



NETWERK ALGEMENE EN KWANTITATIEVE ECONOMIE

NETHERLANDS NETWORK OF ECONOMICS

NAKE DAY 2008

Book of Abstracts

October 24, 2008

Utrecht University



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Netwerk Algemene en Kwantitatieve Economie
Netherlands Network of Economics

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Bénédicte Apouey and Andrew Clark

“The Ages of Social Health Inequalities”

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Abstract:

A large literature has shown that higher socioeconomic status is associated with better health. But whether this association can be interpreted as causal effects of income on health is not sure. Indeed causality between health and income may go in both directions; low income may influence health, whereas poor health may explain a lower income. There also may be hidden common factors that lead to the association of health and income. In order to know whether income determines health, this paper introduces a correction for endogeneity, using medium-sized lottery wins as an exogenous income variation. We thus show that income has an effect on mental health, but not on physical health. Second, the paper revisits the gradient question by using a longitudinal perspective to address the question of the evolution of the gradient. Indeed, there has been relatively few works on the evolution of this relationship over the life cycle. In an influential contribution Case and Deaton (2004) presented evidence of a significant income gradient that increases as people age using American data. We wonder if this finding is universal and find that income has an effect on mental health only for older people.

Thorsten Beck, Berrak Büyükkarabacak, Felix Rioja, and Neven Valev
“Who Gets the Credit? And Does it Matter? Household Versus Firm Lending
Across Countries”

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Abstract:

While the theoretical and empirical finance literature has focused almost exclusively on enterprise credit, about half of the credit extended by banks to the private sector (in a sample of 45 developing and developed countries) is to households. The share of household credit in total credit increases as countries grow richer and financial systems develop. Cross-country regressions, however, suggest a positive and significant impact on GDP per capita growth only of enterprise but not household credit. These two findings together partly explain why previous studies, such as Aghion et al. (2005), have found a small or insignificant effect of finance on growth in high-income countries. We also find that countries with a lower share of manufacturing, a higher degree of urbanization and more market-oriented financial systems, have a higher share of household credit. It is thus mostly socio-economic trends that determine credit composition, while policies influencing banking market structure and regulatory policies are not robustly related to credit composition.

Volker Britz, Jean-Jacques Herings, and Arkadi Predtetchinski

“Non-Cooperative Support for the Asymmetric Nash Bargaining Solution”

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Abstract:

Our work contributes to the game-theoretic analysis of bargaining by providing non-cooperative support to the asymmetric Nash bargaining solution. We study a model of non-cooperative multilateral bargaining with a very general proposer selection protocol and set of feasible payoffs. In each period of the bargaining game, one out of n players is recognized as the proposer according to an irreducible Markov process. The proposer offers a particular element of the convex set of feasible payoffs. If all players accept the offer, it is implemented. If a player rejects the offer, with some probability the negotiations break down and with the remaining probability the next period starts. We show that subgame perfect equilibria in stationary strategies exist and we fully characterize the set of such equilibria. Our main result is that in the limit, as the exogenous risk of breakdown goes to zero, stationary subgame perfect equilibrium payoffs converge to the asymmetric Nash bargaining solution with the stationary distribution of the Markov proposer selection process as the weight vector.

Koen Caminada and Kees Goudswaard

“Effectiveness of Poverty Reduction in the European Union”

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Abstract:

This paper analyses the effectiveness of welfare state policies and especially social transfers in EU-countries in alleviating poverty. To indicate whether European economic integration may have had any impact on poverty reduction, we also include several non-EU15 countries as a benchmark into our analysis. We analyze on a cross-country basis the relationship between poverty rates and social effort, as measured by social expenditure ratios. We also correct these expenditure ratios for the impact of the tax system and for private social arrangements, using OECD methodology. Next, we compare poverty rates at the levels of market and disposable incomes, that is, before and after transfers, to analyze the effect of tax and transfer policies in reducing poverty, that is to determine the target efficiency of social transfers. Our results are less clear cut than earlier findings. We still find a quite strong negative relationship between the level of social expenditure and poverty among OECD countries. However, for EU-countries this relationship is weaker and there are substantial differences within the EU15. After correcting for the impact of taxes and for private social arrangements, the linkage between social effort and poverty levels becomes even weaker. Also, we do not find a strong relationship between levels of social spending and antipoverty effects of social transfers and taxes. Our analysis highlights some best-practices on poverty alleviation in the EU15. Each percentage point of net social expenditure alleviates poverty in Ireland and the Scandinavian countries by 0.7-1.1 percentage points, while the lowest scores can be found in Italy, Spain and Portugal (0.2-0.3). Especially family programs and child support alleviate poverty among children to a large extent.

Roberta Colavecchio

“Tracking the Yen Carry Trade: Evidence from a Regime Switching Approach”

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Abstract:

The uncovered interest parity (UIP) theorem has had little empirical support over the past 25 years. Moreover, it has been shown that high interest rate currencies have tended to appreciate and low-rate currencies to depreciate, the reverse of theory. The failure of UIP has been no secret to participants in currency markets, where the ‘carry trade,’ which is essentially a bet against UIP, has become a very popular investment strategy, underpinned by low exchange rate volatility and persistent interest rate differentials. In this paper, I investigate the role that exchange rate volatility plays in the failure of UIP and hence in the build-up of yen carry trade positions. I specify a Markov-switching version of the UIP equation with time-varying transition probabilities. Empirical evidence indicates the presence of a carry trade regime, whose features are compatible with the presence of carry trade activities. Moreover, it is confirmed that both an increase in exchange rate volatility and a decrease in expected interest rate differentials lead to a higher probability of carry trade unwinding. Finally, the inclusion of a time-varying risk premium as additional regressor in the UIP equation leaves the results unchanged, indicating the robustness of the nature of the relationship between exchange rate volatility and carry trades.

Drew Creal, Siem Jan Koopman, and André Lucas

“Generalized Autoregressive Score Models with Applications”

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Abstract:

We propose a new class of observation driven time series models that we refer to as Generalized Autoregressive Score (GAS) models. The driving mechanism of the GAS model is the scaled likelihood score. This provides a unified and consistent framework for introducing time-varying parameters in a wide class of non-linear models. The GAS model encompasses other well-known models such as the generalized autoregressive conditional heteroskedasticity, autoregressive conditional duration, autoregressive conditional intensity and single source of error models. In addition, the GAS specification gives rise to a wide range of new interesting observation driven models. Examples include non-linear regression models with time varying parameters, observation driven analogues of unobserved components time series models, multivariate point process models with time-varying parameters and pooling restrictions, new models for time-varying copula functions and models for time-varying higher order moments. We study the properties of GAS models and provide several non-trivial examples of their application.

Carin van der Cruijssen, Sylvester Eijffinger, and Lex Hoogduin
“Optimal Central Bank Transparency”

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Abstract:

Should central banks increase their degree of transparency any further? We show that there is likely to be an optimal intermediate degree of central bank transparency. Up to this optimum more transparency is desirable; it improves the quality of private sector inflation forecasts. But beyond the optimum people might: (i) start to attach too much weight to the conditionality of their forecasts; and/or (ii) get confused by the large and increasing amount of information they receive. This deteriorates the (perceived) quality of private sector inflation forecasts. As a result, inflation is set in a more backward- looking manner resulting in higher inflation persistence. By using a panel data set on the transparency of 100 central banks we find empirical support for an optimal intermediate degree of transparency at which inflation persistence is minimized. Our results indicate that while there are central banks that would benefit from further transparency increases, some already have reached the optimal level.

