# Contents

<table>
<thead>
<tr>
<th>List of Figures</th>
<th>page xv</th>
</tr>
</thead>
<tbody>
<tr>
<td>List of Tables</td>
<td>xvii</td>
</tr>
<tr>
<td>Foreword</td>
<td>xix</td>
</tr>
<tr>
<td>Contributors</td>
<td>xxiii</td>
</tr>
</tbody>
</table>

## Introduction

Richard Blundell, Estelle Cantillon, Barbara Chizzolini, Marc Ivaldi, Wolfgang Leininger, Ramon Marimon, Laszlo Matyas and Frode Steen

- The COEURE Project
- Advances in Economic Research: Foundations for European Policies
- About the Chapters
- The Relevance of Data and Methods
- Acknowledgements
- Notes

## 1 Innovation and Growth: The Schumpeterian Perspective

Philippe Aghion and Ufuk Akcigit

1.1 Introduction
1.2 Looking for Growth Paradigms to Think about Growth Policy
   1.2.1 The Neoclassical Growth Model
   1.2.2 The AK Model
   1.2.3 The Product-Variety Model
   1.2.4 The Schumpeterian Model
1.3 Some Main Applications and Extensions of Schumpeterian Growth Theory
   1.3.1 Growth Meets IO
   1.3.2 Schumpeterian Growth and Firm Dynamics
   1.3.3 Growth Meets Development: Appropriate Institutions
   1.3.4 Growth Meets Development: Firm Dynamics in Developing Countries
   1.3.5 Growth and Unemployment
1.4 Enhancing Productivity Growth in Advanced Countries
   1.4.1 Pillars of Innovation-Led Growth
   1.4.2 Competition Policy against Industrial Policy
Contents

3.3.2 The Adaptation Hypothesis 121
3.3.3 The Disruption Hypothesis 123
3.4 Permanent versus Temporary Migration 124
  3.4.1 Why Do Migrants Return? 125
  3.4.2 Who Are the Return Migrants? 126
3.5 The Fiscal Effect of Immigration 128
  3.5.1 Static Frameworks 129
  3.5.2 Dynamic Models 130
3.6 Migration and Skill Shortages 132
3.7 International Migration and the Health Care Sector 136
  3.7.1 International Migration of Health Care Professionals 136
  3.7.2 International Migration of Old Age Carers 139
  3.7.3 Migrants’ Demand for Health Care 141
3.8 The Floridization of Europe: Old Age North–South Migration 143
  3.8.1 Determinants of Old Age Migration 144
  3.8.2 Effects on Host Country Economy 145
3.9 Conclusions 146
  Acknowledgements 147
  Appendix 147
  Notes 148
  References 149

4 Education Systems: Assignment, Admissions, Accountability and Autonomy 159
  SIMON BURGESS
  4.1 Introduction 159
    4.1.1 What Can Economics Contribute to the Study of Education? 161
  4.2 The Aims of Education: Rates of Return, Inequality and Social Mobility 161
  4.3 Education Systems: Assignment, Admissions, Accountability and Autonomy 164
    4.3.1 Assignment Mechanisms 164
    4.3.2 Accountability, Autonomy and Regulation 175
    4.3.3 Education Market Structure: Policy Summary 185
  Acknowledgements 185
  Notes 186
  References 186

