persistence -- Evidence from Five Major Industrial Countries. AA International Monetary Fund. SR International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 16. PR not available. JE E31, E43. KW Fisher Effect. Interest Rate. Inflation. AB This paper presents an empirical evaluation of the strength of the Fisher effect which predicts a positive relationship between the nominal interest rate and inflation in the postwar period in the five major industrial countries, utilizing recently developed time series techniques. The results suggest that the Fisher effect is stronger in France, the United Kingdom, and the United States than in Germany and Japan. It is argued that the differences in the linkage between the interest rate and the inflation rate as between the two groups of countries reflect in the time series properties of the inflation rates, which are, in turn, partly attributable to the different extent to which monetary authorities accommodated inflationary shocks. The empirical results have a number of implications for the long-term trend in the SDR interest rate and for the financing of the Fund’s operations.

Persson, Karl Gunnar
PD December 1995. TI Despotic Liberalism and the Decline of Grain Market Regulation in Europe 1760-1850. AA University of Copenhagen. SR University of Copenhagen, Institute of Economics, Discussion Paper: 95/17; Institute of Economics, University of Copenhagen, Studiestræde 6, 1455 Copenhagen K, DENMARK. PG 21. PR not available. JE N23, N43, N73. KW Grain Markets. Deregulation. AB The paper analyzes the long century of deregulation of European grain markets. Eighteen century reformers won the intellectual battle as to the merits of laissez faire markets for...
grain but failed to convince the angry crowds, which were alerted by temporary increases in prices. Not until falling transport prices in the nineteenth century helped the integration of markets did they perform well enough to end popular endorsement of traditional market intervention.

Pezzey, John
PD July 1995. TI Single-Peakedness and Initial Sustainability in Capital Resource Economics. AU Pezzey, John; Withagen, Coes. AA Pezzey: University College London. Withagen: Eindhoven University of Technology. SR University College London Discussion Paper: 95/69; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 28. PR 3 Pounds; checks payable to Department of Economics, University College London. JE O41, Q32. KW Single Peakedness. PV-Optimality. Sustainability. Non-Renewable Resources. Constraint Technology. AB We show that utility and consumption are single-peaked or always falling over time on the PV-optimal (present-value-maximizing) path of a constant technology economy with one non-depreciating capital and one non-renewable resource stock, provided that the production function has constant returns to capital and resource flow, or is of Cobb-Douglas form. In the Cobb-Douglas case, we also show that a low (high) enough utility discount rate causes the PV-optimal consumption path to be initially sustainable (unsustainable) and rising (falling). We give a special case where explicit formulae can be found for the PV-optimal paths of all variables.

Phylaktis, Kate
PD December 1995. TI Capital Market Integration in the Pacific Basin Region: an Analysis of Real Interest Rate Linkages. AA International Monetary Fund. SR International Monetary Fund, Working Paper: 95/133; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 23. PR not available. JE F21, F31, F32, F36. KW Interest Rates. Error Correction Models. Cointegration. Asia. AB This paper investigates the extent to which financial markets in the Pacific Basin Region have become more integrated, by analyzing the comovements of real interest rates. The paper uses cointegration and error correction models and draws inferences on the degree of capital market integration by looking at the speed of adjustment of real interest rates following a shock. The results show that there has been an increase in capital market integration with both U.S. and Japan during the 1980s. Japan has not, however, overtaken U.S. in dominating the financial markets of these countries, except possibly in the case of Malaysia. Capital market integration is found to be greater in Singapore, Hong Kong and Taiwan Province of China. On the other hand, Japan is the least integrated with the United States.

Piccione, Michele
PD June 1995. TI Cost-Reducing Investment, Optimal Procurement and Implementation by Auctions. AU Piccione, Michele; Tan, Guofo. AA University of British Columbia. SR University of British Columbia, Department of Economics Discussion Paper: 95/16; Department of Economics, University of British Columbia, 1873 East Mall, Room 997, Vancouver, B.C. V6T 1Z1 CANADA. PG 29. PR 20 cents per page Canadian to other than educational institutions. JE D44, G43, O32. KW Optimal Procurement. Auctions. Research and Development. AB In this paper, we introduce cost-reducing investment in a standard procurement model. Potential Suppliers invest in research and development (R&D) and then compete for a procurement contract from a buyer. We analyze two different settings. In the first one, the buyer is able to commit to a procurement mechanism prior to investment. We show that when the R&D technology exhibits decreasing returns to scale the full-information solution can be uniquely implemented by first-price and second-price sealed-bid auction mechanisms. In the second setting, the buyer and the suppliers choose procurement mechanisms and the levels of investment simultaneously. We provide conditions for unique equilibrium and show that as the number of suppliers increases the equilibrium contract exhibits high-powered incentives.

TI Entry and Exit in Hub-Spoke Networks. AU Hendricks, Ken; Piccione, Michele; Tan, Guofo. TI A Simple Model of Expert and Non-Expert Bidding in First Price Auctions. AU Tan, Guofo; Piccione, Michele.

Pill, Huw
PD November 1995. TI Financial Indicators and Financial Change in Africa and Asia. AU Pill, Huw; Pradhan, Mahmood. AA International Monetary Fund. SR International Monetary Fund, Working Paper: 95/123; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 27. PR not available. JE D92, E21, ES1, ES2, ES8. KW Economic Reform. Deregulation. Financial Stabilization. Africa. Asia. AB Deregulation of the financial system often proceeds in tandem with macroeconomic stabilization centered on monetary and other financial targets. This paper presents a model where there may be conflict between these processes. The indicator properties of some financial variables may be rendered unstable by the liberalization process. However, other carefully selected financial aggregates may contain information about economic activity that is useful to policy makers during stabilization. Data from a group of selected African and Asian countries is examined. These are broadly consistent with the predictions of the model, while highlighting the importance of macroeconomic and financial stability for the success of financial reforms.

Pinkse, Joris
PD September 1995. TI A Simple Test for Spatial Correlation in Probit Models. AU Pinkse, Joris; Slade, Margaret E. AA University of British Columbia. SR University of British Columbia, Department of Economics Discussion Paper: 95/29; Department of Economics, University of British Columbia, 1873 East Mall, Room 997, Vancouver, B.C. V6T 1Z1 CANADA. PG 9. PR 20 cents per page Canadian to other than educational institutions. JE C12, C52, C21, C25. KW Spatial Statistics. Generalized Residuals. Binary Choice. Probit Model. Discrete Choice. AB We propose a test for spatial correlation in Probit models that is a joint test for exclusion of spatially lagged-dependent variables and absence of spatial-error correlation. We give a maximum-likelihood justification for the test but use a simulations approach rather than relying on its asymptotic distribution.
Planas, Christophe
TI Estimation Error and the Specification of Unobserved Component Models. AU Maravall, Agustin; Planas, Christophe.

Pong, Christopher K.M
AB Evidence from the archives of the UK Accounting Standards Committee (ASC) is used to trace the events leading to the withdrawal of the current cost accounting standard, SSAP16, from 1980 to 1988. The ASC's role as a regulatory body is discussed in the light of the failure to obtain compliance with SSAP16 and to find an acceptable replacement.

Portier, Franck
TI Idiosyncratic Uncertainty, Capacity Utilization and the Business Cycle. AU Fagnart, Jean-Francois; Licandro, Omar; Portier, Franck.

Potts, C.N
TI Local Search Heuristics for Single Machine Scheduling With Batching to Minimize the Number of Late Jobs. AU Crauwels, H.A.J.; Potts, C.N.; Van Wassenhove, Luk N.

Pradhan, Mahmood
PD November 1995. TI Financial Indicators and Financial Change in Africa and Asia. AU Pill, Huw; Pradhan, Mahmood.

Prasad, Eswar
AB This paper extends the equilibrium business cycle framework to incorporate ex ante skill heterogeneity among workers. Consistent with the empirical evidence, skilled and unskilled workers in the model face the same degree of cyclical variation in real wages although unskilled workers are subject to substantially higher procyclical variation in employment. Systematic cyclical changes in the average skill level of employed workers are shown to induce bias in aggregate measures of cyclical variation in the labor input, productivity, and the real wage. The introduction of skill heterogeneity improves the model's ability to match the empirical correlation between total hours and the real wage but the correlation between total hours and labor productivity remains higher than in the data.

Pritt, Cliff
PD March 1996. TI The New Audit Exemption Regime. AA University of Cambridge. SR University of Cambridge, Discussion Papers in Accounting and Finance: AF21; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 33. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE K23, L51, M41. KW Audit Exemption. Small Companies. UK.
AB The Research Board of the Institute of Chartered Accountants commissioned this study of the new rules for audit exemption for small companies, which were introduced in 1994. The study was based on two surveys using questionnaires to obtain the views of practitioners and the directors of companies about the new audit exemption regime. The conclusions of the study were that the effects of audit exemption have been beneficial. Companies have obtained a small saving in costs and have not suffered any adverse consequences. The main caveat to this conclusion was that at the time the study was made it was not possible to assess the long-term effects of audit exemption.

Price, L.J

AB An integrative review of signaling theory literature pertaining to brand reputations and warranties serves as the basis for hypothesizing about the joint effects of the two quality signals on consumers' perceptions of product quality, as well as their intentions to purchase. Although prior research largely treats brands and warranties separately, tending to stress the superiority of brand signals over warranties, we identify conditions under which the two signals interact to determine consumer evaluations. In addition, we find evidence that the dimensions along which quality judgments are made by consumers in response to warranty signals may depend on the strength of a brand's reputation. The latter effect suggests that consumers do not always interpret the two signals independently. Findings are discussed in terms of their fit with signaling theory assumptions as well as their implications for product management.

TI A Cross-Cultural Study of Interpersonal Information Exchange. AU Dawar, N.; Parker, Philip M.; Price, L.J.

Proulx, Chris

TI Hard Bargains and Lost Opportunities. AU Binmore, Ken; Proulx, Chris; Samuelson, Larry; Swierzbinski, Joe.

Prusa, Thomas J.

TI Cumulation and ITC Decision-Making: The Sum of the Parts is Greater Than the Whole. AU Hansen, Wendy L.; Prusa, Thomas J.


Psaradakis, Zacharias


AB This paper considers regression-based test criteria for testing the hypothesis of conditional variance nonstationarity in the logarithmic family of GARCH processes. The tests are based on the ARMA representations that appropriate nonlinear transformations of GARCH-type processes admit. Simulation experiments investigate the performance of the tests in finite samples, both in the presence and absence of a structural change in the conditional variance process. The methods are also used to test the hypothesis of integration in variance for some economic time series.

Pycke, D.F

TI The Residual Life of the Renewal Process: A Simple Algorithm. AU Baghania, M.P.; Pycke, D.F; Ferrer, G.

TI The Undershoot of the Reorder Point: Tests of an Approximation. AU Baghania, M.P; Pycke, D.F; Ferrer, G.

Qian, Yingyi


AB The majority of enterprises in China are controlled by local governments at the provincial, city, country, township and village levels. We study the effect of regional decentralization on soft budget constraints in these enterprises. We show that fiscal competition under (foreign) capital may be effective in hardening enterprises' budget constraints. Decentralization of monetary authority leads to a softening of local governments' budget constraints, however, as well as those of enterprises. Fiscal decentralization combined with monetary centralization (i.e., fiscal federalism) may achieve not only hard budget constraints but also the objective of monetary restraint. We also examine the effect of labor and product market conditions on soft budget constraints. We apply our model to explain harder budget constraints of the enterprises controlled by lower-level governments of townships and villages in China.

Quah, Danny


AB This paper reinterprets a simple model of growth and fluctuations across many economies to allow for the explicit characterization of the dynamically-evolving cross-economy distribution of income. Such a framework provides a more natural, revealing study of the convergence hypothesis. The data show limited intra-distribution mobility in incomes across economies and thus, little convergence. The analysis uncovers some "convergence club"-like dynamics, and reveals the wide diversity in growth experiences across countries. Conditioning on physical capital investment, secondary school enrollment, and a dummy for the African continent fails to overturn these characterizations.

Rasmussen, Bo Sandemann

PD March 1996. TI Imperfectly Competitive Factor Markets and Price Normalization. AA University of Aarhus. SR University of Aarhus, Department of Economics, Memo: 1996/5; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK/8000 Aarhus C,

AB A two sector general equilibrium model with imperfectly competitive labor markets is set up. Noncooperative equilibria are shown to depend on the choice of the price normalization rule even though all agents behave fully rationally. Hence, imposing rationality is not sufficient to deprive the choice of the price normalization rule of its importance. It is argued that the importance of the choice of the price normalization rule may follow from the strategic interaction of agents and not from imperfection of competition per se, and some examples are provided.

Rau, P.R.


AB An efficient market is supposed to aggregate all available and relevant information into prices. Consequently, prices change only because of the expected arrival of new information. This information is usually related to factors governing the supply and demand of goods in the market. This paper examines a case at a business school in Europe where one trader in a sophisticated email market announced that he was trading on ethical considerations rather than on profit maximization considerations as the others were. This seemingly irrelevant announcement caused the entire market to collapse. The paper hypothesizes that this is because the announcement made it no longer common knowledge that all market participants were rational, which caused a consequent breakdown in the market. The phenomenon emphasizes how critical is the usually unstated assumption of the common knowledge of rationality of the participants and suggests that the traditional analyses of "irrational" "noise" trader risk may not capture all the effects of irrationality.