Tijmen Daniëls

“Unique Equilibrium in a Dynamic Model of Speculative Attacks”

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Abstract:

A main challenge of understanding currency crises is explaining their puzzling timing. In much of the literature, a crisis is modeled as a sudden, exogenous shift in sentiment on financial markets, from euphoria to panic. Morris and Shin (1988) have introduced the theory of global games to establish unequivocal conditions under which such a shift occurs. This theory, however, applies to static one-period models and such models can say little about the timing of a shift in sentiment. Moreover, it is not obvious that the unequivocal implications of such models carry over to a dynamic context. This paper develops a dynamic global game model that explains shifts in market sentiment over time. It gives a precise mathematical characterization of the conditions under which a shift in sentiment occurs in a dynamic context. We prove that these conditions: (i) are uniquely determined by the strategic risk associated with speculation; and (ii) imply the model has a unique and rationalizable equilibrium. These findings correspond exactly to the implications of static global games models. We conclude that global game arguments can be generalized to dynamic contexts and that the use of global games can help to explain the timing of attacks.

Zsolt Darvas and Zoltan Schepp

“Forecasting Exchange Rates of Major Currencies with Long Maturity Forward Rates”

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Abstract:

This paper presents unprecedented forecasting results with a new model. Our error correction model, assuming that long-maturity forward rates are stationary,

outperforms the random walk in an out-of-sample forecast at horizons above one year. We employ data for US dollar exchange rates against nine industrial countries' currencies, during the 1990-2006 period. The improvement in forecast accuracy of our model is economically significant for most of the exchange rate series and statistically significant according to a bootstrap test. Our results are robust to the specification of the error correction model and to the underlying data frequency.

Erhan Demirel, Jos van Ommeren, and Piet Rietveld

“Water-Level Risk on the Rhine River: Derivatives as an Instrument for Inland Navigation to Cope with Climate Change?”

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Abstract:

The Rhine river is the most important transport axis for inland navigation in Western Europe. Due to climate change, the sector is expected to be able to offer less reliability to its customers, since the river is expected to show more extreme and more fluctuating water-levels. In this paper we explore the possibilities of (financial-like) derivatives to hedge against this kind of water-level risk by both carriers and transport-demanding customers.

Remco van Eijkel, Marco Haan, and José Luis Moraga-González

“Transportation Pricing and Market Power in the Natural Gas Industry”

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Abstract:

We study the role of transportation pricing in shaping the incentives of gas producers with market power. Two downstream gas producers, each located at one of the ends of a pipeline, serve two markets connected by the pipeline. When pipeline capacity is relatively large, there exists a symmetric equilibrium in which the pipeline is not fully utilized. In this case, nodal pricing is not optimal: a budget-constrained and welfare-maximizing transportation operator (TSO) adjusts transportation tariffs upward to account for the presence of downstream market power. When capacity is relatively small, an (essentially) unique asymmetric equilibrium exists in which one firm lowers its exports until the pipeline is used at full capacity. In this case, gas flows into the market where the price is lower and it is optimal for the TSO to subsidize the reverse flow and tax the dominant one so as to mitigate market power to the extent possible. In this case too, second-best tariffs differ from the nodal pricing system. Our results, therefore, suggest that the use of seasonal tariffs is optimal.

Denis de Crombrughe, **Henry Espinoza**, and Hans Heijke

“Is it Worthwhile to Finish? Job-Training Programs and Low Completion Rate:
The Case of Projoven-Peru”

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Abstract:

From 1996 to 2007, less than 60 percent of the participants of the youth job-training program Projoven-Peru have completed the training. Uncertainty still remains regarding whether it is worthwhile for the trainees to complete Projoven. This paper aims to estimate the impact of Projoven’s sixth public call on trainees’ wages and employment likelihood in the presence of dropouts with partial treatment. As Projoven is based on a two-step sequence design (formal classroom training and on-the-job training), we estimate the effects of completing each of the two phases of the program. Accordingly, this paper proposes a differences-in-differences dynamic panel approach. We also control for the pre-treatment wage differences between trainees and the official control group. We create a new control group using propensity score matching with replacement. Our findings provide evidence that participation into the program, completing at least formal class phase, raises trainees’ wages and employment likelihood. Additionally, the effect of completing the classroom phase on wages is higher for the most economically disadvantaged trainees. Nevertheless, completing Projoven’s on-the-job training experience has no additional effects on earnings or employment.

Igor Fedotenkov and Lex Meijdam

“The Spillover Effects of Pension Reform with Perfect Labor and Capital Mobility”

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Abstract:

Ongoing globalization wipes out the borders between countries. The obstacles for migration and capital flows are being removed. As a result, migration within the European Union is mainly determined by choice of individuals and not by migration policy of sovereigns. This paper studies the spillover effects of pension reform in a world with perfect capital and labor mobility. We employ a two-country, two-generation model for the analysis. We show that under these assumptions the benefits and losses caused by pension reform in one country are shared with its neighbor and affect the entire region.

Teja Flotho

“Consumption Risk-Sharing: Evidence from German Household Data”

Albert-Ludwigs-Universität

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Abstract:

Models of complete markets imply that individual consumption is influenced by aggregate consumption behavior rather than by idiosyncratic variables like

individual income or changes in employment status. Thus, households will typically use financial markets and other means for diversifying idiosyncratic risk and are thus enabled to smooth their consumption paths over time. The goals of this paper are to identify the extent of risk sharing of German households and the effects of government programs, social security systems, and financial markets on consumption behavior. We use data on approximately 3,200 households from the GSOEP to test these implications empirically. Furthermore, it is of special interest to analyze the effects of pension plans with respect to income groups. The rationale for this approach is the assumption that high-income households make more intense use of financial markets for ensuring consumption risk whereas for households with low and medium incomes most risk sharing is done via governmental programs and the social security systems. By explicitly oversampling high-income households, the GSOEP offers a somewhat unique data set for the purpose of our study. In contrast to both the theory of complete markets and the results for other countries, the first results of our study suggest that there is very little risk sharing at the household level using financial markets. The main determinant of household consumption is indeed household disposable income (after government transfers). It thus seems that the German tax transfer and social security systems seem to do a remarkably good job of offering risk sharing opportunities to individuals.

Michael Gengenbach and Hans-Peter Weikard

“Stable Coalitions in Wastewater Treatment”

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Abstract:

Establishing effective wastewater treatment to assure safe reuse of wastewater predominantly failed in developing countries. Israel, on the other hand, is the leading example with several successful projects. While some were established with the intervention of the central government, others were initiated locally and developed into regional cooperation without the support of the central government. In developing countries, weak central governments render local initiative and regional cooperation necessary. We analyze regional cooperation in wastewater treatment and reuse of communities along a river. Communities pollute the river which is a negative externality for downstream communities. Communities also have the option to abate pollution by wastewater treatment. While being costly, treatment generates benefits only for downstream communities. Hence treatment is only possible when downstream communities contribute to the costs. We analyze this issue with a cartel formation game as by applied in transboundary environmental agreements. We integrate characteristics of wastewater treatment and reuse and derive general conditions for equilibria in which stable coalitions provide treatment.

Ruud Gerards, Manuel Müllers, and Joan Muysken

“Institutional Reforms that Really Matter: OECD Institutional Indicators Versus Dutch Reform History”

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Abstract:

This paper analyzes the impact of institutional reforms in the Netherlands on the social security network. We distinguish between disability, sickness,

unemployment, employment protection legislation, and active labor market policy reforms over the period 1980-2005 using both qualitative and econometric analyses. Our findings are compared to OECD institutional indicators constructed by OECD, following Blanchard and Wolfers (2000) and Nickell et al. (2001, 2005). We show that these indicators are far too rough and do not correctly pick up the reforms and developments that took place over time.