5 Competition and Regulation in Markets for Goods and Services: A Survey with Emphasis on Digital Markets 194
  NIKOLAOS VETTAS
  5.1 Introduction 194
  5.2 A View on Competition Policy Developments in Europe 199
    5.2.1 Competition Policy: The General Context 199
    5.2.2 Digital Trade and Online Markets 200
    5.2.3 Some Recent Competition Cases 203
    5.2.4 Online Travel Agencies and MFNs 207
    5.2.5 The Digital Single Market Initiative 208
    5.2.6 Distinguishing Features of Digital Markets 209
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3</td>
<td>Approaches in Industrial Organization</td>
<td>210</td>
</tr>
<tr>
<td>5.3.1</td>
<td>Pricing</td>
<td>211</td>
</tr>
<tr>
<td>5.3.2</td>
<td>Vertical Relations</td>
<td>213</td>
</tr>
<tr>
<td>5.4</td>
<td>Recent Research on Competition Issues Related to Digital Markets</td>
<td>216</td>
</tr>
<tr>
<td>5.5</td>
<td>Challenges for Research on Competition Issues in Digital Markets</td>
<td>223</td>
</tr>
<tr>
<td>5.6</td>
<td>Conclusion</td>
<td>227</td>
</tr>
<tr>
<td></td>
<td>Acknowledgements</td>
<td>228</td>
</tr>
<tr>
<td></td>
<td>Notes</td>
<td>228</td>
</tr>
<tr>
<td></td>
<td>References</td>
<td>232</td>
</tr>
<tr>
<td>6</td>
<td>Winners and Losers of Globalization: Sixteen Challenges for Measurement and Theory</td>
<td>238</td>
</tr>
<tr>
<td></td>
<td>CECÍLIA HORNOK AND MIKLÓS KOREN</td>
<td></td>
</tr>
<tr>
<td>6.1</td>
<td>Introduction</td>
<td>238</td>
</tr>
<tr>
<td>6.2</td>
<td>Advances in Measurement and Data Challenges</td>
<td>240</td>
</tr>
<tr>
<td>6.2.1</td>
<td>Recent Advances in Measuring the Causes and Effects of Globalization</td>
<td>240</td>
</tr>
<tr>
<td>6.2.2</td>
<td>Data Challenges</td>
<td>245</td>
</tr>
<tr>
<td>6.3</td>
<td>Insights from Theories of Globalization</td>
<td>247</td>
</tr>
<tr>
<td>6.3.1</td>
<td>Broad Lessons about the Causes and Effects of Globalization</td>
<td>247</td>
</tr>
<tr>
<td>6.3.2</td>
<td>Insights for Policy</td>
<td>256</td>
</tr>
<tr>
<td>6.3.3</td>
<td>Open Questions</td>
<td>257</td>
</tr>
<tr>
<td>6.4</td>
<td>Conclusion</td>
<td>263</td>
</tr>
<tr>
<td></td>
<td>Acknowledgements</td>
<td>263</td>
</tr>
<tr>
<td></td>
<td>Notes</td>
<td>264</td>
</tr>
<tr>
<td></td>
<td>References</td>
<td>264</td>
</tr>
<tr>
<td>7</td>
<td>Economic Approaches to Energy, Environment and Sustainability</td>
<td>274</td>
</tr>
<tr>
<td></td>
<td>PAUL EKINS, PAUL DRUMMOND AND JIM WATSON</td>
<td></td>
</tr>
<tr>
<td>7.1</td>
<td>Introduction</td>
<td>274</td>
</tr>
<tr>
<td>7.2</td>
<td>Economic Approaches to the Environment</td>
<td>275</td>
</tr>
<tr>
<td>7.2.1</td>
<td>Environmental and Resource Economics</td>
<td>275</td>
</tr>
<tr>
<td>7.2.2</td>
<td>Ecological Economics</td>
<td>276</td>
</tr>
<tr>
<td>7.2.3</td>
<td>Institutional, Evolutionary, and Behavioural Economics</td>
<td>277</td>
</tr>
<tr>
<td>7.3</td>
<td>Sustainability and Sustainable Development</td>
<td>278</td>
</tr>
<tr>
<td>7.3.1</td>
<td>Sustainable Development</td>
<td>278</td>
</tr>
<tr>
<td>7.3.2</td>
<td>Environmental Sustainability</td>
<td>283</td>
</tr>
<tr>
<td>7.3.3</td>
<td>Measurement and Indicators of Sustainable Development and Sustainability</td>
<td>289</td>
</tr>
<tr>
<td>7.4</td>
<td>The Energy System and Climate Change Mitigation</td>
<td>292</td>
</tr>
<tr>
<td>7.4.1</td>
<td>Energy Security</td>
<td>292</td>
</tr>
<tr>
<td>7.4.2</td>
<td>Reducing CO₂ Emissions</td>
<td>295</td>
</tr>
<tr>
<td>7.4.3</td>
<td>Financial Requirements and Affordability</td>
<td>295</td>
</tr>
<tr>
<td>7.5</td>
<td>Policies for Energy, Climate Change Mitigation and a Green Economy</td>
<td>298</td>
</tr>
<tr>
<td>7.5.1</td>
<td>Standards and Engagement</td>
<td>299</td>
</tr>
<tr>
<td>7.5.2</td>
<td>Information</td>
<td>299</td>
</tr>
<tr>
<td>7.5.3</td>
<td>Markets and Pricing</td>
<td>300</td>
</tr>
</tbody>
</table>
## Contents