Rauscher, Michael


AB International Trade and environmental regulation are interdependent. Central and East European Countries (CEECs) are now being integrated in international markets, and the question arises how environmental issues should be taken account of during this process and which institutional framework is appropriate. The first part of this paper reviews the theoretical and empirical evidence of a close link between international trade and environmental issues is not particularly strong. Another section of the paper looks at the environmental policies of the CEECs and at their comparative advantages. The main part of the paper deals with trade law and institutions that are of major importance in the context of environmental disruptions and with environmental policy instruments and institutions that affect the patterns of trade and can be used for protectionism purposes. They are discussed in the context of the experience with existing international agreements. The major questions are: (i) how the capture of environmental regulation by protectionist interest groups can be avoided; (ii) under which circumstances the CEECs should adjust their environmental standards to West European levels; (iii) whether and when green barriers to trade should be used; (iv) what can be done to avoid harmful tax competition in the field of environmental regulation; and (v) how international disputes can be resolved.


AB Does international tax competition in the environmental field lead to undesirably low levels of environmental regulation and to unacceptable standards of environmental quality? The paper attempts to answer this question in a non-competitive partial-equilibrium framework. There is one firm that wishes to establish a plant in one of n countries. The paper shows that tax competition may lead to emission taxes that are either too low or too high. They may be so high that the investment is not undertaken although this would be optimal if the countries cooperated. On the other hand, taxes may be driven to zero if there are substantial transfrontier pollution effects.

Ravn, Morten O.


AB In this paper we look at the long-run growth implications of labor market distortions. The analysis is cast in a model where growth is generated by two alternative sources of enhancing labor productivity. The first is that workers before entering the job market may undertake schooling. Secondly, workers may undertake training within firms as unskilled workers and thereby become skilled workers. We investigate how a minimum wage requirement for the unskilled may affect long-run growth. In general, the effects are ambiguous. Firms react to minimum wages by offering less training to the unskilled workers and this has a negative effect on growth. However, this makes workers increase their schooling level, which will tend to increase the growth rate. The net effect then depends on whether schooling or training dominates long-run increases in labor productivity.

PD March 1996. TI A Reconsideration of the Empirical Evidence on the Asymmetric Effects of Money Supply Shocks: Positive versus Negative or Big versus Small? AU Ravn, Morten O.; Sola, Martin. AA Ravn: University of

AB In this paper we reconsider the empirical evidence on the possible asymmetric effects on aggregate output of changes in nominal demand. Many versions of such asymmetries are common in the theoretical literature. The particular versions of asymmetries that we will concentrate on are the following. The first is the traditional Keynesian asymmetry which is concerned with different effects of positive and negative changes in money supply stating that the former, for various reasons, are neutral, and the latter have real effects. Earlier empirical studies have found evidence in favor of this hypothesis but we argue that the results are not robust to changes in the money supply process. Using an alternative empirical technique, we argue that the evidence points instead towards asymmetric effects of big and small changes in nominal demand, i.e. that there is a non-linear relationship between nominal demand changes and output changes. The empirical results imply that big shocks are neutral but small shocks have real effects. The findings indicate that the relevance of menu cost models but also imply that the traditional Keynesian asymmetry has less empirical support.

Raybould-Massilia, Marzia


AB This is a survey of the literature on multinational theory, focusing on its relation to the most recent international trade theory. Although the latter has experienced an impressive development in the last ten years, a comprehensive analysis of foreign direct investments is still missing. This discussion will depart from the seminal contributions of Hymer (1960) and go to the most recent developments on strategic foreign direct investment.

Rebelo, Sergio

TI Policy, Technology Adoption and Growth. AU Levine, Ross; Easterly, William; King, Robert; Rebelo, Sergio.

TI Business Cycles in a Small Open Economy. AU Correa, Isabel; Neves, Joao C.; Rebelo, Sergio.

Reed, Howard

TI Intergenerational Mobility in Britain. AU Dearden, Lorraine; Machin, Stephen; Reed, Howard.

Reimer, Matthias

TI Binomial Models for Option Valuation: Examining and Improving Convergence. AU Leisen, Dietmar; Reimer, Matthias.

Reinhart, Vincent

TI Flexible Estimation of Demand Schedules and Revenue Under Different Auction Formats. AU Feldman, Robert A.; Reinhart, Vincent.

Renstrom, Thomas


AB We endogenize the objective of a monopoly firm in a general equilibrium context. Within this framework a distributional conflict occurs between shareholders, depending on their endowments. Following a political-economy approach and using voting theory, the production plan of the firm is endogenized. The economic equilibrium is characterized for distributions of shares, and we find that a privately owned monopoly may very well act as a competitive firm, while a publicly owned monopoly may not.


AB The paper gives a systematic treatment of equivalent tax systems within an intertemporal framework. Proportional taxes levied on labor income, consumption expenditure and/or capital income. First a standard set up is used, where individuals receive utility from one consumption good and leisure. A range of equivalence results are derived. Next it is shown that all equivalence results break down when individuals can revise their consumption decisions slightly more often than the government can revise fiscal policy. Finally, a framework of household production is analyzed: individuals receive utility from consumption of a market good and a home produced good. Labour and capital are then divided between market production and home production. Similar equivalence results are obtained and they break down when there is a difference in timing between the individuals and the government.


AB The paper studies optimal redistributive taxation when the government cannot commit to future policy. The framework used is one in which individuals can revise their consumption-saving decisions slightly more often than the government can change tax policy. This motivated as individuals choosing consumption in continuous time and the government choosing
tax rates in discrete time. The government chooses consumption tax rates and capital-income tax rates according to a feedback rule. The steady-state properties of the economy are examined. The steady state consumption and welfare depend on the time interval during which fiscal policy cannot be revised. The consumption tax rate, consumption for all individuals, and welfare are higher in an economy where the government can revise policy less often. In such an economy the capital-income tax is lower.

Restoy, Fernando
TI Volatility Transmission Along the Money Market Yield Curve. AU Huertas, Juan Ayuso; Haldane, Andrew G.; Restoy, Fernando.

TI Is Exchange Rate Risk Higher in the E.R.M. After the Widening of Fluctuation Bands? AU Huertas, Juan Ayuso; Jurado, Maria Perez; Restoy, Fernando.

Richter, Marcel K.
TI Implicit Functions and Diffeomorphisms without Continuous Differentiability. AU Hurwicz, Leonid; Richter, Marcel K.

Riddell, Craig

AB In recent years there has been a significant increase in interest in education and skill formation. This paper provides a broad overview of this subject in the Canadian setting. Our examination of recent labor market developments concludes that the increased emphasis being given to human capital formation is appropriate. Indeed, when the quantity (employment, labor force participation) and price (relative wages) dimensions are both examined, the recent changes affecting individuals with different levels of educational attainment and experience are dramatic. Although some of the increase premiums on education and experience can be attributed to the effects of the recessions of the early 1980's and early 1990's, these developments are also consequences of underlying structural changes such as those due to globalization and technological change. Associated with this greater attention to the skills of the workforce has been an assessment of our education and training systems. Our review of this ongoing assessment covers a wide range of topics relating to human capital formation: primary and secondary education, post-secondary education, private sector training, and government sponsored training.

TI Alternative Measures of Unemployment Based on Flow Data. AU Jones, Stephen R.G.; Riddell, Craig.

Ritschl, Albrecht O.

AB The paper assembles and reviews data on growth performance for East Germany. Conclusions are only tentative, as data reliability is still poor. Examining factor growth and total factor productivity performance, the paper arrives at three main conclusions. First, large-scale dismantling of capital by the Soviets was outweighed by migration, such that the aggregate capital-labor ratio in East Germany around 1950 was similar to that of West Germany. Second, the record of productivity growth follows the common pattern for Western countries. The productivity slowdown set in with a delay, however, as foreign borrowing and subsidized oil imports isolated East Germany from the first oil shock. Third, when these subsidies ended and debt service mounted, East Germany ran into a debt crisis, with productivity growth becoming zero or even negative in the 1980s.

Rob, Rafael
TI Shared Ownership and Pricing in a Network Switch. AU McAndrews, James J.; Rob, Rafael.


AB This paper constructs and analyzes an economic model of repeated product innovations in which the introduction of one product forms the base from which the development of the next product will start. The innovation process depends both on the flow of R&D expenditures and on the length of time over which they accrue. The products are durable, so although products become technologically obsolete due to the introduction of new and superior products, consumers need not replace the products they already possess. We determine rational expectations equilibria under the monopoly and the duopoly regimes, and we use them to interpret a vast body of empirical literature which documents the frequency of innovations of various durable goods, changes in their quality adjusted prices, and how these variables vary in a cross section of products and over time. The model shows that the decentralized market equilibria are inefficient. We also analyze the effect of various policy instruments, including output taxes or subsidies and patent limitations, which can be used to remedy the inefficiencies.

Robertson, Thomas S.

AB Technology alliances have emerged in the past decade as
a significant mode of innovation development. The present research assesses: (1) factors explaining whether firms will engage in technology alliances or utilize the more traditional mode of internal R&D and (2) the market success rate of innovation development depending on the mode selected. The hypotheses stem from a transaction cost conceptualization. The results are encouraging in identifying factors which relate to the selection of a technology development mode and the success rate of each mode. Firms which pursued a technology alliance in line with the model's predictions achieved higher market success rates.

TI Incumbent Defense Strategies Against New Product Entry. AU Gatignon, Hubert; Robertson, Thomas S.; Fein, Adam J.

Rodrik, Dani

AB Three questions lie at the core of the large and distinguished literature on the political economy of trade policy. First, why is international trade not free? Second, why are trade policies universally biased against (rather than in favor of) trade? Third, what are the determinants of the variation in protection levels across industries, countries, and institutional contexts? These questions are handled only imperfectly by the existing literature. Current models treat trade policy as a redistributive tool, but do not explain why it emerges in political equilibrium in preference over more direct policy instruments. Further, existing models do not generate a bias against trade, implying that pro-trade interventions are as likely as trade-restricting interventions. The greatest contribution of the political economy literature may lie in developing a better grasp of normative economic analysis -- that is, in helping design policies, rules, and institutions.

Rola, Paula
TI How Much Does Hiring and Firing Cost? Survey Evidence From Italy. AU Del Boca, Alessandra; Rola, Paula.

Roland, Gerald
TI Regional Decentralization and the Soft Budget Constraint: The Case of China. AU Qian, Yingyi; Roland, Gerald.

Roller, Lars-Hendrik
TI Collusive Conduct in Duopolies: Multimarket Contact and Cross-Ownership in the Mobile Telephone Industry. AU Parker, Philip M.; Roller, Lars-Hendrik.

T1 Capacity Pricing Under Uncertainty. AU Kende, M.; Roller, Lars-Hendrik.

Ros, Jaime

AB This paper examines the dynamic implications of a shift in relative prices between traded and non-traded goods. In accordance with empirical evidence we allow for sluggish wage adjustment and the presence of increasing returns to scale in the traded goods sector. The existence of increasing returns to scale gives rise to the possibility of multiple equilibria, and with multiple equilibria trade, liberalization and the associated short-run changes in relative prices can have long-term, real consequences. It may leave the economy outside a "corridor of stability" and lead to a cumulative process of contraction of the capital stock. The likelihood of this happening increases in the case of radical and abrupt trade liberalization which is unaccompanied by currency devaluation. A number of trade liberalization experiences (including those of Chile from 1974 to 1982 and Mexico from 1988 to the present crisis) illustrate in practice the dangers highlighted by the model.

Rosenbluth, Gideon

AB This paper addresses an issue of considerable importance and interest for provincial economic policies: To what extent can a provincial government reduce unemployment by policies that raise provincial GDP? In particular, to what extent can the reduction of unemployment be frustrated by interprovincial migration? These issues are examined through a system of equations that model the interaction between Canadian interprovincial migration and provincial employment, unemployment, wage rates, output, population, and labor force. The parameters of the equations are estimated from statistics for the years 1966 to 1981. The model is used in simulation exercises which investigate: i) the effectiveness of employment creation in one province in reducing unemployment in that province, and ii) the extent to which migration reduces interprovincial differentials of wage rates and unemployment rates. The results suggest that: i) the dissipation of unemployment reduction through migration is relatively muted and slow; and ii) migration is not effective in reducing overall interprovincial inequality in unemployment rates and wage rates, though it changes the rankings. In conclusion, the effects of interprovincial migration do not eliminate the potential for growth-oriented policies of an individual province to reduce unemployment in that province.
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Anderson, E.; Weitz, B. AA Ross: Temple University. Anderson: INSEAD, Weitz: University of Florida. SR INSEAD, Working Papers: 95/53/MKT; INSEAD, Boulevard de Constance, Fontainebleau, 77305 Cedex, FRANCE. PG 42, PR not available. JE C71, D82, G22. KW Principal-Agent. Insurance. Asymmetric Commitment. AB We focus on the principal-agent relationship in a distribution channel. In a services context (insurance), we examine how two facets of performance, from the point of view of both the principal and the agent, are influenced by the perceiver’s belief that it is more committed to the relationship than is the other party. Using primary data from 255 insurance agent-insurance provider dyads, we show that each side’s assessment of how much it benefits from the dyad is related in a potentially dysfunctional manner to its perception of asymmetric commitment. Perceivers rate their performance outcomes from the dyad (i.e. harmony and profit) highest when they believe they are less committed than their counterpart. Conversely, they rate their own performance outcomes lowest when they believe they are more committed than the other party. We explain this finding in terms of suspected opportunism and offer a partial test of this explanation compared to explanations from theories of equity and opportunism and offer a partial test of this explanation. Further, we demonstrate that each party’s perception of asymmetric commitment partially reflects actual asymmetry, as measured by confidential data collected from both sides. Perceived asymmetric commitment is also shown to be related to levels of communication and dependence in the dyad. Managerial implications for reducing perceived asymmetric commitment and improving the performance outcomes of each dyad member are discussed.