Benedikt Goderis and Mila Versteeg

“Human Rights after 9/11 and the Role of Constitutional Constraints”

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Abstract:

After 9/11, the United States and its allies took measures to protect their citizens from future terrorist attacks. While these measures aim to increase security, they have often been criticized for violating human rights. But violating rights may be difficult in a constitutional democracy with separated powers and checks and balances. We develop a theoretical model to analyze the effect of the post-9/11 terror threat on human rights. We test the predictions of the model empirically using difference-in-difference estimation for 152 countries between 1978 and 2006. The results support the theoretical predictions: the post-9/11 terror threat led to a systematic increase in human rights violations in US ally countries. This effect was significantly smaller in countries with independent judicial review (counter-majoritarian checks), but did not depend on the presence of veto players in a country's political process (majoritarian checks).

Marie Goppelsroeder

“Collusion and Entry: An Experimental Study”

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Abstract:

In this experiment we test the effects of entry on the stability of tacit collusion in an oligopoly market. Theoretical as well as experimental research suggests that a larger number of firms makes collusion harder to enforce and that it typically erodes cartel stability. In this study, we specifically explore the question whether collusion can be sustained when the groups start off small and when it is common knowledge that the entrant is informed about the history of the period results before he enters his group. In price competition markets we find that collusion is indeed easier to sustain if players start to interact in smaller groups: market prices as well as the frequency of coordination are significantly higher in these groups than in groups that start off large.

Bas van Groezen, Rashmi Jadoenandansing, and Giacomo Pasini

“Social Capital, Health, and Well-Being in European Welfare States”

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Abstract:

In the paper we compare the effect of social capital and civic participation on self-assessed health, mental health, and life satisfaction in 11 European countries. We combine comparable cross-country household level data from SHARE and regional level social capital indicators from the World Value Surveys, such as trust and civic participation. Compared to the existing literature on the topic, the data set at hand allows us to relate differences in the strength of the relation between health and social capital to differences in cultural traits and welfare states across countries. We find that, after controlling for a rich set of socioeconomic characteristics and health-related behaviors, trust has a significantly positive effect on health in most Mediterranean countries and in the Netherlands, but has no health effect in other countries. Civic participation, on the other hand, does have a positive and quite similar effect in all countries.

Nynke de Groot

“A Panel Data Study on the Price of the Performing Arts”

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Abstract:

The discussion about the benefit principle for theatres in the Netherlands has encouraged interests in demand studies for the performing arts. We employ a unique panel data set of 137 theaters in the Netherlands which allows us to estimate the price elasticity of demand for the performing arts. These data are combined with national data on income, price of leisure, and prices of substitutes. The model is estimated with several dynamic panel estimators, of which the Arellano-Bond General Method of Moments (GMM)-estimator performed best. We estimate a short-run price elasticity of -0.43, which is in line

with previous studies whereas our long-run price elasticity of -0.48 is relatively small. Unlike most previous studies, our study decomposes income in the amount that can actually be spent when income increases and the effect that a higher income also increases the price of leisure. Our results show that demand is inelastic with respect to income, an increase of 1 percent only increases demand for theater with 0.2 percent. With the model several forecasts of future demand are performed. These scenarios reveal that the benefit principle can lead to an increase in attendance provided that theaters invest in publicity.

Loek Groot

“Equity and Inequality Measurement of Carbon Emissions”

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Abstract:

The purpose of this paper is twofold. First, it is shown that standard tools used in the measurement of income inequality, such as the Lorenz curve and the Gini-index, can successfully be applied to the measurement of inequality in of carbon emissions and the equity of abatement policies across countries. Conventional distribution rules of greenhouse gas emissions, for example, the equal per capita caps and grandfathering, can be linked to the Lorenz curve and the Parade of Pen. Second, it sets out the implications of greenhouse gases emission and the resulting global warming as a public bad using Samuelson’s rule for the optimal provision of public goods. The Pareto-optimal distribution of carbon emissions is compared with the distribution that follows if countries follow Nash-Cournot strategies.

Martijn Han

“Determining Antitrust Damages”

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Abstract:

Victims of antitrust violations can recover their damages in court. Yet, the quantification of antitrust damages and to whom they accrue is often complex. An illegal price increase somewhere in the chain of production percolates through to the other layers in a sequence of partial pass-ons. The resulting reductions in sales lead to additional damages affecting downstream (in)direct purchasers as well as upstream suppliers. United States civil antitrust litigation is largely concerned with direct purchaser claims for (treble) damages calculated on the basis of the overcharge. Similar simple best practice rules are emerging in Europe. In this paper, we show that the overcharge method is a poor measure of the true antitrust injury inflicted, even when the but-for world is exactly characterized.

Pim Heijnen

“The Hartwick Rule as a Conservation Law”

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Abstract:

Using conservation laws, we provide a new proof of the Hartwick result, that is, there is intergenerational equity if and only if net investment is constant. We argue that the concept of conservation laws allows for the straightforward verification of the Hartwick result in a broader class of models than the class that has been considered in the literature. To illustrate this, the technique is used to show that constant net investment does not indicate sustainability if consumers value the existence of an essential non-renewable resource.

Nils Holinski and Robert Vermeulen

“Asset Prices, Consumption, and the Trade Balance: A Global Error-Correcting Analysis”

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Abstract:

This paper analyzes the empirical link between asset prices, consumption, and the trade balance using a global macroeconomic model developed by Pesaran et al. (2004), which explicitly captures each country’s position within the world economy through bilateral trade patterns. The model is estimated for 30 countries, considered individually or grouped in meaningful regions, with quarterly data over the period 1981Q1-2006Q4. In light of proceeding international financial integration, pronounced cycles in stock prices and the recent housing crises in the United States, we employ generalized impulse-response functions to show that shocks to asset prices in a given country exert considerable influence on consumption and trade decisions at home, but also spill over to the rest of the world.

David Hollanders

“The Political Economy of Intergenerational Risk Sharing”

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Abstract:

This paper investigates political limits of ex ante efficient intergenerational risk sharing using a stochastic two-period overlapping generations (OLG) model. The central result is that in a process of indirect democracy, ex ante efficient taxation generally does not arise endogenously. Aging increases the discrepancy between first-best and second-best taxation, though ex ante efficient utility is not affected substantially. Both second-best and first-best allocations substantially outperform autarky with no transfers at all. The results are complemented by and compared with those of the more common approach of direct democracy. In that case, multiple equilibria exist, including zero transfers and the ex ante efficient, first-best allocation. Indirect democracy is argued to be more reasonable here in terms of assumptions and outcomes, suggesting economic efficiency is generally out of reach of politics.

André van Hoorn

“Affluence and the Intensity of Positional Concerns”

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Abstract:

Economists and other social scientists have a long-standing interest in issues of social comparison. The notion that how a person, notably his or her riches, compares with others is a significant factor in a person's well-being dates back to at least Adam Smith. Building on work in sociology and psychology, recent research in economics finds mounting evidence that position indeed matters. A key question remains unaddressed, however; namely whether the intensity of positional concerns increases with growing wealth. This paper presents the first analysis of the relation between intensity of positional concerns affluence. For this end, I estimate happiness functions in which the coefficient for relative position is allowed to differ across income levels, as measured by per capita gross domestic product. Data on subjective well-being and relative position come from the World Values Survey. Multilevel/hierarchical modeling is used to control for the clustering of individual observations at the level of countries and to properly allow for cross-level interaction. The results reveal systematic variation in the intensity of concern with one's standing in society: the effect of relative position on individuals' self-reported happiness increases with affluence.