7.5.4 Strategic Investment 302  
7.5.5 EU Energy and Climate Change Policy: Lessons and Priorities for Research 305  
7.6 The Science-Policy Interface 309  
7.7 Conclusions and Research Priorities 312  
Notes 316  
References 316  

8 Regional Disparities and Efficient Transport Policies 324  
**STEF PROOST AND JACQUES-FRANÇOIS THISSE**  
8.1 Introduction 324  
8.2 What Is Spatial Economics About? 325  
8.2.1 Location Does Matter 326  
8.2.2 Moving Goods and People is Still Costly 327  
8.3 The Drivers of Regional Agglomeration 330  
8.3.1 The Home-Market Effect 332  
8.3.2 Agglomeration Economies and the Emergence of Asymmetric Clusters 339  
8.3.3 The Core–Periphery Structure 340  
8.3.4 Input–Output Linkages and the Bell-Shaped Curve of Spatial Development 343  
8.3.5 Communication Costs and the Relocation of Plants 345  
8.4 Does the Market Yield Over or Under-agglomeration? 346  
8.4.1 Does the Home-Market Effect Generate Excessive Agglomeration? 346  
8.4.2 Is the Core-Periphery Structure Inefficient? 347  
8.5 Do EU Interregional Transport Investment Policies Fulfil their Role? 348  
8.5.1 Assessing Transport Investments Using Econometric Models 350  
8.5.2 Assessing Transport Investments Using Model Simulations 351  
8.5.3 Assessing Transport Investments Using Case Studies 353  
8.6 Is the EU Moving to a Better Utilization of Its Existing Transport Policy? 355  
8.6.1 Competition on Diesel Fuel Taxes Leads EU Countries to Revise Their Pricing of Road Freight 355  
8.6.2 Europe Does Not Make the Best Use of Its Rail and Air Transport System 356  
8.7 What Have We Learnt? 357  
Acknowledgements 360  
Notes 360  
References 361  

9 Skilled Cities and Efficient Urban Transport 366  
**STEF PROOST AND JACQUES-FRANÇOIS THISSE**  
9.1 Introduction 366  
9.2 Agglomeration Economies 368  
9.2.1 The Nature and Magnitude of Agglomeration Economies 371  
9.2.2 Cities as Consumption Centres 375
11 Financial Regulation in Europe: Foundations and Challenges

THORSTEN BECK, ELENA CARLETTI AND ITAY GOLSTEIN

11.1 Introduction

11.2 Recent Financial Reforms in Europe
   11.2.1 Capital Requirements
   11.2.2 Liquidity Requirements
   11.2.3 Resolution Framework and Bail-In Instruments
   11.2.4 Banking Union
   11.2.5 Activity Restrictions and Other Reforms

11.3 Microfoundations for Financial Reforms
   11.3.1 Basic Failures in the Financial System
   11.3.2 Mapping between Basic Failures and the Reforms Enacted in Europe

11.4 Moving beyond Banks and Traditional Activities: The Regulatory Perimeter
   11.4.1 The Regulatory Perimeter
   11.4.2 Financial Innovation
   11.4.3 Complexity

11.5 Special Issues in Europe and How they Affect Future Regulation
   11.5.1 Crisis Resolution and Macro-Management in a Monetary Union
   11.5.2 Financial Structure: Does Europe Suffer from a Bank Bias?

11.6 Summary, Policy Lessons and Directions for Future Research

Acknowledgements
Notes
References

12 Inequality and Welfare: Is Europe Special?

ALAIN TRANNOY

12.1 Introduction

12.2 Inequality and Welfare: Two Interconnected Notions
   12.2.1 Inequality
   12.2.2 Welfare
   12.2.3 Aggregating Welfare
   12.2.4 The Relationship between Inequality and Welfare
   12.2.5 Two Assumptions about Individual Welfare

12.3 Normative and Positive Issues Involving Several Sciences
   12.3.1 Political Philosophy
   12.3.2 History
   12.3.3 Sociology and Political Science
   12.3.4 Psychology
   12.3.5 Neurosciences: Happiness in the Twenty-First Century

Acknowledgements
Notes
References