Rossell, G. TI Finding the High Flying Entrepreneurs: A Cautionary Tale. AU Birley, S.; Muzyka, Daniel F.; Dove, C.; Rossell, G. ROTHBLUM, Uriel G. PD December 1995. TI Optimal Search on a Stochastic Tree With an Application to Multi-Phased R&D Scheduling. AU Rothblum, Uriel G.; Van der Heyden, Ludo. AA Rothblum: Israel Institute of Technology. Van der Heyden: INSEAD. SR INSEAD, Working Papers: 96/05/TM; INSEAD, Boulevard de Constance, Fontainebleau, 77305 Cedex, FRANCE. PG 42, PR not available. JE D83, O32. KW Stochastic Tree. Search Theory. Stochastic Routing. Stochastic Scheduling. R&D Scheduling. AB We consider the problem of determining a path of feasible edges from the root of a directed tree to any one of its endpoints so as to minimize the expected search cost. Each edge in the tree is characterized by an exploration cost and a feasibility probability. When an edge is explored and found unfeasible, all paths using this edge become unfeasible too, and other paths must be looked for. An algorithm for solving the problem is provided. The obtained solution exhibits the dynamic aspect of searches in this setting. In particular, one may encounter repeated jumping between different parts of the tree. This model was motivated by the problem of determining an optimal schedule for an R&D project presenting several options where each can be decomposed into multiple phases satisfying precedence relationships. The model’s solution demonstrates that in such situations the optimal R&D schedule exhibits a parallel, adaptive structure: at any moment in the search, several options might be “at hand” and might in turn be reactivated as unfeasibility is revealed among certain of these options.

Ruhm, Christopher J. PD March 1995. TI Parental Leave Policies in Europe and North America. AU Ruhm, Christopher J.; Teague, Jackeline L. AA Ruhm: University of North Carolina Greensboro and National Bureau of Economic Research. Teague: Center for Economic Research. SR National Bureau of Economic Research, Working Paper: 5065; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 21, PR $5.00. JE J22, J32. KW Family Leave. Efficiency. Paid Leave. AB Despite widespread international implementation, limited information is currently available on the economic impact of mandated family leave policies. This paper increases our understanding of the nature and effects of parental leave entitlements in several ways. First, we provide a brief history of family leave legislation in Europe and North America and summarize arguments relating to the efficiency and incidence of mandated leave. Second, we have constructed a longitudinal data set detailing durations of job-protected leave in 17 countries, during 1960-89 period, and use this information to examine recent trends in the regulations. The data indicate that family leave durations grew rapidly during the decade of the 1970s, with more modest increase since that time. Third, we provide an exploratory investigation of the relationship between mandated leave policies and macroeconomic outcomes. The econometric estimates provide little support for the view that moderate periods of parental leave reduce economic efficiency but rather hint at a modest beneficial impact, particularly when considering paid time off work.

Rumelt, Richard P. PD August 1995. TI The Nature of the Large Corporation. AU Rumelt, Richard P.; Stopford, John M. AA Rumelt: INSEAD, Stopford: London Business School. SR INSEAD, Working Papers: 96/06/SM; INSEAD, Boulevard de Constance, Fontainebleau, 77305 Cedex, FRANCE. PG 31, PR not available. JE L22. KW Large Corporations. Corporation Organization. C-Logic. M-Logic. Full-Fledged M-Form. AB The large corporation is the productive engine of the modern industrial world. The contemporary view of the corporation sees it not as an agglomeration of assets or contracts, but as a holder of specialized resources-rights, reputations, routines, and competencies. The very size of large corporations signals the presence of unusual concentrations of these specialized resources. The corporation's organization is both the repository of special competencies and the agent for the creation of new resources. Hence the critical distinctive feature of the modern large corporation is its organizational form. We are presently in a period in which the "ideal" organizational form (or forms) is in flux. Fifteen to twenty years ago there was general agreement in Western countries that the Full-Fledged M-form represented an "ideal" towards which most large corporations ought to strive. The dominant managerial logic was based on efficiencies gained through control (C-Logic). Simultaneously, in Japan an alternative ideal form evolved, emphasizing the values of problem-solving at low levels in the organization, extensive coordination,
experimention and organizational learning (L-Logic). The market for corporate control in Anglo-Saxon countries, and the general trends of globalization, deregulation, and technological advance have, however, forced a collision between the two and broken yesterday’s consensus and sense of certainty in both the East and the West. Collision has spurred large firms towards dramatic internal transformations. In the West, these have commonly included moves to flatten the organization, rest-centralize the overall strategic direction and emphasize goals other than profits, to increase coordination as well as operating autonomy for business-unit results, to rely more on working-level problem-solving and to leverage capabilities by identifying and disseminating best-practice within the firm. In Japan, there have been similar moves, but often seemingly in the opposite direction. There, are efforts to increase profit consciousness and the discipline of hierarchical controls as well as to lower total costs by a combination of further technical advance and accelerated internationalization. In both cases, the elements of transformation are seldom all in harmony with one another and large firms are now experimenting to discover which combinations are effective.

Runggaldier, W.J.
TI Convergence of Option Values under Incompleteness.
AU Schweizer, Martin; Runggaldier, W.J.

Sadrieh, Abdolkarim
TI RatImage-Research Assistance Toolbox for Computer-Aided Human Behavior Experiments. AU Abbink, Klaus; Sadrieh, Abdolkarim.
TI RatDemo-A Ready-to-Run Experiment in 99 Program Lines. AU Abbink, Klaus; Sadrieh, Abdolkarim.

Saint-Paul, Gilles
TI Uneven Technical Progress and Job Destruotions. AU Cohen, Daniel; Saint-Paul, Gilles.

Salama-I-Martin, Xavier

Sala-I-Martin, Xavier
TI Capital Mobility in Neoclassical Models of Growth. AU Barro, Robert J.; Mankiw, N. Gregory; Sala-I-Martin, Xavier.


AB Social Security programs around the world link public pensions to retirement: people do not lose their pensions if they make a million dollars a year in the stock market, but they do confront marginal tax rates of up to 100 percent if they choose to work. After arguing that most existing theories cannot explain this fact, I construct a positive theory which is consistent with it. The main idea is that pensions are a means to induce retirement, that is, to buy the elderly out of the labor force. The reason is that aggregate output is higher if the elderly do not work. This is modelled through positive externalities in the average stock of human capital: because skills depreciate with age, the elderly have lower than average skills and, as a result, they have a negative effect on the productivity of the young. When the difference between the skill level of the young and that of the old is large enough, aggregate output in an economy where the elderly do not work is higher. Retirement is desirable in this case, and social security transfers are the means by which such retirement is induced. The theory developed in this paper is also shown to be consistent with a number of other regularities.

Salomon, Marc

AB In this paper we consider the Discrete Lotsizing and Scheduling Problem with sequence dependent set-up costs and set-up times (DLSPSD). DLSPSD contains elements from lotsizing and from job scheduling, and it is known to be NP-Hard. An exact solution procedure for DLSPSD is developed, based on a transformation of DLSPSD into a Traveling Salesman Problem with Time Windows (TSPTW). TSPTW is solved by a novel dynamic programming approach due to Dumas et al. (1993). The results of a computational study show that the algorithm is the first one capable of solving DLSPSD problems of moderate size to optimality with a reasonable computational effort.

Samuelson, Larry
TI Hard Bargains and Lost Opportunities. AU Binmore, Ken; Proulx, Chris; Samuelson, Larry; Swierzbinski, Joe.

PD July 1995. TI A dynamic Model of Equilibrium

AB In his work on market signaling, Spence proposed a dynamic model of a signaling market in which a buyer revises prices in light of experience and sellers choose utility-maximizing signals given these prices. Spence also suggested that subjecting the dynamic process to rare perturbations might allow one to choose between multiple equilibria. This paper examines the effect of introducing such perturbations into Spence's dynamic model. We find that refinement results arise naturally from the dynamic analysis. In a broad class of markets, our model selects a separating equilibrium outcome if and only if the equilibrium outcome satisfies a version of the undefeated equilibrium concept, whereas a pooling equilibrium outcome is selected if and only if the equilibrium outcome is both undefeated and satisfies Cho and Sobel's D1.

Sandmann, Klaus
TI The Pricing of Asian Options under Stochastic Interest Rates. AU Nielsen, J. Aase; Sandmann, Klaus.

TI Security Linked Life Policies Under Stochastic Interest Rates. AU Nielsen, J. Aase; Sandmann, Klaus.

Sapir, Andre

AB Trade liberalizations in Czechoslovakia, Hungary and Poland was accomplished in record time between 1989 and 1991. Sustainability became, however, a major concern in Central and Eastern Europe as the "honeymoon of trade liberalization" ended in 1991/2. The paper examines whether Europe Agreements (EAs) offer a credible mechanism to help in tying the hands of governments in favor of liberal trade policies. The focus is entirely on Hungary. The paper analyzes trade policy formulation in Hungary and evaluates the actual constraint imposed by the EAs. It also examines the actual implementation of trade policies by Hungary vis-a-vis imports from the European Union and third countries. The paper concludes that the Hungarian experience suggests that EAs can be successful in sustaining trade liberalization in Central and Eastern Europe.

PD November 1994. TI The Impact of Exchange Rate Fluctuations on European Union Trade. AU Sapir, Andre; Sekkat, Khalid; Weber, Axel A. AA Sapir and Sekkat: Universite Libre de Bruxelles. Weber: Universitat Bonn. SR Centre for Economic Policy Research, Discussion Paper: 1041; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 41. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE F12, F31, L16. KW Exchange Rates. Volatility. Misalignments. Trade. EMS. AB The impact of exchange rate fluctuations on international trade has long been a major concern for policy-makers. This is particularly the case in Europe, where countries trade extensively with each other. The crisis that began in the Summer of 1992 generated increases exchange rate fluctuations and, therefore, renewed concerns about consequences for trade inside the European Union (EU). This report assesses the likely impact of the exchange rate crisis on trade flows inside and outside the Union. The analysis indicates the need to distinguish between short-term oscillations (i.e. volatility) and medium-term fluctuations (i.e. misalignment). We find that the recent ERM crisis is likely to have had some negative impact on trade within the region, but this impact is probably quite small.

Sarel, Michael
PD November 1995. TI Relative Prices, Economic Growth and Tax Policy. AA International Monetary Fund. SR International Monetary Fund, Working Paper: 95/113; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 16. PR not available. JE E22, O41, H21. KW Growth. Investment. Optimal Taxation. AB This paper examines the role of relative prices in economic growth and the possibility that relative prices are (or can be) partly determined by tax policy. In the opening section, the paper links relative prices to tax policy. Using an extension to a standard model of economic growth, it demonstrates that under certain conditions a simple tax policy, that determines the relative price of investment, can affect the investment rate and the permanent growth rate of the economy. The paper develops a method to obtain consistent data on relative prices for a large set of countries. Using these data in cross-country regressions, it examines how economic growth is affected by relative prices. The results of these empirical tests identify the relative prices as a key factor affecting investment and growth.

Sargent, Timothy C.
TI Unemployment Insurance and Job Durations: Seasonal and Non-Seasonal Jobs. AU Green, David A.; Sargent, Timothy C.

Sarvary, M.

information markets, consumers have the option to combine products from different sellers to obtain a more accurate view of the world. In order to find the optimal number of products to buy, consumers take into account the relations (perceived correlations) among the different products, as well as their price and perceived reliability (quality). Our paper shows that firms’ anticipation of consumer information acquisition strategies leads to interesting forms of competition. In particular, we show that under reasonable conditions, an information seller is better off facing competition than being a monopolist, and collusion in price among sellers can increase consumer surplus as well as profits.

Satchell, S. E.
TI On the Characteristics of the Measures of Risk in Finance. AU Eftekhari, B.; Satchell, S. E.

TI International Investors’ Exposure to Risk in Emerging Markets: a Study Within and Between Major Currencies. AU Eftekhari, B.; Satchell, S. E.

TI Rebalancing Portfolios: Some Analytical Results with Applications to Emerging and Mature Markets. AU Leigh, M.; Satchell, S. E.

Saunders, A.

TI Barriers to European Financial Market Integration: Clearance and Settlement of Equities. AU Giddy, I.; Saunders, A.; Walter, I.

Savastano, Miguel A.

AB This paper examines the pattern of dollarization in Latin America, focusing on the experience of five countries (Argentina, Bolivia, Mexico, Peru and Uruguay) during 1970-1993. It presents evidence on the relative size of dollarization, the allocation of foreign currency deposits, and the behavior of money velocity. The discussion stresses the role of institutional factors, macroeconomic conditions, and the dynamics of money demand in shaping the dollarization process; it also highlights the shortcomings of indicators frequently employed to analyze the phenomenon. The paper provides a brief critical assessment of the empirical literature on dollarization, and identifies areas where further research seems warranted.

Scacciavillani, Fabio

AB This paper contains an empirical analysis of currency substitution in Turkey: a simple relationship between the share of foreign currency holding in M2X on one side and movements in the exchange rate or inflation on the other is derived from a two-stage portfolio choice model. This relationship is estimated by band spectrum regression which allows to remove from the data the short-term cyclical components. The results show that the relationship between currency substitution depends mainly on long-term movements in the exchange rate, while the effect of inflation on currency substitution is not statistically significant.