Audrey Hu and Liang Zou

“Auctions Under Payoff Uncertainty: The Case with Heterogeneous Bidder-Aversion to Downside Risk”

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Abstract:

This paper characterizes the optimal first-price auction (FPA) and second-price auction (SPA) for selling rights, contracts, or licenses that involve ensuing payoff

uncertainty for the winning bidder. The distribution of the random payoff is common knowledge, except that bidders have private degrees of aversion to downside-risk. In this model, the optimal FPA entails a lower reserve price, a higher expected revenue, and higher expected utilities for at least some or all bidders than the optimal SPA does, which suggests that FPA dominates SPA in terms of both allocative and Pareto efficiency. Increasing risk or risk aversion generally leads to lower equilibrium bids.

Asli Demirgüç-Kunt and **Harry Huizinga**

“Bank Activity Mix and Funding Patterns: The Impact on Risk and Return”

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Abstract:

Banks vary in their mix of interest income and other income in the form of fees, commissions and trading income. At the same time, short-term bank funding generally consists of deposits as well as non-deposit funding such as interbank loans. This paper examines trends in the bank activity mix and short-term funding pattern using an international data set. At the same time, we examine the implications for bank risk and return. Expansion into non-interest generating activities increases the rate of return on assets and it appears to yield some risk diversification benefits at low levels of non-interest income. The attraction of non-deposit funding in contrast has no discernible impact on the rate of return on assets, but it offers some risk reduction at low levels of the non-deposit funding share.

David-Jan Jansen

“Does the Clarity of Central Bank Communication Affect Volatility in Financial Markets?”

De Nederlandsche Bank

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Abstract:

Using the Humprey-Hawkins testimonies to Congress given by the Federal Reserve Chairman, I test whether the clarity of central bank communication affects volatility in financial markets. There are two key results. First, clarity of communication matters mostly for volatility of medium-term interest rates. Second, when clarity matters, the results are unequivocal: clarity diminishes volatility. Overall, the analysis shows the importance of transparent communication on monetary policy.

Itai Ashlagi, **Emin Karagozogl**, and Bettina Klaus

“A Noncooperative Support for Equal Division in Estate Division Problems”

Maastricht University

Departments of Economics

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Abstract:

We consider estate division problems, a generalization of bankruptcy problems. We model instances in which the verification of the validity of agents' claims is either impossible or too costly, for example, if the profit of a joint project should be split among the project participants, but inputs are not perfectly observable or

difficult to compare. In such circumstances, agents are likely to behave strategically to ensure larger shares for themselves. We show that in a direct revelation claim game all (pure strategy) Nash equilibria induce equal division, if and only if the underlying division rule satisfies efficiency, equal treatment of equals, and weak order preservation. Next, we consider division rules satisfying efficiency, equal treatment of equals, and claims monotonicity. For claim games with at most three agents, again all (pure strategy) Nash equilibria induce equal division. Surprisingly, this result does not extend to claim games with more than three agents. However, if nonbossiness is added, then equal division is restored in all (pure strategy) Nash equilibria. Our results provide a noncooperative support for equal division based only on basic and desirable properties for division rules.

Martin Knaup and Wolf Wagner

“A Market-Based Measure of Credit Quality and Banks’ Performance During the Subprime Crisis”

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Abstract:

We propose a new method for measuring the quality of banks’ credit portfolios. This method makes use of information impounded in bank share prices by exploiting differences in their sensitivity to credit default swap spreads of borrowers of varying quality. The method allows us to derive a bank’s credit risk indicator (CRI), which is the perceived share of high risk exposures in a bank’s portfolio. We estimate CRIs for the 150 largest US bank holding companies (BHCs) and find that they have strong predictive power for the BHCs

performance during the subprime crisis, even after controlling for a variety of traditional asset quality proxies. Interestingly, we also find that the BHCs aggregate CRI did not deteriorate significantly since the beginning of the subprime crisis. This suggests that the market was aware of their (average) exposure to high risk credit.

Feico Drost, **Robert Kozarski**, and Bertrand Melenberg

“An Empirical Investigation of Volatility Option Pricing Models”

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Abstract:

The introduction by the Chicago Board of Exchange (CBOE) of derivatives (futures and call and put options) on the VIX, the S&P500 volatility index, provides an important tool to deal with volatility risk. Hence, models available in the literature, which allow to price this kind of instruments, are not only an academic issue, but also relevant for market practitioners. We empirically investigate three basic models. In our analysis, we use the VIX values together with the market prices of all available VIX derivatives to investigate the properties of the models of interest. We assume the underlying VIX to be a non-tradable asset. Derivative data are used to discriminate between the pricing models. The use of the VIX futures data, in addition to the option data, significantly improves the results in terms of mean-squared errors. The analysis also reveals that the Black-Scholes based approach is always outperformed by specifications including a mean-reverting factor.

Stefan Kuehn, Joan Muysken, and Tom van Veen

“The Adverse Effects of Government Spending in New Keynesian Models”

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Abstract:

Empirical evidence shows that government spending crowds in private consumption, a Keynesian phenomenon. The current state of the art, that is, New Keynesian models based on optimizing households and firms, is not able to predict such a result. This paper shows with a simple graphical framework why the basic New Keynesian model fails at this and shows the conditions that have to be met to achieve crowding in. It investigates the suitability of extensions like rule-of-thumb consumers or useful government spending to generate crowding in, while also showing the weakness of these approaches. Finally, it argues that introducing productivity-enhancing government spending could potentially lead to crowding in.

Eelke de Jong, **Maureen Lankhuizen**, and Ben Pelzer

“Estimating the Knowledge Capital Model for Multiple Parents and Hosts: Taking the Cross-Classified Structure of the Data into Account”

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Abstract:

Data on bilateral foreign direct investment (FDI) and trade flows are clustered within parent and host countries and parent-host combinations. Failure to take into account these forms of clustering will lead to biased estimates of the coefficients due to: (i) an omitted variables problem; and (ii) an underestimation of the coefficients' standard errors. Hence, coefficients are incorrectly classified as significant. A cross-classified multilevel estimation procedure corrects for both problems. This paper estimates the knowledge-capital model of bilateral FDI for a sample of multiple parent and host countries by means of the cross-classified multilevel approach and compares the estimates with other estimation techniques.

Marcel Fafchamps, Sanjeev Goyal, and **Marco van der Leij**

“Preferential Attachment and Individual Heterogeneity”

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Abstract:

Many empirical social networks have been found to display a degree distribution that either follows a power law or exhibit considerably fatter tails than would be predicted by random link formation. The most commonly accepted explanation for this empirical regularity is preferential attachment. Using data on co-authorship in economics, we estimate a model of preferential attachment with unobserved heterogeneity. Our main finding is that the evidence for preferential attachment evaporates once we control for individual heterogeneity in the propensity to form new links.

Pim Heijnen and **Allard van der Made**

“A Signalling Theory of Consumer Boycotts”

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Abstract:

The theoretical literature on consumer boycotts uses models in which a consumer's decision whether or not to boycott is a black box. By and large these models presuppose that consumers have an intrinsic motivation to boycott. We open the black box by developing a model in which consumers with no intrinsic boycott motive use boycotting as a costly device to signal their level of concern regarding a firm's bad behavior. The consumer's gain from boycotting is that it increases the likelihood that the firm improves its behavior in the future. We find that only consumers with intermediate levels of concern boycott. A larger range of consumers boycott as the firm's costs of improving its behavior increase. Compared to the benchmark situation in which the firm is fully informed, the firm's profits are lower, consumer surplus is higher, and the firm changes its behavior more often.

Killian McCarthy and Utz Weitzel

“Operating Synergies and Acquirer Returns”

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Abstract:

In this paper we disaggregate the broad concept of ‘operating synergies’ and identify four clearly defined merger motives: (i) technological acquisition; (ii) product diversification; (iii) geographical expansion; and (iv) cost reduction. We analyze the role of each of these motives in predicting the relative success or failure of a merger venture—as measured by acquirer returns—and consider too the mitigating effects of excess liquidity on the nature of these relationships. For this we use previously untapped data on the motives of some 3,686 US mergers. Our results show that the two most frequently announced and most expansive merger motives—product diversification and geographical expansion—are also the most critically received and are associated with lower announcement returns. However, if we take the interaction effect of the acquirer’s cash flow into account the market appears to receive some merger motives more favorably. Particularly when expanding into new regions or technologies, excess liquidity seems to be an important condition for an improved merger performance, and in this instance is associated with higher returns.

Dil Bahadur Rahut and **Maja Micevska Scharf**

“Livelihood Diversification Strategies in the Himalayas”

Ghent University

Department of Economics

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Abstract:

The paper examines livelihood diversification strategies of rural households using survey data from the Himalayas. We present an analytical framework that illustrates the role of relative returns to nonfarm activities and of entry constraints as determinants of activity choices. Disaggregated analysis of

alternative activity diversification strategies shows that education plays a major role in accessing more remunerative nonfarm employment. A somewhat less intuitive finding is that a larger household size is associated with higher probability of diversification into the high-return nonfarm sector. The finding that the farm size is not a constraint to diversification in lucrative nonfarm employment is also surprising.

Timo Mitze

“Efficiency and Robustness of Panel Data Models with Time-Varying and Time-Fixed Regressors in the Presence of Endogeneity”

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Department of Economics

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Abstract:

This paper deals with the issue of endogeneity in panel data models. In the presence of time-fixed variables, standard fixed effects model (FEM) estimation is not applicable since it wipes out all time-invariant variables, which researchers may be particularly interested in. A widely used alternative is the Hausman-Taylor (HT) instrumental variables (IV)-estimator. But also the latter does not come without costs; one disadvantage is its arbitrary choice of variables being uncorrelated with the error-components. This disadvantage recently gave rise to different sets of non-IV FEM-based estimators, which are free of any (arbitrary) choice and also allows including time-invariant variables. Given their increasing empirical importance, we aim to evaluate the efficiency of these estimators in Monte-Carlo simulations. We explicitly account for the classification problem in the Hausman-Taylor setup by implementing search algorithms from the ‘model selection criteria’-literature, which combines information from the Hansen and

Sargan-overidentification statistics and time-series information-criteria such as AIC and BIC for IV-selection. The Monte Carlo-results show that the Hausman-Taylor model with perfect knowledge about the underlying data structure is most efficient. However, compared to the empirically relevant HT-specification with imperfect knowledge and instruments chosen by statistical criteria, the non-IV rivals perform equally well or even better, especially for time-fixed regressors. Results are robust for different time-period/cross-section combinations.

Henk Nijboer

“Free Lunches for Policymakers: Optimizing the Design of Dutch Welfare State Institutions”

University of Leiden

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Abstract:

Insights from behavioral economics raise questions about standard economic models. Agents do not always act in their own interest, even when they know what is in their best interest. Until recently little attention is paid to the consequences of these insights for public policy (cf. Amir et al., 2005; DellaVigna, 2007). To fill this knowledge gap, I use insights from behavioral economics to and apply them to welfare state institutions. I analyze whether and in what manner welfare state institutions in the Netherlands can be optimized. Instead of traditional instruments—taxes and regulation—I use behavioral economic instruments: setting the default, framing, labeling and providing commitment mechanisms. I review the overwhelming evidence about the effectiveness of these instruments. These instruments have two main advantages over taxes and regulations: (i) they come with little (welfare) costs and (ii) they guide people in a

direction without reducing freedom of choice. It is analyzed how these instruments could be applied to social security policies. I conclude that reforms of welfare state institutions can provide benefits with little costs: behavioral economics can indeed provide (almost) free lunches for policymakers.

Robert Dur, **Arjan Non**, and Hein Roelfsema
“Reciprocity and Incentive Pay in the Workplace”

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Abstract:

We study optimal incentive contracts for workers who are reciprocal to management attention. When neither worker’s effort nor manager’s attention can be contracted, a double moral-hazard problem arises, implying that reciprocal workers should be given weak financial incentives. In a multiple-agent setting, this problem can be resolved using promotion incentives. We test these predictions using German Socio-Economic Panel data. We find that workers who are more reciprocal are significantly more likely to receive promotion incentives, whereas there is no such relation for individual bonus pay.

Marielle Non

“Joining Forces to Attract Consumers: Clusters of Firms in a Consumer Search Model”

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Abstract:

This paper studies the location choice of shops in a consumer search model, where the search costs consist of traveling costs between malls and costs of entering a shop. We find three effects of location in a mall. First, malls lead to more competition and lower prices. Second, when some shops are located together more consumers are active. Third, when some shops are located together and others are isolated the jointly located shops attract more active consumers than the isolated shops. The second and third effect can outweigh the first, making locating in a mall a profitable strategy.

Marius-Ionut Ochea

“Heterogeneous Learning Rules in Cournot and Bertrand Games”

University of Amsterdam

Department of Quantitative Economics

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Abstract:

We study evolutionary Cournot and Bertrand games with heterogeneous learning rules about opponent strategic quantity or price choice. The evolutionary

selection of such ‘learning’ heuristics is driven by logistic-type evolutionary dynamics. While our focus is on the interplay between adaptive and ‘fictitious play’ expectations, other rules (for example, weighted fictitious play versus rational or Nash expectations) are explored as well. Analytical and simulation results about the behavior of the corresponding evolutionary Cournot/Bertrand games, when various parameters of interest change, are presented. In a Cournotian setting, the main finding is that a population of fictitious players (that is, best-responders to the empirical distribution of past history of opponent choices) could be destabilized away from the Cournot-Nash equilibrium play by the presence of the adaptive expectation formation rule (i.e. players who place large weight on the last period choice and heavily discount more remote past observations).

Daan Ooms

“Job-to-Job-Mobility in Relation to the General Economic Situation”

TNO

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Abstract:

Economic literature shows relationships between personal and work characteristics and job-to-job mobility that are partly common knowledge. Two examples are: (i) young workers are more mobile than older workers; and (ii) workers with a temporary contract are more mobile than workers with a fixed contract. Our research shows that the relationship between personal and work characteristics and job-to-job mobility are strongly related to the general economic situation. Our research shows, for instance, that 35 to 45 year old workers are less mobile than younger workers, with the exception of periods of an

economic boom. Workers older than the age of 45 are less mobile than younger workers in all economic situations, though. Our empirical methodology consists of estimating the effect of personal and work characteristics on the probability of job-to-job mobility. We use a Probit model. The parameters in the Probit model are estimated for every period of two years between 1986 and 2006. Subsequently, we relate the estimated effects of personal and work characteristics on the probability of job-to-job mobility to the growth rate of Gross Domestic Product (GDP) in the corresponding period. The data we use are from the OSA-labor supply panel.

Chris Elbers, Jan Willem Gunning, and **Lei Pan**

“Growth and Risk in Rural Ethiopia”

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Abstract:

The paper explores the effects of risk on economic growth for households with different productivities. It employs a simulation-based econometric methodology to estimate the structural form of a micro model of household investment decisions under risk, using long-running panel data for rural households in Ethiopia. It is found that the signs and sizes of the ex ante effect (i.e., the effect of households' behavioral response to risk) and the ex post effect (i.e., the effect of shocks after they actually happen) of shocks differ for households with different productivities. However, for the majority of the households risk not only causes volatility in income and consumption but also substantially lowers growth on average. Policy interventions which reduce risk faced by the households would definitely stimulate growth.