Scaromozzino, Pargnale

AB This paper presents a model of macroeconomic coordination failures based on market power and local oligopoly. The economy exhibits a multiplicity of Pareto-ranked equilibria. We show that the introduction of uncertainty about the competitive advantage of firms generates an endogenous equilibrium selection process, due to a strategic use of information by firms. This suggests a possible solution for coordination problems in macroeconomic models with multiple equilibria.

Schiantarelli, Fabio
TI Monetary Instability, the Predictability of Prices and the Allocation of Investment: An Empirical Investigation Using UK Panel Data. AU Beaudry, Paul; Caglayan, Mustafa; Schiantarelli, Fabio.

Schiermeyer, Ingo

AB We present a polynomial time approximation algorithm to color a 3-colorable graph. We also discuss np-completeness and number-completeness of restricted k-Colorability problems.

Schlag, Karl H.
TI On the Interpretation of Evolutionarily Stable Sets. AU Balkenborg, Dieter; Schlag, Karl H.

TI Evolutionary Stability in Asymmetric Population Games. AU Balkenborg, Dieter; Schlag, Karl H.

TI Dynamic Stability in Perturbed Games. AU Cressman, R.; Schlag, Karl H.

TI The Dynamic (In)stability of Backwards Induction. AU Cressman, R.; Schlag, Karl H.

PD February 1996. TI Why Imitate. And If So, How? A
Bounded Rational Approach to Multi-Armed Bandits.

AB We consider the situation in which individuals in a finite population must repeatedly choose an action yielding an uncertain payoff. Between choices, each individual may observe the performance of one other individual. We search for rules of behavior with limited memory that increase expected payoffs for any underlying payoff distribution. It is shown that the rule that outperforms all other rules with this property is the one that specifies imitation of the action of an individual that performed better with a probability proportional to how much better she performed. When each individual uses this best rule, the aggregate population behavior can be approximated by the replicator dynamic.


AB We consider the model of social learning by Schlag. Individuals must repeatedly choose an action with a multi-armed bandit. We assume that each individual observes the outcomes of two other individuals' choices before her own next choice must be made-the original model only allows for one observation. Selection of optimal behavior yields a variant of the proportional imitation rule-the optimal rule based on one observation. When each individual uses this rule then the adaptation of actions in an infinite population follows an aggregate monotone dynamic.

Schmidt, Christoph M.

AB Germany experienced a substantial influx of German immigrants from Eastern Europe after World War II and expects several million more as a consequence of the demise of socialism. This paper analyzes the economic performance of ethnic German migrants to West Germany in comparison with native born West Germans. Ethnic German immigrants from Eastern Europe display lower levels of education, lower rates of self-employment and higher unemployment rates than natives and immigrants from East Germany. Similar to foreign guest-workers, German immigrants are more likely to work in blue collar jobs; they do, however, eventually reach earnings parity with native Germans. This study therefore demonstrates, in contrast to analyses of the economic performance of guest-workers, that despite substantial persistence in economic stature, the German economy does not exclude immigrants from economic prosperity.

Schmidt, Klaus M.

AB The paper offers a selective survey on the incomplete contracts approach to privatization. Furthermore, a simple model of privatization to an owner-manager is developed in which different allocations of ownership rights lead to different allocations of inside information about the firm which in turn affect allocative and productive efficiency. In this model, privatization is a commitment device of the government to credibly reward the manager for a successful cost reduction and to harden his budget constraint.

Schmidt, Peter
TI The Minimum Distance Estimator for Fractionally Integrated ARMA Models. AU Chung, Ching-Fan; Schmidt, Peter.

Schmidt-Bleek, F.
TI Eco-Restructuring: The Transition to an Ecologically Sustainable Economy. AU Ayres, Robert U.; Schmidt-Bleek, F.

Schneider, S.
TI Organizational Learning In East-West Joint Ventures: The Role of HRM. AU Cyr, D.J.; Schneider, S.

Schnitzer, Monika
TI Creating Creditworthiness Through Reciprocal Trade. AU Maria, Dalia; Schnitzer, Monika.

Schuknecht, Ludger
TI The Growth of Government and the Reform of the State in Industrial Countries. AU Tanzi, Vito; Schuknecht, Ludger.

Schultz, Christian

AB This paper considers political competition and the consequences of political polarization when parties are better informed about how the economy functions than voters are. Specifically, parties know the cost of producing a public good, voters do not. An incumbent's choice of policy acts like a signal for costs before an upcoming election. It is shown that the more polarized the political parties the more distorted is the incumbent's policy choice.

PD 1996. TI Announcements and Credibility of Monetary Policy. AA University of Copenhagen. SR University of Copenhagen, Institute of Economics,
Discussion Paper: 96/07; Institute of Economics, University of Copenhagen, Studiestræde 6, 1455 Copenhagen K, DENMARK. PG 11. PR not available. JE C73, D78, ES2. KW Monetary Policy. Repeated Games.

AB An infinitely repeated monetary policy game a la Barro and Gordon (1983) is considered. Before the game starts the government announces a policy rule. If there is a slight probability that government is honest and a slight probability government announces a policy rule. If there is a slight probability that government makes mistakes, then a sufficiently patient government will have average loss close to its commitment loss in all sequentially rational equilibria of the infinitely repeated game.

Schwaerzler, Werner
TI The Delta-Sum of Matching Delta-Matroids.
AU Bouchet, Andre; Schwaerzler, Werner.

TI Using the Generalized Assignment Problem in Scheduling the ROSAT Space Telescope. AU Nowakowski, Joerg; Schwaerzler, Werner; Triesch, Eberhard.

Schweizer, Martin

AB We study the problem of convergence of discrete-time option values to continuous-time option values. While previous papers typically concentrate on the approximation of geometric Brownian motion by a binomial tree, we consider here the case where the model is incomplete in both continuous and discrete time. Option values are defined with respect to the criterion of local risk-minimization and thus computes expectations under the respective minimal martingale measures. We prove that for a jump-diffusion model with deterministic coefficients, these values converge; this shows that local risk-minimization possesses an inherent stability property under discretization.


AB We consider the problem of approximating a given random variable by the sum of a constant and a stochastic integral derived from a semimartingale process, with respect to a suitable norm. This problem comes from financial mathematics where the optimal constant can be interpreted as an approximation price for the contingent claim. An elementary computation yields the optimal constant as the expectation of the contingent claim. In the case of finite discrete time, we explicitly construct the measure underlying the contingent claim's expectation by backward measure. The continuous-time framework is also examined.

Scudder, Gary D.
TI Time-Based Software Development. AU Blackburn, Joseph D.; Scudder, Gary D.; Van Wassenhove, Luk N.; Hill, C.

TI Improving Speed and Productivity of Software Development: A Survey of European Software Developers. AU Blackburn, Joseph D.; Scudder, Gary D.; Van Wassenhove, Luk N.

Seaibright, Paul
TI Trade Liberalisation and the Co-Ordination of Competition Policy. AU Neven, Damien; Seabright, Paul.

TI European Industrial Policy: the Airbus Case. AU Neven, Damien; Seabright, Paul.

Sekkat, Khalid
TI The Impact of Exchange Rate Fluctuations on European Union Trade. AU Sapir, Andre; Sekkat, Khalid; Weber, Axel A.

Shabsigh, Ghiath

AB This paper estimates the size of the underground economy in Pakistan and analyzes its impact on Government fiscal position and the allocation of economic resources in the national economy. The results suggest that there is a mutual dependency between the size of the underground economy and fiscal deficits, and show a leakage from the national income-expenditure cycle in the formal economy to the underground economy via private investments. Finally, the paper proposes long- and short-run policies to reduce the size of the underground economy.

Sheldon, Marie

AB This paper investigates the finite sample robustness of modified OLS regression method to a deviation from the unit root hypothesis. It is found that robustness depends on the contemporaneous covariance between the disturbances of the cointegrating regression and the shocks driving the regressors and on the extent of the deviation from unity. When the covariance is small, all methods are fairly robust but Phillips and Hansen's and Park's approaches display the best performance in terms of estimation and inference. Then the covariance is large and negative, none of the proposed methods is robust to a deviation from unity.

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TI Agreement and Disagreement Between Unit Root Tests.
AU Ayat, K.L.; Boero, G.; Burridge, Peter; Sheldon, Marie.

Shiells, Clinton
TI The Uruguay Round and Net Food Importers.
AU Eiteljorge, Uwe; Shiells, Clinton.

Sicsic, Pierre
AB France's post-war growth has gone through four phases. The strong growth performance of the 1950s was helped by a phenomenon of catch-up on best foreign practices, and by a positive effect of capital rejuvenation. Yet the best performance was to follow and covered a period beginning around 1958 and coming to an abrupt end in 1973. The macroeconomic treatment of the oil shock was less than happy, and the supply-side measures came to a standstill. The 1980s proved no better, even though further liberalization measures were taken, this time in the financial markets as well the privatization of a significant part of state-owned industry. Despite several waves of liberalization, significantly after the creation of the EEC and the return of the franc to convertibility, both in 1958, and then in the 1980s, France still appears to be suffering and struggling from lingering powerful rigidities. Labor market institutions and human capital accumulation may have replaced protection and inefficient productive capital accumulation as the main source of slower growth.

Siebert, W.S
TI Mandated Benefits, Welfare, and Heterogeneous Firms. AU Addison, John T.; Barrett, C.R.; Siebert, W.S.

Sinclair, Peter J.N

AB Lump sum taxes levied on ability can satisfy efficiency and justice conditions, in contexts where earnings ability is unequally distributed. But the general view is that they are typically infeasible if ability is private information: it pays the able a share. This paper shows that ability taxes may be feasible in a repeated game when ability is stochastic, lying is sometimes detectable and punished, and agents' utilities are sufficiently concave.

AB Should countries seek to tax money (if at all) at a common or at different rates? When individuals' abilities to earn are unevenly distributed or random, how are income tax rates related to inflation and unemployment, and when and why may countries opt for different rates of inflation? When will multi-country monetary union be preferable to independent monetary policies set at national levels? This paper examines these questions in a steady-state, market-clearing setting where first-best taxes are precluded. When national differences in optimum inflation, due to differences in social welfare functions, transactions technologies, ability dispersions or government spending requirements, are large enough to outweigh currency conversion costs, a monetary union should be rejected in favor of trended nominal exchange rates.

AB The standard model of trade blocs setting Nash optimum tariffs predicts (a) that bigger blocs set higher tariffs, and (b) that welfare declines as the number of trade blocs shrinks (to 3). It relies on two assumptions: (i) that supplies of any good are restricted to only one country, and (ii) that trade blocs set common external tariffs. We find that relaxing (i) enough reverses prediction (a), and that, if trade blocs act as free trade areas, both (a) and (b) fail to hold. In the latter case, trade bloc expansion is unambiguously welfare-improving.

AB This paper examines a world with decreasing-cost monopolies that set prices to maximize their owner's utilities. In autarky each country produces each of these products, but, under free trade, only one. All countries may suffer losses from trade when price discrimination is banned, and must lose if export prices are allowed to differ from domestic prices. These results depend upon localized ownership and the absence of average-cost pricing restrictions.

Singh, Ajit
PD December 1994. TI The Stockmarket, the Financing.
of Corporate Growth and Indian Industrial Development. AA University of Cambridge. SR University of Cambridge, Discussion Papers in Accounting and Finance: AF10; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 43. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE G32, O53, O16. KW India. Stock Market. Corporate Growth. Industrial Development.

AB The fast expansion of the Indian stock market in the recent period is part of a world-wide phenomenon. The Indian market today is the second largest in the world in terms of the number of listed companies, only slightly behind that of the U.S. This paper explores some aspects of the relationship between the stock market and Indian industrial development. Inter alia, the paper investigates in a comparative international context the role of equity markets in financing the growth of the largest Indian manufacturing corporations. The last section outlines the policy implications of the analysis.


AB The last decade has witnessed a growing debate on both sides of the Atlantic on the effectiveness of the stock market based financial systems of the US and the UK for promoting international competitiveness and industrial strength. The main object of this paper is to examine specifically the role of the market for corporate control in the Anglo-Saxon financial system and to investigate its relationship to the question of international competitiveness. The causal links between the two-the market for corporate control and "international competitiveness"-are far from obvious even at a conceptual level, and some are quite controversial. The last part of the paper comments on Michael Porter's recent proposal for the reform of the Anglo-Saxon financial system and outlines an alternative.


AB Proposing far-reaching reforms to the pension systems, the World Bank recently suggested the existing pay-as-you-go pension systems in many rich as well as poor countries should be replaced by fully funded, mandatory, preferably private pensions, as the main pillars of the new system. It argues that these reforms will not only benefit the pensioners, but also enhance savings, promote capital formation and economic development. This paper provides a critical examination of the Bank's theses and concludes that it has adopted a one-sided view of the relationships between the key critical variables. The proposed reform may therefore neither protect the old nor achieve faster economic growth.

Singh, N.

TI "Homogeneity of Variance Test" for the Comparison of Two or More Spectra. AU Maharaj, E. A.; Singh, N.; Inder, Brett A.

SIOTIS, George

TI Technology Sourcing and FDI in the EC: an Empirical Evaluation. AU Neven, Damien; SIOTIS, George.

Skott, Peter

TI Dynamic Effects of Trade Liberalization and Currency Overvaluation Under Conditions of Increasing Returns. AU Ros, Jaime; Skott, Peter.