Federico Biagi, **Maria Laura Parisi**, and Lucia Vergano

“Organizational Innovations and Labor Productivity in a Panel of Italian Manufacturing Firms”

University of Brescia

Department of Economics

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Abstract:

We study determinants of the probability of introducing an organizational innovation (OI) using three large cross-sections of Italian manufacturing firms in the period 1995-2003. We analyze the effect and complementarity of other types of investments, like ICT, R&D, human and physical capital, and the adoption of product or process innovations. Furthermore, we estimate the effect of introducing organizational innovations and, indirectly, the effect of technical innovations on the growth rate of labor productivity for an unbalanced panel of firms. Disembodied technological change is well represented by OIs, while product innovations seem to have an effect on the efficiency of capital inputs only (capital stock-embodied technical change). Process innovations do not have a statistical impact as an indirect input-efficiency driving force in our data.

Erik Pot

“Noncooperative Collusion and Price Wars with Individual Demand Fluctuations”

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Department of Quantitative Economics

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Abstract:

We analyze whether noncooperative collusive equilibria are harder to sustain when individual demand levels are not fixed but are able to fluctuate. To this end, we extend a Bertrand-type model of price competition to allow for fluctuating market shares when prices are equal. We find that the larger the market share fluctuations may be, the higher the discount factor should be to sustain a collusive equilibrium in trigger strategies. The intuition behind this is fairly straightforward. When individual demand in the collusive state is suddenly low, the gains from collusion go down. Moreover, the firm with the low demand can capture a larger share of the market by deviating from the collusive strategy. The incentive to deviate, therefore, becomes larger when the individual market share decreases. We also look at the existence of a specific type of semi-collusive equilibrium when individual market shares are either common knowledge or private knowledge. We find that there exist equilibria in which competitive periods (price wars) occur with unit probability and on the equilibrium path.

Rolf Groeneveld, Ekko van Ierland, **Maarten Punt**, and Jan Stel

“Spatial Planning of Offshore Wind Farms: A Windfall to Marine Environmental Protection?”

Wageningen University

Department of Social Sciences

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Abstract:

Wind energy is a popular renewable source of energy. It has the advantage that it is CO₂ neutral, easy, and relatively cheap. Wind farms are often planned offshore where wind conditions are favorable and the visual impact is smaller. The marine environment, however, has some problems of its own associated with wind farms.

Among them are bird collisions, underwater sounds, and electromagnetic fields. At the other hand, wind farms also act as artificial reefs and no-take zones for fish, with possible spillover effects. This paper reviews some of the effects of wind farms on the marine environment and aims to evaluate how wind farms can aid marine environmental protection with strategic and economically viable location choices. To this end, we develop a spatially explicit model in which the revenues of wind farms— under restrictions of biodiversity, with positive effects on fish and negative effects on birds are optimized. We apply the model to the Dutch EEZ and find that strategically placing wind farms can actually enhance marine biodiversity.

Andries Richter

“The Evolution of Social Norms for Renewable Resource Exploitation”

Wageningen University

Department of Mathematical and Statistical Methods

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Abstract:

Many case studies have shown that local communities are capable of managing natural renewable resources like fish, forests or grazing lands in a highly sustainable and profitable way by making informal agreements regarding management strategies. However, there are situations in which these rules break down or do not evolve in the first place. Many field studies indicate that social norms play a key role in this process. In our model agents harvest a common resource and do not only take the monetary incentives of resource exploitation into account, but also the corresponding social consequences. Methods from the field of adaptive dynamics allow us to develop an analytical model in which agent's exploitation level, appreciation for modest agents, and disapproval of

greedy agents co-evolves over time. These evolutionary pressures operate at different time scales. While the appropriate exploitation level is revised frequently, the social preference change much more slowly, as it is mostly inherited by parents or close relatives.

Lans Bovenberg, Roel Beetsma, and **Ward Romp**

“Pensions, International and Intergenerational Risk Sharing in General Equilibrium”

University of Amsterdam

Faculty of Economics and Business

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Abstract:

In this paper, we explore intergenerational and international risk sharing in a general equilibrium multiple-country model with two-tier pensions systems. The exact design of the funded component is of crucial importance for the way in which risks are shared over the various generations in a population. The laissez-faire market solution fails to provide an optimal allocation, because the young cannot share in the risks. We show that the combination of the presence of wage-indexed bonds and a properly-designed pension system with a fully funded defined (wage-indexed) benefit second tier reproduces the first best. If wage-indexed bonds are not available, mimicking the first best is impossible, except under very special circumstances.

Stephanie Rosenkranz and Utz Weitzel

“Bargaining for Pre-Contracts with Termination Provisions”

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Utrecht School of Economics

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Abstract:

We analyze the effect of termination fees in pre-contracts in a two-stage bargaining process between one seller and two buyers with endogenous outside options. In equilibrium, early buyers can use termination fees as deal protection or rent extraction devices, in exchange for enabling the seller to negotiate a higher second-stage offer. Our results explain the use of exclusivity agreements and pre-contracts (for example in merger negotiations) and provide a rationale for the protection of early deals with less efficient buyers.

Zoltan Acs and **Mark Sanders**

“Intellectual Property Rights and the Knowledge Spillover Theory of Entrepreneurship”

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Utrecht School of Economics

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Abstract:

We develop a model in which stronger protection of intellectual property rights has an inverted U-shaped effect on innovation. Intellectual property rights protection allows the incumbent firms to capture part of the rents of commercial

exploration that would otherwise accrue to the entrepreneurs. Stronger patent protection will increase the incentive to do R&D and generate new knowledge. This has a positive impact on entrepreneurship and innovation. However, after some point, further strengthening patent protection will reduce the returns to entrepreneurship sufficiently to reduce overall economic growth.

Rolf Scheufele

“Evaluating the German (New Keynesian) Philips Curve”

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Abstract:

This paper evaluates the New Keynesian Phillips Curve (NKPC) and its hybrid variant within a limited information framework for Germany. The main interest rests on the average frequency of price reoptimization of firms. We use the labor income share as the driving variable and consider a source of real rigidity by allowing for a fixed firm-specific capital stock. A Generalized Method of Moments (GMM) estimation strategy is employed as well as an identification robust method that is based on the Anderson-Rubin statistic. We find that the German Phillips Curve is purely forward looking. Moreover, our point estimates are consistent with the view that firms reoptimize prices every two to three quarters. While these estimates seem plausible from an economic point of view, the uncertainties around these estimates are very large and also consistent with perfect nominal price rigidity (without reoptimization). This analysis also offers some explanations why previous results for the German NKPC based on GMM differ considerably. First, standard GMM results are very sensitive to the way how orthogonality conditions are formulated. Additionally, model

misspecifications may be left undetected by conventional J tests. Taken together, this analysis points to the need for identification robust methods to get reliable estimates for the NKPC.

Lambert Schoonbeek

“Environmental Taxes and Industry Monopolization”

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Abstract:

This paper considers a market with an incumbent monopolistic firm and a potential entrant. Production by both firms causes polluting emissions. The government selects a tax per unit emission by maximizing social welfare. The size of the tax rate affects whether or not the potential entrant enters the market. We identify the conditions that create a market structure in which the preferences of the government and the incumbent firm coincide. Interestingly, there are cases where both the government and incumbent firm prefer a monopoly. Hence, the government might induce profitable monopolization by using a socially optimal tax policy instrument.

Siem Jan Koopman, André Lucas, and **Bernd Schwaab**

“Macro and Industry Dynamics for Frailty-Correlated Defaults: A Joint Modeling Approach”

Free University Amsterdam

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Abstract:

We propose a new econometric model for the joint modeling of integer default counts and macroeconomic data through sets of common factors. The model contains a linear Gaussian and a nonlinear non-Gaussian part. Factors may be common to both parts to capture joint dynamics. We present new econometric results for estimation and inference in the mixed model. The model is used to investigate the importance of macroeconomic dynamics, unobserved frailty components, and industry-specific factors for disaggregated US default rates. We demonstrate that model-implied capital buffers would have protected a stylized US financial institution in every quarter of the years 1985 to 2005. This result no longer obtains if we neglect unobserved dynamics.

Marta Serra-Garcia

“Behavior under Strategic Complementarity and Substitutability: The Role of Altruism versus Limited Rationality”

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Abstact:

Recent studies report significant differences in behavior between games characterized by strategic complementarity and substitutability (Fehr and Tyran, 2008; Potters and Suetens, 2007). While some theoretical models suggest that this can be due to the presence of limitedly rational players (Haltiwanger and Waldman, 1985, 1989), this result can also be explained by the presence of altruistic players (Bester and Güth, 1998). We conduct an experiment to find out which explanation is most relevant. Our experimental results reveal that there is a significantly higher degree of cooperation in the strategic complements environment. Furthermore, altruism is an important factor in explaining individuals' behavior, more so than limited rationality.

Roger Smeets and Albert de Vaal

“Multinational Ownership, Intellectual Property Rights and Knowledge Diffusion from Foreign Direct Investment”

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Abstract:

In this paper we extend the vertical linkages model by Markusen and Venables (1999) to include: (i) differing degrees of multinational enterprise (MNE) ownership in their foreign affiliates; and (ii) knowledge diffusion, in addition to demand and supply linkages. We investigate the intra- and inter-industry effects of changes in MNE ownership on local firms' productivity via demand linkages, price effects, and knowledge diffusion. Moreover, we also consider the mediating influence of national intellectual property rights protection (IPP). Given the ambiguous predictions of our model, we also investigate these issues empirically

in a panel of 1,222 large firms spread out over 20 countries and 18 manufacturing industries during the period 2000-2005: We find that in countries with low IPP, the occurrence of intra-industry productivity effects is conditional on the cost structure of local firms. Moreover, inter-industry productivity effects are largely absent. Conversely, in countries with high IPP, both intra-industry and inter-industry productivity effects are high. Also, the relationship between productivity effects and MNE ownership varies both within and between industries as well as between conditional and unconditional productivity effects. We interpret this empirical evidence as a confirmation of our theoretical conjecture that intra-industry knowledge diffusion is dominated by unintended spillovers, whereas inter-industry knowledge diffusion is dominated by intended knowledge transfers.

Robert Dur and **Joeri Sol**

“Social Interaction, Co-Worker Altruism, and Incentives”

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Abstract:

Social interaction with colleagues is an important job attribute for many workers. To attract and retain workers, managers therefore need to think about how to create and preserve high-quality co-worker relationships. This paper develops a principal-multi-agent model, in which agents do not only engage in productive activities, but also in social exchange with their colleagues. We study how financial incentives for productive activities can improve or damage the work climate. We show that both team incentives and relative incentives can help to

create a good work climate. We discuss some empirical evidence supporting these predictions.

Erik Stam and Karl Wennberg

“Innovation and New Firm Growth”

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Abstract:

This paper examines how firm growth during the early life course is affected by innovation capabilities through R&D, inter-firm alliancing, and new product development. Based on a panel study on the early life course of 647 firms, we find that of the innovation capabilities, inter-firm alliancing has a positive effect on growth of the smallest firms, while R&D is positively related to growth of new technology based firms. It is not just being active in R&D that matters for growth; increasing the levels of R&D also improves the probabilities for growth of new technology-based firms. R&D does not play a role in explaining the growth of new firms that are not based on new technologies and growth ambitions do not spur the involvement in innovation capabilities.

Paul Steffens

“No Comment: On Committee Decision Making and Reputational Concerns”

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Abstract:

Many decisions are taken by and/or delegated to committees. The standard argument for using decision making committees is that delegation to committees allows for superior information aggregation and processing. In a game-theoretical model, it is shown that under the influence of reputation concerns decision makers in a committee become more inclined to take distorting decision. The optimal delegation decision should encompass this tradeoff between more (better) information and the level of distortion. In addition the impact of accountability on committee decision making is assessed. Imposing accountability offers a screening opportunity yet entails more detrimental decisions. It is shown that accountability spurs distortion as committee becomes more susceptible to reputation concerns. Thereupon it is argued that the decision to impose accountability has to be conditioned on both the screening advantage as the distortion disadvantage. By constraining the occurrence of feedback during the decision making procedure society could reduce distortion under accountability. This goes against the general hypothesis that improving feedback contributes to the quality of decision making.

Charles Noussair and **Fangfang Tan**

“Voting for Punishment Systems in a Voluntary Contributions Game with Heterogeneous Agents”

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Department of Economics

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Abstract:

In this paper we consider a voluntary contributions game with the availability of decentralized punishment after contributions are made and observed. Productivity of contributions, as captured in the marginal-per-capita return, differs between individuals, so that there are two types (i.e., high and low productivity). Every two or eight periods, depending on the treatment, individuals vote on a punishment regime, in which certain individuals have punishment directed toward them. The punishment regime can condition on type and contribution history. The results indicate that the most effective regime, in terms of contributions and earnings, is one that allows punishment of low contributors only, regardless of productivity. Individuals vote to punish low contributors as well as types other than their own.

Umed Temurshoev

“Who’s Who in Networks. Wanted: The Key Group”

University of Groningen

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Abstract:

Ballester et al. (2006) show that in a network game with local payoff complementarities, together with global uniform payoff substitutability and own concavity effects, the intercentrality measure identifies the key player (i.e., the player who, once removed, leads to the optimal change in overall activity). In this paper, we search for the key group in such network games, which, in general, is different from the ranking bases on the key player problem. Thus the single target selection problem is generalized to a group selection problem targeting an arbitrary number of players, in which the key group is identified by a group intercentrality measure.

Stanislaw Cichocki and **Joanna Tyrowicz**

“Shadow Employment: A Matter of Choice or No Choice?”

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Abstract:

When markets function properly, wages of workers should reflect their marginal productivity. In reality, however, the phenomenon of wage differentials for workers performing the same type of work can be observed. During transition labor markets undergo significant structural changes, including skill and compensation adjustments. At the same time, centrally planned economies tend to exhibit smaller wage inequalities, which may be considered an indicator of less intense discrimination problems. The main research question of this paper is whether the structural adjustments during transition have any implications for the labor market discrimination patterns. We use quarterly labor survey data for a transition economy over an interval of 14 years (1994-2008), encompassing

both the periods of prolonged increases and decreases of unemployment rates. We apply two basic analytical strategies: (i) at each point in time we employ Mincerian wage equations with a Heckman correction and analyze the evolution of estimated parameters over the business cycle; and (ii) at each point in time we establish the measures of discrimination of particular groups in the labor market using the Oxaca-Blinder decomposition. The groups under scrutiny include women, youth, and elderly.