AB The new growth literature analyzes economies in which the growth rate is determined endogenously and per capita incomes may diverge across countries. Divergence, however, leads to changes in the domestic policies and institutions of slow-growing nations, political instability, and changes in international relations. Induced institutional change of this kind affects the interpretation of the empirical evidence: a divergent process may be stabilized by institutional and political intervention. Using simple models it is shown that stabilization may result even if the effects of each intervention is stochastic and the expected value of the benefits from each reform is non-positive. Thus, the appearance of conditional convergence in studies by Barro and others may carry no implications for "the underlying parameters of technology and preferences".


AB Stylized models of the policy game between monetary policy makers and the private sector have suggested that discretionary policy regimes suffer from an inherent inflationary bias and that precommitment to a target rate of inflation may be desirable. This paper shows that in the presence of labor unions, the basic structure of the monetary policy game can lead to radically different results: governments that are completely indifferent to the level of inflation may obtain outcomes with high employment rates and zero inflation while "prudent", inflation-averse governments generate stagflation with positive inflation and low rates of employment.

Slade, Margaret E.

TI A Simple Test for Spatial Correlation in Probit Models.
ABSTRACTS 121

Smith, Eric

AB This paper analyzes how the levels of unemployment and vacancies affect the rate at which unemployed workers find employment -- the worker-firm “matching function”. In particular we test the robustness of previous empirical work by checking whether we obtain the same estimated function using cross-section data rather than aggregate time series data. We find strong evidence of constant returns to scale similar to previous work. We also find larger cities have higher wages. This provides indirect support for increasing returns, but where those returns are taken in the form of better-quality matches.

TI Marketplaces and Matching. AU Coles, Melvyn G.; Smith, Eric.
TI Strategic Bargaining With Firm Inventories. AU Coles, Melvyn G.; Smith, Eric.
TI The Low Skill Trap. AU Burdett, Kenneth; Smith, Eric.

Smith, Jeffrey
TI Accounting for Dropouts in Evaluations of Social Experiments. AU Heckman, James; Smith, Jeffrey; Taber, Christopher.

Smith, R.C

AB This paper examines the impact of the Mexican financial crisis of late 1994 and early 1995 on global investors as well as on authorities in host countries. The impact of the crisis on global emerging market stock returns, inter-market correlations and efficient portfolios are considered in terms of the dynamics of the crisis-impact under conditions of market illiquidity and the absence of emerging market equity derivatives. Similarly, suggestions are provided to emerging market governments as to how cross-border portfolio equity flows should appropriately fit into the development of local capital markets in the light of lessons learned from the crisis.

Snape, Richard H.
TI European and American Regionalism: Effects on and Options for Asia. AU Anderson, Kym; Snape, Richard H.

Snower, Dennis J.
This paper explores the interrelation between the degree of unemployment persistence and the unemployment-productivity trade-off. The analysis suggests that the more effective are structural labor market policies (designed to change labor market institutions and laws, such as job security legislation) in making wages and prices more responsive to current unemployment and making unemployment less persistent, the less effective will be the growth-promoting supply-side policies (such as training schemes) in reducing unemployment.

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TI Price Inertia and Production Lags. AU Lindbeck, Assar; Snower, Dennis J.

TI Patterns of Unemployment: An Insider-Outsider Analysis. AU Lindbeck, Assar; Snower, Dennis J.


AB This paper explores the interrelation between the degree of unemployment persistence and the unemployment-productivity trade-off. The analysis suggests that the more effective are structural labor market policies (designed to change labor market institutions and laws, such as job security legislation) in making wages and prices more responsive to current unemployment and making unemployment less persistent, the less effective will be the growth-promoting supply-side policies (such as training schemes) in reducing unemployment.

Snyder, R.D

Sorensen, Bent E.
TI Worker Flows and Job Flows in Danish Manufacturing, 1980-91. AU Albæk, Karsten; Sorensen, Bent E.

Sorensen, Jan Rose
TI Schooling, Training, Growth and Minimum Wages. AU Ravn, Morten O.; Sorensen, Jan Rose.

Southey, George
TI The Borrower’s Curse: Optimism, Finance and Entrepreneurship. AU Demeza, David E.; Southey, George.

Spokoiny, Vladimir G.
TI Minimax Nonparametric Hypothesis Testing: The Case of an Inhomogeneous Alternative. AU Lepski, O.V.; Spokoiny, Vladimir G.
AB The present paper continues studying the problem of minimax nonparametric hypothesis testing started in Lepski and Spokoiny (1995). The null hypothesis assumes that the function observed with a noise is identically zero (i.e., no signal is present). The alternative is composite and minimax: the function is assumed to be separated away from zero in an integral norm and also to possess some smoothness properties. The minimax rate of testing for this problem was evaluated by Ingster for the case of Sobolev smoothness classes. Then this problem was studied by Lepski and Spokoiny in the situation of an alternative with inhomogeneous smoothness properties that leads to considering Besov smoothness classes. But for both cases the optimal rate and the structure of optimal (in rate) tests depends on smoothness parameters which are usually unknown in practical applications. In this paper the problem of adaptive (assumption free) testing is considered. It is shown that the adaptation without loss of efficiency is impossible. An extra factor is nonstignificant but unavoidable payment for the adaptation. A simple adaptive test based on wavelet technique is constructed which is nearly minimax for a wide range of Besov classes.

Spolaore, Enrico
TI On the Number and Size of Nations. AU Alesina, Alberto; Spolaore, Enrico.

Staehr, Karsten
AB This paper examines the real cost of disinflation in an economy with high and uncertain inflation. The private sector writes contracts in which wages are indexed to a lagged price index and the exchange rate ("dollarization"). Contracts of fixed and endogenously determined lengths are considered. The real costs of disinflation depend on the initial conditions and on the credibility of the stabilization. The higher and more uncertain the initial inflation is, the lower the sacrifice ratio is.

Staiger, Robert W.
TI Multilateral Tariff Cooperation During the Formation of Customs Unions. AU Bagwell, Kyle; Staiger, Robert W.

Steagall, Jeffrey W.

Stevens, Glenn
TI Monetary Policy Goals for Inflation in Australia. AU Debelle, Guy; Stevens, Glenn.

Stoker, Thomas
TI Consumption and the Timing of Income Risk. AU Blundell, Richard; Stoker, Thomas.

Stopford, John M.
TI The Nature of the Large Corporation. AU Rumelt, Richard P.; Stopford, John M.

Sutton, R.I
AB Much research emphasizes that leaders and organizations that are noticed by and please others will be rewarded with power, legitimacy, and resources. This literature implies that leaders, and others in symbolic roles, must work under close scrutiny if they wish to garner such rewards for themselves and their organizations. Yet little theory or research considers the consequences of such scrutiny. This essay lays groundwork for research on public scrutiny by defining it, specifying its consequences, and identifying defenses that may reduce its negative consequences. The content of public scrutiny may be positive or negative. This intense and intrusive form of attention is characterized by a blend of persistent attention to the leader or organization, close and persistent performance monitoring and evaluation, frequent interruptions, and relentless questions about past, current, and future actions. If unchecked, these distractions are proposed to cause cognitive overload, with attention focused on how the leader or organization appears to others and explaining such appearances. Overload is also proposed to generate negative
effects (especially evaluation apprehension), which is accentuated during interruptions. Consequences for leaders and their organizations include: (1) delays in ongoing tasks; (2) attention and effort devoted toward symbolic activities, away from other kinds of activities; (3) greater adherence to injunctive norms, less adherence to descriptive norms; (4) attention and effort focused on well-rehearsed acts, away from acts that require learning or creativity; and (5) greater perseverance at ongoing and planned activities. We identify interpersonal, procedural, and structural defenses that leaders and organizations use to reduce scrutiny and its negative consequences. We then consider the limitations and drawbacks of such defenses. Finally, we suggest directions that future work on scrutiny might take.

Swierzbinski, Joe
TI Hard Bargains and Lost Opportunities. AU Binmore, Ken; Proulx, Chris; Samuelson, Larry; Swierzbinski, Joe.

Szu1anski, G.
AB Stickiness of knowledge, i.e. the difficulty to transfer knowledge, is emerging as a central construct for both scholars and practitioners interested in innovation. Yet, so far, little attention has been paid to the many possible determinants of stickiness. This paper reports the findings of a systematic empirical investigation into the origins of stickiness in a setting that, of late, is stridently reclaiming managerial attention: the barriers to transfer best practice inside the firm. This phenomena provides a balanced empirical setting to study stickiness. The research framework integrates into a communication approach to technology transfer, important conceptual developments from related fields such as innovation diffusion, sociology and organizational learning. Extensive fieldwork helped fine-tune the operationalization of the framework to the phenomena under study. The predictions derived from the framework are formalized in nine propositions. The propositions are then tested empirically through a two step large sample survey. Special attention has been paid in this study to the operationalization of variables and to the design and execution of the survey. The framework receives adequate support from the data. The findings, some of them surprising, are discussed with the benefit of insights gained from supplemental qualitative and quantitative evidence and analysis. The paper ends by outlining the theoretical and practical implications of the findings for the study of knowledge transfer.

AB In this paper we deduce the characteristics of a high quality strategy making process, one that increases the likelihood of successful adaptation. We do so by exploiting the

simile between an iterative, problem solving oriented view of the strategy process and an evolutionary perspective of theory building.

Taber, Christopher
TI Accounting for Dropouts in Evaluations of Social Experiments. AU Heckman, James; Smith, Jeffrey; Taber, Christopher.

Talmain, Gabriel
PD October 1995. TI Exact and Approximate Solutions to the Problem of Precautionary Savings. AA University of British Columbia. SR University of British Columbia, Department of Economics Discussion Paper: 95/35; Department of Economics, University of British Columbia, 1873 East Mall, Room 997, Vancouver, B.C. V6T 1Z1 CANADA. PG 32. PR 20 cents per page Canadian to other than educational institutions. JE C61, D81, D91, E21. KW Certain Equivalence, Precautionary Savings, Risk Aversion, Stochastic Dynamic Programming.
AB A finitely-lived agent, whose labor income and returns on asset holdings are subject to random shocks, maximizes an additively separable expected utility function. The shocks are not necessarily independent. This paper extends Deaton's characterization of optimal consumption as a sequence of policy functions to the general case. Under the assumption that shocks are small relative to the mean, a first-order approximation is obtained which yields a very tractable agent's behavior. This approximation is expressed as a deviation from the certain equivalent, and is a linear function of the variances and covariance of the innovations. It can be interpreted as the buffer stock optimal precautionary savings of Caroll and Deaton.

PD January 1996. TI Redistribution and Growth: Pareto Improvements. AA Turkel, Gabriel; Chou, Chien Fu. AA Talmain: University of British Columbia. Chou: National Taiwan University. SR University of British Columbia, Department of Economics Discussion Paper: 96/03; Department of Economics, University of British Columbia, 1873 East Mall, Room 997, Vancouver, B.C. V6T 1Z1 CANADA. PG 29. PR 20 cents per page Canadian to other than educational institutions. JE D31, D90, O30, O41. KW Endogenous Growth, Redistribution, Wealth Distribution.
AB This paper introduces heterogeneous households who have preferences for leisure into Grossman and Helpman's model of endogenous growth. Wealth distribution affects the endogenous rate of growth as the labor supply of each individual responds inversely to his permanent income. When the labor Engel curve is concave (convex), unequal wealth distribution decreases (increases) the rate of growth. Pareto-improving, growth-enhancing wealth redistributions are characterized.

Tan, Guofu
TI Cost-Reducing Investment, Optimal Procurement and Implementation by Auctions. AU Piccione, Michele; Tan, Guofu.

TI Entry and Exit in Hub-Spoke Networks. AU Hendricks, Ken; Piccione, Michele; Tan, Guofu.

TI A Theory of Alliance Formation. AU Niu, Emerson M.S.; Tan, Guofu.
Taylor, Mark P.
TI The Empirics of Economic Growth in Previously Centrally Planned Economies. AU Lemmer, Edward E.; Taylor, Mark P.

Teague, Jackqueline L.
TI Parental Leave Policies in Europe and North America. AU Ruhm, Christopher J.; Teague, Jackqueline L.

Tenreiro, C.
TI A Comparison of Kernel Estimator Based Goodness of Fit Tests. AU Gourieroux, Christian; Tenreiro, C.

Terwiesch, Christian

AB Overlapping development activities are one of the most important tools to reduce development lead time. However, given dependencies between activities, overlapping requires complex coordination mechanisms and can therefore have negative side effects. This article describes a simple model of two development activities, illustrating the trade-offs in the decision how much to overlap. Based on some ideas from organization theory, we derive optimal levels of information exchange and concurrency as well as the technical factors driving them. The model and our main results are illustrated with a numerical example.

TI Communication and Uncertainty in Concurrent Engineering. AU Loch, Christoph H.; Terwiesch, Christian.


AB Concurrent engineering, or overlapping development activities, is a widely discussed tool to reduce development lead-time. However, overlapping may not be beneficial if the overlapped activities are uncertain and not independent. This article combines recent results from the organization theory and concurrent engineering literature to develop a model of two overlapping development activities. Uncertainty is incorporated via the average rate of engineering changes that occur in the upstream activity, creating rework for downstream. Dependence is modeled by the delaying impact of the downstream activity. The model predicts that the effectiveness of overlapping activities in reducing overall development time is moderated by the organization’s capability to reduce uncertainty early upstream. Further, fast uncertainty reduction makes it optimal to use more overlap. These effects of uncertainty reduction are tested on data drawn from 140 completed development projects across several global electronics industries.
TeSelle, Garratt H.
AB Ackert and Smith (1993) suggest that volatility tests of stock prices should be based on a more inclusive definition of dividends than has actually been used in past studies. They perform a West test using such a dividend definition, and conclude that stock prices are not excessively volatile relative to these dividends. This paper considers their work on two bases: First, it argues that in most cases the expanded dividend definition would not be expected to lead to volatility conclusions that differ from those reached under the narrower definition; second, it presents evidence that Ackert and Smith’s empirical results may have been induced by unrecognized test bias created by non-stationarities in their data.

Thimann, Christian
PD November 1995. TI Effective Taxation for Recipients of Social Assistance in Germany and the Consequences of the 1996 Tax Reform. AA International Monetary Fund.
AB This paper explores the problem of effective taxation at the lower end of the income scale in Germany. For the recipients of social income maintenance—currently about 1.8 million nationals—effective taxation consists not only of the explicit taxation through the tax code but also of the implicit taxation through the withdrawal of benefits. The paper calculates effective tax rates for recipients of social assistance; it is shown that for labor incomes in the lower income range explicit and implicit taxation add up to a marginal burden of just under 75 percent on average. The 1996 tax reform alleviates the explicit tax burden on low incomes, but it does not alleviate the total marginal burden on labor earnings of welfare recipients. It increases net incomes, but since the withdrawal of benefits increases with net incomes, too, the overall burden remains practically unchanged. Therefore, effective welfare traps remain prevalent; these could only be avoided through a reform of the system of social assistance and withdrawal. Constraints and possible steps for reform are discussed.

Thissé, Jacques-François
TI Firm Location and Job Creation in Cities. AU Fujita, Masahisa; Thissé, Jacques-François; Zenou, Yves.

Thomas, Alun
TI Relative Prices and Economic Adjustment in the US and EU: A Real Story About European Monetary Union. AU Bayoumi, Tamim A.; Thomas, Alun.

Thomas, Jonathan
PD October 1995. TI The Role of Selective Job Search in UK Unemployment. AA University College London.
SR University College London Discussion Paper: 95/16; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 25. PR 3 Pounds; checks payable to Department of Economics, University College London. JE J64, C41. KW Job Search. Unemployment Durations. Selective Search.
AB Selective search behavior where displaced workers search for a job similar to that lost has attracted considerable theoretical attention as a possible source of high unemployment because it may involve unemployment trading. However its practitioners may choose this strategy because, compared to searching randomly for "any job", it is more effective in generating acceptable job offers thus leading to shorter spells. This paper uses a sample of displaced UK males to directly investigate the connection between selective search, industry mobility and unemployment. Our main findings, from an econometric model which allows for the endogeneity of strategy choice and outcomes through unobservables, are that selective search is associated with shorter spells and plays a minor role in accounting for UK unemployment. We also find evidence against the idea that it involves unemployment trading.

Tollenfsen, Truls Cook

Trainor, Amy B.
TI The Effect of Medicaid Abortion Funding Restrictions on Abortions, Pregnancies, and Births. AU Levine, Phillip B.; Trainor, Amy B.; Zimmerman, David J.

Trajtlenberg, Manuel

Tranaes, Torben
TI Decentralized Trade in a Small Market: The Possibility of Resale. AU Hendon, Ebbe; Tranaes, Torben.

Treigiene, Dalia
TI Trade Policies and Lithuania’s Reintegration into the Global Economy. AU Cicinskas, Jonas; Cornelius, Peter K.; Treigiene, Dalia.

Triesch, Eberhard
TI Using the Generalized Assignment Problem in Scheduling the ROSAT Space Telescope. AU Nowakovski, Joerg; Schwaerzler, Werner; Triesch, Eberhard.

Tsiddle, Daniel
TI Human Capital Distribution, Technological Progress, and Economic Growth. AU Galor, Oded; Tsiddle, Daniel.
Tsui, Kai-Yuen
AB This article characterizes all of the continuous social welfare orderings which satisfy the Weak (Strong) Pareto principle when utilities are ratio-scale measurable. With Weak Pareto, on both the nonnegative and positive orthants the social welfare ordering must be representable by a weakly increasing Cobb-Douglas social welfare function while on the whole Euclidean space the social welfare ordering must be strongly dictatorial. With Strong Pareto, on the positive orthant the social welfare ordering must be representable by a strictly increasing Cobb-Douglas social welfare function but on the other two domains an impossibility theorem is obtained. Functional equations arguments are used to establish the possibility theorems.

Turtelboom, Bart
AB This paper analyzes exchange rate behavior in a model where consumers trade goods to diversify shocks to their income. A model with traded and nontraded goods is simulated in a multilateral context based upon historical output correlations for the period 1970-92. Simulation results indicate that the observed volatility of multilateral real exchange rates for the United States, Germany and Japan is not inconsistent with exchange rate volatility implied by consumption-smoothing behavior.

Tzavalis, Elias
AB This paper examines the persistence of the volatility of the risk premia for excess holding period returns of the term structure using a GARCH-M model of the conditional variance. The finding of a high degree of persistence cannot be sustained once allowance is made for a structural break in the unconditional variance caused by a change in the operation of U.S. monetary policy during 1979-1982.

Ulph, David
TI Regression Based Tests for Persistence in Conditional Variances. AU Psaradakis, Zacharias; Tzavalis, Elias.
TI Inference for Unit Roots in Dynamic Panels. AU Harris, Richard; Tzavalis, Elias.

Ulph, David
TI Evaluating Welfare Losses Under Research and Development Rivalry and Product Differentiation. AU Katsoulacos, Yannis; Ulph, David.
TI Strategic Investment and the Co-existence of Labour Managed and Profit-Maximising Firms. AU Neary, Hugh M.; Ulph, David.
TI R&D and Union Bargaining: Evidence From British Companies and Establishments. AU Menezes-Filko, Naercio; Ulph, David; Van Reenen, John.

Utikal, Klaus J.
AB For the general Markovian interval process, the intensity of the elements of the counting process \( N \) at time \( t \) depends on the time intervals since a finite number of previous jumps of any of its components. We consider the problem of nonparametric functional estimation of unknown parameters of this process as well as the related problem of testing the hypothesis of independence of the parameters from some of its variables. Only one single trajectory of \( N \) is observed over time. The problem of estimating the parameters is related to the problem of hazard estimation from censored lifetimes as is further explained.

AB We propose a class of counting process models for analyzing firing times of an ensemble of neurons. We allow the counting process intensities to be unspecified, unknown functions of the times passed since the most recent firings. Under this assumption we derive a class of statistics with their respective thresholds as well as graphical methods for detecting neural connectivity. We introduce a model under which detection is shown to be certain for long series of observations and suggest ways to estimate strength and classify the interactions as inhibition or excitation. The power of the proposed methods is compared by simulating observations from artificial networks. By analyzing empirically obtained series we obtain results which are consistent with those obtained from cross correlation based methods but in addition obtain new insights on further aspects of the interactions.

PD February 1996. TI Invariant Points of Low Dimensional Curve Families. AA University of Bonn.


AB From noisy observations of a finite family of functions an approximation in a lower dimensional space can be constructed using the method of principal components. If certain restrictions are to be satisfied by the approximation, e.g. being densities, this leads to a modified estimation procedure. It is shown that in certain dimensions this will produce a family of curves which all intersect in the same points. This property may be interpreted in some cases as a characteristic feature of regularity of the data or as an artificial creation by the device in others.

Vagstad, Steiner
TI Procurement Auctions with Entry of Bidders.
AU Kjerstad, Egil; Vagstad, Steiner.

Valles, Javier
TI Investment and Financial Costs: Spanish Evidence With Panel Data. AU Estrada, Angel; Valles, Javier.

Van der Heyden, Ludo
TI Optimal Search on a Stochastic Tree With an Application to Multi-Phased R&D Scheduling. AU Rothblum, Uriel G.; Van der Heyden, Ludo.

Van Dierdonck, Roland
TI Global Plant Networks in European Multinationals. AU De Meyer, Arnoud; Van Dierdonck, Roland; Vereecke, Ann.

Van Reenen, John
TI R&D and Union Bargaining: Evidence From British Companies and Establishments. AU Menezes-Filko, Naercio; Ulph, David; Van Reenen, John.

TI Enterprise Restructuring in Early Transition: The Case Study Evidence From Central and Eastern Europe. AU Carlin, Wendy; Van Reenen, John; Wolfe, Toby.

TI Wages and Technology in British Plants: Do Workers Get a Fair Share of the Plunder? AU Chennells, Lucy; Van Reenen, John.

TI Innovations, Patents and Cash Flow. AU Geroski, Paul; Van Reenen, John; Wallens, Chris.

TI Market Share, Market Value and Innovation in a Panel of British Manufacturing Firms. AU Blundell, Richard; Griffith, Rachel; Van Reenen, John.

Van Wassenhove, Luk N.
TI Time-Based Software Development. AU Blackburn, Joseph D.; Scudder, Gary D.; Van Wassenhove, Luk N.; Hill, C.

TI Time-Based Software Development. AU Blackburn, Joseph D.; Scudder, Gary D.; Van Wassenhove, Luk N.; Hill, C.

TI Local Search Heuristics for Single Machine Scheduling With Batching to Minimize the Number of Late Jobs. AU Crauwels, H.A.J.; Potts, C.N.; Van Wassenhove, Luk N.


TI Limits to Concurrency. AU Hoedemaker, G.M.; Blackburn, Joseph D.; Van Wassenhove, Luk N.

TI Local Search Heuristics for Single Machine Scheduling With Batching to Minimize Total Weighted Completion Time. AU Crauwels, H.A.J.; Potts, C.N.; Van Wassenhove, Luk N.

TI Strands of Practice in OR (The Practitioner’s Dilemma). AU Corbett, C.J.; Overmeir, W.J.A.; Van Wassenhove, Luk N.

TI An Environmental Life Cycle Optimization Model for the European Pulp and Paper Industry. AU Bloemhof-Ruwaard, J.M.; Van Wassenhove, Luk N.; Gabel, H.L.; Weaver, P.M.

TI What the Cases Don’t Tell Us. AU Corbett, C.J.; Overmeir, W.J.A.; Van Wassenhove, Luk N.

TI Improving Speed and Productivity of Software Development: A Survey of European Software Developers. AU Blackburn, Joseph D.; Scudder, Gary D.; Van Wassenhove, Luk N.

TI Solving the Discrete Lotsizing and Scheduling Problem With Sequence Dependent Set-Up Costs and Set-Up Times Using the Travelling Salesman Problem With Time Windows. AU Salomon, Marc; Solomon, Marius M.; Van Wassenhove, Luk N.; Dumas, Yvan; Dauzere-Peres, Stephane.

TI Solving the Discrete Lotsizing and Scheduling Problem With Sequence Dependent Set-Up Costs and Set-Up Times Using the Travelling Salesman Problem With Time Windows. AU Salomon, Marc; Solomon, Marius M.; Van Wassenhove, Luk N.; Dumas, Yvan; Dauzere-Peres, Stephane.

TI Improving Speed and Productivity of Software Development. AU Blackburn, Joseph D.; Scudder, Gary D.; Van Wassenhove, Luk N.

Vanden Abeele, P.
TI Explaining Cross-Country Differences in Price and Distribution Effectiveness. AU Gatignon, Hubert; Vanden Abeele, P.

TI Explaining Cross-Country Differences in Price and Distribution Effectiveness. AU Gatignon, Hubert; Vanden Abeele, P.

Vega, Juan Luis
TI Purchasing Power Parity: An Empirical Analysis. AU Jurado, Maria Perez; Vega, Juan Luis.

TI An Empirical Analysis of M4 in the United Kingdom. AU Fisher, P.G.; Vega, Juan Luis.
Venables, Anthony J.
TI Globalization and the Inequality of Nations.
AU Krugman, Paul; Venables, Anthony J.

Venturini, Alessandra
TI Migration and Growth: The Experience of Southern Europe. AU Faini, Riccardo; Venturini, Alessandra.

Vereecke, Ann
TI Global Plant Networks in European Multinationals. AU De Meyer, Arnoud; Van Dierdonck, Roland; Vereecke, Ann.

Vinals, Jose
PD September 1994. TI Building a Monetary Union in Europe: is it Worthwhile, Where do We Stand, and Where are We Going? AA CEPR. SR Centre for Economic Policy Research, Discussion Paper: n/a; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA, ENGLAND. PG 36. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, and institutions. JE ES8, F36, F33. KW EMU. Monetary Union. Transition. Structural Rigidity.
AB This paper discusses the building of a Monetary Union in Europe, and in doing so, addresses several key questions. Is it economically beneficial? Where does it stand at present? And where is it going? Each of the three main sections of the paper is devoted to the above questions. The paper concludes that EMU is likely to be beneficial to the Community as a whole. On the other hand, there may be significant benefits associated with the favorable impact of EMU on economic and financial integration, provided this takes place in an environment of more stable prices. It is nevertheless noted that the cost/benefit ratio is not likely to be equally favorable in all EC countries since there are important structural economic differences among them. In this regard, the countries which start from the most favorable positions are those whose economies are more diversified and more integrated in commercial and financial terms, and those whose goods and labor markets are freer from structural rigidities. In the remaining countries aspiring to become EMU members in the future, the best way to improve the relationship between costs and benefits would be to increase the flexibility of wages and prices.
PD not available. TI Building a Monetary Union in Europe: Is it Worthwhile, Where do we Stand, and Where are we Going? AA Banco de Espana. SR Banco de Espana Documento de Trabajo: 9412; Banco de Espana Seccion de Publicaciones, Negociado de Distribucion y Gestion, Alcala, 50, 28014 Madrid. PG 47. PR not available. JE F15, F33, F42. KW European Monetary Union. Policy Coordination. Maastricht Treaty. Exchange Rate.
AB This paper discusses the building of a Monetary Union in Europe (EMU), and in so doing, addresses three key questions: Is it economically beneficial? Where does it stand at present? And where is it going? The first question refers to the costs and benefits of the EMU. While the paper concludes that the EMU is likely to be beneficial to the Community as a whole, the countries which will profit the most are those whose economies are more diversified, more integrated in commercial and financial terms, and most importantly, those whose goods and labor markets are freer from structural rigidities. The second question addressed concerns the transition to EMU during Stage Two. It is concluded that only by strengthening policy coordination among member countries and by implementing the necessary changes to safeguard the cohesion of the ERM in the presence of speculative attacks, will it be possible to maintain monetary and exchange rate stability in an environment of liberalized capital flows. The recent creation of the European Monetary Institute and the automatic introduction by the Treaty of Maastricht of a number of changes in the economic and financial framework during the transition may facilitate achieving the above objectives.

Von Hagen, Jurgen
AB The European aging process will lead to a dramatic rise in dependency ratios over the next decades. At the same time labor mobility will increase as a result of greater European economic integration. We analyze the implications of migration and aging for European social security systems. With uncoordinated social security policies, national pensions funds compete for contributors whose mobility is the source of indeterminacy. The viability of coordination among national social security systems depends critically on which policy parameter it is based on. The benefits from coordination are limited and coordination is unlikely to yield efficient outcomes.

Von Thadden, Ernst-Ludwig
AB The paper analyses the problem of optimal liquidity provision in a simple continuous-time general-equilibrium model under uncertainty. It argues that liquidity provision is subject to moral-hazard problems due to the unobservability of households' characteristics and characterizes incentive-compatible deposit contracts as second-best mechanisms to provide liquidity.
ABSTRACTS


AB This paper develops the idea that small successful non-profit organizations may be subject to danger of asset-stripping by its management. The example I use to illustrate this point is the Journal of Industrial Economics, whose managing editors' remuneration tripled in 1995.


AB In Switzerland there are 7 cantons, where the housing insurance market is competitive, while in the 19 others there are local state monopolies. This paper compares the price/performance relationship of these different market forms. It is shown that for a very similar product, the state monopolies charge 70% lower prices, that they spend substantially more on fire prevention, and that they have much lower damage rates. One of the main reasons for the much higher prices of the private insurance companies is the fact that they spend considerably more on sales and administrative costs. The housing insurance market is thus a classic example of a situation where state monopoly outperforms private sector competition.


AB The purpose of this paper is to study the SNB's performance in managing Switzerland's seignorage wealth. The main conclusion is that the SNB has held an asset portfolio that was excessively liquid, not sufficiently hedged and not sufficiently diversified. This risky portfolio strategy was in large part dictated by the excessive legal restrictions placed on the SNB's asset management. It has cost the Swiss tax-payer in excess of 6'000 mio. Fr. In the period 1984-94. There is an urgent need to adjust the legal constraints and the institutional rules governing the management of this huge stock of assets, while at the same time maintaining or reinforcing the SNB's independence in formulating its monetary policy. The main propositions put forward in this paper are to: a) modify the law requiring the SNB to hold only short term foreign currency assets; b) abolish the anachronistic gold coverage requirement; c) take a substantial fraction of Switzerland's financial wealth out of the control the SNB and place it in a seignorage fund. This seignorage fund would manage its assets according to the standard criteria of portfolio management; d) impose legal or constitutional restraints on this seignorage fund to prevent the government from running down its assets. The net result of these changes would be a substantial gain to the Swiss government and tax payer.
PD February 1996. TI Managerial Compensation Schemes with Informed Principals. AA University of Lausanne. SR Université de Lausanne Cahiers de Recherches Économiques 9605; Département d'Économétrie et d'Économie Politique, Université de Lausanne. BFSH1 - Dorigny, CH-1015 Lausanne, SWITZERLAND. PG 16. PR no charge. JE D23, D82, J33. KW Informed Principal, Incentive Contracts, Profit Participation.

AB The paper studies managerial compensation schemes for situations where the current management knows more about the company’s expected profitability than the new employee. When a manager is offered a contract with only a low fixed salary but a high profit participation, he will be afraid that the company’s profit outlook may be quite bad. Employers are aware of this. In equilibrium the high profit employers will offer their new managers high fixed salaries and low profit participations. They do this to credibly signal to their new employees that they are high profit types. Low profit firms on the other hand will offer contracts with high profit participation and low fixed wages. One can thus easily explain the prevalence of contracts with high fixed salaries, without having to appeal to the employee risk aversion.

TI Competition Policy in Switzerland. AU Neven, Damien; Von Ungern-Sternberg, Thomas.

Von Weizsacker, Robert K.


AB Starting from a simple, descriptive model of individual income, an explicit link between the age composition of a population and the personal distribution of incomes is established. Demographic effects on income inequality are derived. Next, a pay-as-you-go financed state pension system is introduced. The resulting government budget constraint entails interrelations between fiscal and demographic variables, causing an additional, indirect demographic impact on the distribution. This is shown not only to change, but in some cases even to reverse the distributional incidence of an aging population. Several policy conflicts arise. The point is re-emphasized by an analysis of the German Pension Reform Act of 1992. The study reveals that the design of the pension formula decisively drives the relation between demographics and inequality.


AB Drawing on and extending the theory of human capital, a comprehensive life-cycle model of individual earnings is designed. The approach taken permits an isolated analysis of three interconnected levels of aggregation (intra-cohort distribution, overall distribution, and lifetime distribution) within the same dynamic microeconomic model of educational choice. In this way, interrelated economic, demographic, and fiscal effects on earnings inequality are established. The paper reveals that reallocation reactions of optimizing individuals, combined with population heterogeneity by productive endowments, learning abilities, and working age, can destroy simple relationships between the standard of living, current earnings inequality, lifetime inequality, and public distributional policy.

Vorst, Ton C.F.

TI Mixtures of Tails in Clustered Automobile Collision Claims. AU Kalb, Guyonne R.J.; Kofman, Paul; Vorst, Ton C.F.

TI A Threshold Error Correction Model for Intraday Futures and Index Returns. AU Martens, Martin; Kofman, Paul; Vorst, Ton C.F.

Voth, Hans-Joachim


AB In this paper, we re-examine the effect of smallpox on the height attained by those who suffered from this disease. To this end, we analyze a dataset assembled by Floud, Wachter and Gregory on the height of recruits into the Marine Society, 1770-1873. Using both time series and cross-sectional analysis, we show that smallpox was indeed an important determinant of height: those who had suffered from smallpox were significantly shorter. This suggests that the increase in heights documented by Floud et al. may be explained not just by increased nutritional intake, but also by the eradication of smallpox.

Vulkan, Nir

TI Uncertainty and Endogenous Selection of Macroeconomic Equilibrium. AU Scaromozzino, Pargnale; Vulkan, Nir.

Wachter, Susan M.

TI Wealth Accumulation and Housing Choices of Young Households: An Exploratory Investigation. AU Haurin, Donald R.; Hendershott, Patric H.; Wachter, Susan M.

Wagner, Karin

TI Human Capital and Productivity in Manufacturing during the Twentieth Century: Britain, Germany and the United States. AU Broadberry, Stephen N.; Wagner, Karin.

Wallens, Chris

TI Innovations, Patents and Cash Flow. AU Geroski, Paul; Van Reenen, John; Wallens, Chris.
Walter, I.
TI Rethinking Emerging Markets. AU Smith, R.C.; Walter, I.


AB In this paper, the economics of financial market utilities in Europe, notably those involved in the securities clearance and settlements process, are examined in the context of the creation of an efficient, unified Pan-European capital market. Various models of cross-border clearance and settlement are considered, with the conclusion that the multiple-access model among national and international transactions utilities and custodians is probably in the best interests of end-users and financial market efficiency.

TI Barriers to European Financial Market Integration: Clearance and Settlement of Equities. AU Giddy, I.; Saunders, A.; Walter, I.

Walz, Uwe
TI Social Security and Migration in an Ageing Europe. AU Von Hagen, Jurgen; Walz, Uwe.

Wang, Fuhmei

AB The literature overwhelmingly believes that an over (under) valued real exchange rate is associated with high (low) financial premiums under dual exchange rates. We wish to oppose this view. The strategy in this paper is to build an intertemporal optimization model of financial premium change under such a regime. We also extend the analysis of the theoretical model by discussing computer simulations and using country evidence. The theoretical model, the numerical simulations, and the descriptive data analysis together show that such a relationship does not exist. In this sense, this paper provides a new set of results.

Warne, Anders
TI Common Trends Analysis of Danish Unemployment. AU Hansen, Henrik; Warne, Anders.

Waysand, Claire
TI The Role of Government Aid to Firms During the Transition to a Market Economy: Russia 1992-94. AU Melitz, Jacques; Waysand, Claire.

Weaver, P.M

AB Policy makers are seeking to reduce the environmental impact of the European pulp and paper sector by influencing technology choices throughout its life cycle. Because of its preoccupation with existing technologies, policy risks causing perverse environmental outcomes or adverse effects on some countries’ industry and trade. The scientific basis for preferring one technology over another is unclear. We explore these concerns in the case of mandatory fiber recycling using an approach that combines materials accounting methods and operational research techniques. We find that minor changes in technological assumptions result in sharply different environmental optima for the sector. Recycling offers rapid improvement in environmental performance with geographical specialization in production. An alternative to cleaner primary pulp production plus energy recovery offers potentially greater long term environmental improvement and greater geographical self-sufficiency. An important policy implication is that a level of recycling is needed in the short term that will reduce environmental impacts but not lock out progress on cleaner pulping technologies. Not all paper grades should contain secondary fiber. Our results reconfirm that regulatory policy instruments may unnecessarily limit the overall potential to reduce environmental impacts.

Weber, Axel A.
PD October 1994. TI Foreign Exchange Intervention and International Policy Coordination: Comparing the G-3 and EMS Experience. AA Universitat Bonn. SR Centre for Economic Policy Research, Discussion Paper: 1038; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA. ENGLAND. PG 33. PR 1 pound ($2) individuals; 1.50 pounds ($3) companies, libraries, institutions. JE E58, F31. KW Central Banking. Sterilization. Policy Coordination. Exchange Rates. EMS. AB The paper aims to develop understanding of why and how central banks have intervened in foreign exchange markets, and whether intervention was (i) coordinated, (ii) sterilized, and (iii) effective. The experience in the G-3 context is compared with the past EMS experience. In addition to foreign exchange intervention, the issue of international monetary policy coordination is discussed, again both within the G-3 and the EMS context. It is shown that the G-3 countries have relied primarily on coordinated intervention without any significant commitment to other forms of policy coordination in stabilizing exchange rates. The EMS countries, on the other hand, have at least to some extent resorted to short-term interest rate policy coordination in addition to coordinated intervention.

PD October 1994. TI Testing Long-Run Neutrality: Empirical Evidence for G7 Countries with Special Emphasis on Germany. AA Universitat Bonn. SR Centre for Economic Policy Research, Discussion Paper: 1042; Centre for Economic Policy Research, 6 Duke of York Street, London SW1Y 6LA. ENGLAND. PG 31. PR 1 pound ($2) individuals; 1.50...

AB Modern neo-Keynesian, new classical, and real business cycle models typically differ in the degree to which they incorporate long-run or short-run neutrality propositions. Despite their importance, little firm international evidence on cycle models typically differ in the degree to which they incorporate long-run or short-run neutrality propositions. The evidence from the G7 countries appears to be consistent with the long-run neutrality of money and the vertical Phillips curve, but the data largely refute the long-run super-neutrality of money and the "Fisher effect" of inflation on interest rates.

TI The Impact of Exchange Rate Fluctuations on European Union Trade. AU Sapir, Andre; Sekkat, Khalid; Weber, Axel A.

Weibull, Jorgen W.

TI Evolutionary Selection Against Dominated Strategies. AU Hofbauer, Josef; Weibull, Jorgen W.

Weidmann, Jens

TI Central Bank Independence and Seigniorage: the Banque de France. AU Wescbe, Katrin; Weidmann, Jens.

Weiss, A.M


AB This paper presents and empirically examines a previously untested theoretical explanation for why a sales organization structure is changed. We draw on institutional theory which argues that organizational actions are often motivated by a desire to increase the organization’s legitimacy. We assess whether decision makers’ perceptions of legitimacy (or the lack thereof) appear to impact the decision of whether to vertically integrate the selling function. We also examine whether legitimacy concerns are related to the decision whether to shift the selling contract to a different independent sales force, one which may enhance the manufacturer’s legitimacy. Using survey data, we find support for the plausibility of a legitimacy motive and clarify the underlying mechanism of institutional theory. The implications of the study for managerial behavior and the literatures on channels research, organizational governance, and institutional theory are discussed.

Weitz, B.

TI Performance in Principal-Agent Dyads: The Causes and Consequences of Perceived Asymmetry of Commitment to the Relationship. AU Ross, Jr. W.T.; Anderson, E.; Weitz, B.

Wen, Jean-Francois

TI Political Uncertainty, Capital Taxation, and Growth. AU Devereux, Michael B.; Wen, Jean-Francois.

Werner, Alejandro M.


AB This paper studies the Mexican and Israeli experiences with a target zone. The first part of the paper develops a model of exchange rate determination under a target zone regime with stochastic realignments, and examines the conditions under which the adoption of the target zone, instead of a fixed exchange rate, reduces the volatility of the interest rate differential. We conclude that if the variance of the expected realignment is sufficiently large, then the target zone will be useful. The second part of the paper is an empirical study that shows that the target zone regime helped reduce interest rate variability is Israel and Mexico by absorbing part of the shocks to the expected realignment with movements of the exchange rate inside the band.

Werner, Hans Joachim


AB In this note we consider the general linear regression model where the block partitioned regressor matrix may be deficient in column rank, the dispersion matrix is possibly singular, and some coefficients are possibly subject to consistent linear constraints. Of much interest for use is the traditional BLUE (best linear unbiased estimator). We show how this traditional BLUE can obtained from the traditional BLUE of the partial regression of the nonrestricted regressors. Some properties of the dispersion matrix of the traditional BLUE of the complete, unrestricted model are also given.

Wescbe, Katrin


AB One prominent characteristic of independent central banks is the legal limitation of the central bank's lending to the government. Although a priori we expect a strong link between the legal restriction on central bank credit to the government and seigniorage, the empirical cross-country evidence in favor of this hypothesis is rather tenuous pointing to a poor compliance to these restrictions. On balance, these cross-section studies suggest that, though central bank independence
is not a sufficient condition to avoid excess expansion of the monetary base, at best it can be considered a necessary condition. In this paper we intend to supplement the cross-section evidence through a case study of regime changes in a single country. The case of France is particularly interesting as the French monetary system was highly administered until 1985 when radical reforms were implemented. These events are reflected in the development of seigniorage revenue.


KW Demand for Money. European Monetary Union. Cointegration.

AB This paper tries to asses the stability and predictive performance of a European money demand function in comparison to national money demand relations. As there are no theoretical arguments for the choice of an exchange rate, three different possibilities for the conversion of the aggregate variables into a common currency are considered. While conversion with purchasing power parities and with base-year exchange rates give similar results, the use of current exchange rates leads to implausible estimates. Irrespective of the exchange rate chosen, the national functions perform better than the aggregated function with respect to the predictive accuracy. Inspection of the residuals of the national money demand equations indicates that currency substitution is not the major cause for the stability of the aggregated demand function. The aggregate relation seems mainly to reflect German money demand. This conclusion is supported by the instability of aggregated money demand resulting from the exclusion of Germany from the aggregate.

Wessels, Joachim H.


AB The effects of unproductive lobbying have so far mainly been addressed by the public choice literature on rent-seeking and by Milgrom/Roberts' (1988, 1990) work on influence activities in organizations. Our paper makes an attempt to incorporate lobbying into the simple principal-agent framework that was proposed by Homstrom/Milgrom (1991). This framework has been used by Itoh (1992) to analyze the costs and benefits of relative performance evaluation (RPE), a method of pay that can reduce agency costs by inducing competition between agents. One of Itoh's main findings is that the principal may prefer the agents to cooperate if there exists productive interactions that cause sabotage under a system of RPE. In our model, each of the two agents can affect the output signal that determines his pay both by productive effort and by unproductive lobbying that makes his performance appear lower-powered incentives in the optimal contract. Secondly, complementing Itoh's finding, we conclude that even if there are no productive interactions between agents, RPE may be non-optimal, because its use would provide the agents with an additional incentive to engage in lobbying. In this case, the principal will instead create a positive interdependence between agents' incomes (a kind of implicit team-work) to reduce the attractiveness of lobbying.

Weymark, John A.


AB This article provides an overview of John Harsanyi's contributions to Social Choice and Welfare Economics.


AB Serge Kolm's "epistemic counterfactual principle" says that a social choice only needs to be made from the actual feasible set of alternatives given the actual preference profile, but for this choice to be rational it must be justified by the choices which would have been made in appropriate counterfactual choice situations. Kolm's principle does not identify the relevant counterfactuals. I suggest that the appropriate counterfactuals to justify an impartial social choice are all the choice situations a moral agent behind a veil of ignorance might think is the actual choice situation outside the veil.

TI Social Welfare Orderings for Ratio-Scale Measurable Utilities. AU Tsui, Kai-Yuen; Weymark, John A.

Wheatley, Simon

TI How Reliable are Adverse Selection Models of the Bid-Ask Spread? AU Neal, Robert; Wheatley, Simon.

Whittaker, Julie

TI Efficiency, Environmental Contaminants and Farm Size: Testing for Links Using Stochastic Production Frontiers. AU Hadri, Kaddour; Whittaker, Julie.

Whittington, Geoffrey


TI The Logic and Alternative Measurement Systems in Financial Accounting. AU Gutierrez, J.M.; Whittington,
Geoffrey.

Wickens, M.R


Widgren, Mikael


AB We examine national effects on the common policies of the European Union (EU). The paper establishes a difference between national influence on voting outcomes and policies. It is assumed that policies of the EU are public goods and Holler’s public good power index is applied. The method is extended to cover voting games with coalitions to reveal also the effects of cooperation on policies. We show that small countries have more influence on common policies of the EU than on voting outcomes. Coalitions formation can, however, ruin this since even coalitions smaller than the blocking minority can control policy.

Williamson, P.J

TI Corporate Diversification and Organizational Structure: A Resource- Based View. AU Markides, C.C.; Williamson, P.J.

TI Corporate Restructuring: How Joint Ventures Can Help Ease the Pain. AU Nanda, A.; Williamson, P.J.

TI Corporate Restructuring Through Transitory Joint Ventures. AU Nanda, A.; Williamson, P.J.

Winklemann, Rainer


AB An increase in youth unemployment and a bi-modal wage distribution in the United States have generated interest in the structure and performance of alternative labor markets. In particular, comparatively satisfactory outcomes in the German labor market are said to have been determined by the interplay of the educational system and a number of training programs. This paper examines the performance of the German labor measured along two dimensions: earnings and mobility. Thereby, it assesses the relative merits of different training choices as distinguished by duration and specificity of the human capital acquired. Having established the extent to which the various training programs affect labor mobility, the paper provides additional evidence on the magnitude of wage differentials and the sources of earnings growth.


AB Using data from the German socio-economic panel this paper analyzes the labor market entrance of former apprentices, as well as of university and full-time school graduates. There are three main findings. First, the retention rate of apprentices in their training firms is fairly low. Second, the transition to employment involves unemployment periods for many individuals, and two out of three first employment spells end within five years. Third, the main determinant for post-apprenticeship tenure is firm size of the training company. The expected tenure is the same for individuals staying with their training firm and individuals moving jobs. The findings reveal that apprenticeship training is a less secure way to stable employment than is often assumed. Also, they cast doubt on standard human capital explanations of apprenticeship training.

Winter, Eyal

TI A Necessary and Sufficient Epistemic Condition for Playing Backward Induction. AU Balkenborg, Dieter; Winter, Eyal.

Winter-Ebmer, Rudolf


AB This paper studies the effect of increased immigration in Austria on the risk to natives of becoming unemployed. Austria experienced a dramatic rise in the share of alien workers as a result of the breakdown of the former communist regimes (especially that of the former Yugoslavia). We concentrate on entry into unemployment of young male workers who are thought to compete most with new immigrants. Our results indicate that the detrimental impact — if it exists at all — is only minor and is irrespective of the chosen proxy for competition (the share of foreign workers in an industry, in a region or at the firm level).

Winters, L. Alan


AB This paper constructs a simple model of the steel sector in Europe distinguishing eight West and two East European regions. It models the production of steel and also the various trade restrictions extant in 1992. It uses this model, first, to calculate the output and welfare effects of rationalizing the
sector to remove the excess capacity experienced in 1992 and second, to explore the consequences of the mutual trade liberalization between Eastern and Western Europe envisaged under the Europe Agreements. The latter allow major increases in output in the East (18 percent) and offer Western steel users significant welfare benefits (ESU 190 million). Eastern consumers and Western producers suffer (smaller) losses, but total output in the EU falls only by about 1.5 percent.


This paper discusses the design of appropriate institutions for trade policy-making in Central and Eastern Europe. Drawing on US and EU experience it argues that legislatures should set the broad parameters, leaving commodity-specific detail to the executives. Secretariat Ministries, e.g., Agriculture, Energy or Industry, should not control trade policy, a task which should fall to a special Ministry with close links to the Treasury and Ministry of Foreign Affairs. It should be clear precisely who is responsible for trade policy and the public should be informed both of their general interest in trade policy and of the costs and benefits of any particular action.

Withagen, Cees

TI Single-Peakedness and Initial Sustainability in Capital Resource Economies. AU Pezze, John; Withagen, Cees.

Wolf, Holger

TI Does the Nominal Exchange Rate Regime Matter? AU Ghosh, Atish R.; Guilde, Anne-Marie; Ostry, Jonathan D.; Wolf, Holger C.

Wolfe, Toby

TI Enterprise Restructuring in Early Transition: The Case Study Evidence From Central and Eastern Europe. AU Carlin, Wendy; Van Roosen, John; Wolfe, Toby.

Wong, Kam-Chau


AB For continuous excess demand functions, the existing literature (e.g., Sonnenschein (1972, 1973), Mantel (1974), Debreu (1974), Mas-Colell (1977), etc.) achieves a complete characterization only when the functions are defined on special subsets of positive prices. In this paper, we allow the functions to be defined on a larger class of price sets, (allowing, for example, the closed unit simplex, including its boundary). Besides characterizing excess demands for a larger class of economies, it is also a useful tool for proving other results. It allows us to characterize the equilibrium price set for a larger class of economies. It also permits extending Uzawa's observation (1962), by showing that Brouwer's Fixed-Point Theorem is implied by the Arrow-Debreu Equilibrium Existence Theorem ((1954), Theorem 1).

Wren-Lewis, Simon

TI How Robust are FEERs? AU Driver, Rebecca; Wren-Lewis, Simon.

TI European Monetary Union, Asymmetric Shocks and Inertia. AU Driver, Rebecca; Wren-Lewis, Simon.

Wu, Ping


AB Testing for inequality restricted hypotheses has obtained increasing attention in recent years in econometrics. While many tests have been proposed for these testing problems, little is available on the power of these tests. In this paper, we examine the power of two tests in the literature, the locally most mean powerful invariant test and the Kuhn-Tucker test, in the case of testing for quarter-dependent simple AR(4) errors in linear regressions.

Wyplosz, Charles

TI Strategic Orientation of the Firm and New Product

Xepapadeas, Anastasios


Xereb, J.M

TI Environmental Policy Under Oligopoly with Endogenous Market Structure. AU Katsoulacos, Yannis; Xepapadeas, Anastasios.
Performance. AU Gatignon, Hubert; Xuereb, J.M.

TI Strategic Orientation of the Firm and New Product Performance. AU Gatignon, Hubert; Xuereb, J.M.

Yalcin, Erkan
TI Endogenous Firm Objectives. AU Renstrom, Thomas; Yalcin, Erkan.

Yapar, Cemil
TI A Blue Decomposition in the General Linear Regression Model. AU Werner, Hans Joachim; Yapar, Cemil

Yip, Chong K.
TI Protection in a Dynamic Macroeconomic Model with Imperfect Competition. AU Fender, John; Yip, Chong K.

Zenner, Markus


AB In this study we consider a linear model with forecast feedback in which boundedly rational agents are learning the parameter values of the rational expectations equilibrium by the OLS learning procedure. We show strong consistency of the OLS estimates under much weaker assumptions on the involved time series than the ones usually employed. This result extends the boundedly rational learning approach to models including non-stationary time series, like processes with polynomial trends or unit root autoregressive processes, and indicates that the idea that agents can learn only stationary rational expectations equilibria is misleading.

Zenou, Yves
TI Firm Location and Job Creation in Cities. AU Fujita, Masahisa; Thisse, Jacques-Francois; Zenou, Yves.

Zhang, Lei
TI Designing Monetary Policy When Unemployment Exists. AU Lockwood, Ben; Miller, Marcus; Zhang, Lei.

TI Optimal Target Zones: How an Exchange Rate Mechanism Can Improve Upon Discretion. AU Miller, Marcus; Zhang, Lei.

Zieschang, Kimberly D.

KW Price Index. Methodology.

AB Since late 1991, the IMF Statistics Department has conducted a program of technical assistance on consumer and producer price measurement and index compilation for the countries that have emerged from the former Soviet Union. These countries whose economies are in various states of transition from centrally planned to market organization, and face special difficulties in developing price indices meeting international methodological guidelines for use in setting and monitoring the progress of macroeconomic policy. This paper describes and summarizes the findings of this technical assistance work with transition economies over the past four years, and the methodology developed by Fund experts to adapt international guidelines to the prevailing economic conditions. The paper catalogs the measurement problems and issues for compiling consumer and producer price indices in the transition context, and also comments on the use of these price series in compiling constant price national accounts.

Zimmerman, David J.
TI The Effect of Medicaid Abortion Funding Restrictions on Abortions, Pregnancies, and Births. AU Levine, Phillip B.; Trainor, Amy B.; Zimmerman, David J.

Zweimuller, Josef
TI Do Immigrants Displace Native Workers? The Austrian Experience. AU Winter-Ebmer, Rudolf; Zweimuller, Josef.