Wouter Vermeulen

“Second-Best Urban Growth Controls in the Presence of a Marshallian Production Externality”

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Abstract:

Cities that impose severe land use regulation effectively limit the size of their workforce and the level of economic activity, so that they may not reap the full benefits of agglomeration. Therefore, a growth control policy that balances the creation of amenities against foregone consumer surplus in housing markets while ignoring such repercussions on productivity is too restrictive. I demonstrate this in an urban general equilibrium framework, which features both a negative externality of city size, motivating growth controls in the first place, and a Marshallian externality in production. Wage subsidies are not permitted as a policy instrument, so workers receive their average product. In a calibrated version of the model, I find that the margin by which growth controls should be relaxed to reflect these second-best conditions is substantial. Almost

half of the surplus gain that would arise by implementing a first-best policy is then realized.

Razvan Vlahu

“Collective Strategic Defaults: Bailouts and Repayment Incentives”

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Abstract:

I show that in a global games approach banks may be subject to risk of failure even when fundamentals are strong due to a coordination problem among debtors. As a result, a financially sound firm may claim inability to repay if it expects a sufficient number of other firms to do so as well, thus reducing bank's enforcement ability. This occurs in particular when the financial environment is characterized by inadequate bankruptcy laws and a poor quality of the corporate sector. I study a model in which participants take simultaneous actions on the basis of imprecise private signals about the ratio of bad loans in a bank's portfolio. The model has a unique equilibrium in which an attack against the bank occurs when its fundamentals are above some threshold level. The model also helps us understand the role of the Central Bank as a Lender of Last Resort under opportunistic behavior from borrowers. While an ex post bailout policy is often believed to reduce bank incentives, in this case it induces commercial banks to affect loan quality, which indirectly reduces incentives for strategic default. I find that the marginal cost of intervention incurred by a Central Bank has a double-edge effect. While a higher cost helps to mitigate the moral hazard problem at the bank level by determining it to exert maximum of effort even when fundamentals are strong, it also increase the probability of bank failure by

lowering the threshold in fundamentals that triggers collective strategic default. I also show that high bank expected profitability reduces the likelihood of collective strategic default.

David Hollanders and **Rens Vliegenthart**

“The Effect of Media Coverage on Consumer Confidence in the Netherlands”

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Abstract:

This paper studies the relationship between consumer confidence and economic news coverage in national newspapers for the Netherlands during 1991-2008. The first result is that media-attention for economic downturns Granger causes consumer confidence. The negative relation upholds when controlling for key macroeconomic variables as the rate of growth, unemployment, and inflation in a Vector Autoregressive (VAR) analysis. The importance of media-coverage for consumer confidence can be explained by an information argument—newspapers being forward looking, whereas economic indicators are backward looking—a coordination of expectations argument, and/or a psychological priming mechanism. The finding suggests that expectations are not based on economic fundamentals solely and that media-coverage is important in its own right for consumer confidence, which is known to influence consumer spending and economic growth. In the second part of the paper, we explore the economic role of the media further, asserting that media exposure is not a one-to-one function of underlying real economic developments. Finally, we find that taking into account media coverage adds to economic growth predictions, suggesting a practical application of the findings. Together, the results lead to the conclusion

that media coverage is not simply a mediating variable, but has a separate effect on economic figures.

Koen Caminada, Kees Goudswaard, and **Olaf van Vliet**

“Patterns of Welfare State Indicators in the EU: Is There Convergence?”

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Abstract:

Convergence of social protection objectives and policies in member states is an explicit goal of the European Union. Earlier research has shown that there has indeed been a tendency of convergence of social protection levels over the last decades. However, comparative studies of welfare states frequently use indicators which may not be representative as measures of the level or generosity of benefits in different countries. In this paper we have done several σ - and β -convergence tests with the most recent data, using a variety of indicators of social protection: social expenditures, both at the macro and at the program level, replacement rates of unemployment benefits, and social assistance benefits and poverty indicators. Together, these indicators provide a broader picture of the evolution of social protection. Our results are less clear cut than earlier findings. We still find quite a strong convergence of social expenditure in EU-countries over a longer period. However, this trend seems to have stagnated in recent years. The evidence is mixed for the other indicators. Replacement rates of unemployment benefits clearly converged to a higher level, but social assistance benefits and poverty rates do not show a trend of convergence.

Gaaitzen de Vries

“What Determines Differences in Productivity between Formal and Informal Firms?”

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Abstract:

Models of the formal-informal sector assume that formal entrepreneurs are more efficient than informal entrepreneurs. This paper tests the model assumption and examines determinants of technical efficiency. We simultaneously estimate a stochastic production frontier and an efficiency model for 6,608 small distributive trade firms in Brazil in 2003. We find that formal trade firms are more efficient than informal trade firms. In addition, the efficiency of firms is positively related with credit availability, ICT adoption, managerial ability, age of the firm (although at a diminishing pace), and participation in a guild, whereas the efficiency of firms is negatively related with entrepreneurs having a second job. We find no significant effects of technical assistance on efficiency. Contrary to conventional wisdom, informal trade firms do not forego scale economies by staying small.

Hendrik Vrijburg

“Partial Tax Harmonization”

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Abstract:

Tax competition has mainly been studied in models with symmetric countries. This paper studies an asymmetric world with three countries in which two countries harmonize their fiscal policy. This is an extension of the Bucovetsky (1991) and Wilson (1991) model with a third country. The model is solely concerned with the efficiency consequences of tax competition. The paper makes two crucial contributions. First, in contrast to symmetric models, in asymmetric models there are capital flows following a change in fiscal policy. The asymmetric model, therefore, allows us to study the effects of capital flows on the fiscal policy choices of a particular country. In contrast to common wisdom, it is found that the tax rates of two countries are not guaranteed to be strategic complements. Second, we study the welfare consequences of partial tax harmonization among similar countries. As complete harmonization seems politically infeasible, partial harmonization may well be a feasible alternative. We find that partial harmonization yields a Pareto-improvement in welfare.

Michel van der Wel, Albert Menkveld, and Asani Sarkar

“Are Market Makers Liquidity Suppliers?”

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Abstract:

We use a high-frequency dataset of 30-year US treasury futures with data for 1,958 traders to investigate the role of the market maker. Most theory assumes he is an uninformed liquidity supplier. We provide direct evidence of active position building by market makers. The extent to which they do so correlates positively with trading profits. The results suggest that some market makers are informed

speculators and actively demand liquidity for a substantial part of the day. Additionally, we develop a new approach to sign trades in the absence of quotes. It is equally efficient as the Hasbrouck (2004) Markov Chain Monte Carlo approach but it is 10 times faster.

Karen van der Wiel

“Preparing for Policy Changes: Social Security Expectations and Pension Scheme Participation”

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Abstract:

Western governments are currently contemplating how to adapt their Pay-As-You-Go pension systems so that these remain financially sustainable, even with an aged population. To the extent that policy-makers have not already adapted their schemes, an ageing population thus leads to policy uncertainty in old-age social security. This paper sheds more light on the relationship between public and private savings by analyzing private pension scheme participation in the presence of such policy uncertainty. To do so, I assess the influence of subjective policy change expectations on voluntary pension scheme participation in the Netherlands. I find that participation in private pension schemes is higher for those who assign high probabilities to the dismantlement of old-age social security. Hence, individuals do prepare themselves for anticipated policy changes in old-age social security. Policy uncertainty in social security thus seems to lead to an increase in (or crowding in of) private savings.

Cédric Argenton and Bert **Willems**

“Exclusivity as (In)efficient Insurance”

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Abstract:

It is well established in the economic literature that an incumbent firm can use exclusivity contracts to monopolize an industry or deter entry. Such an anticompetitive practice could be tolerated if it were associated with some efficiency gains. The issue tackled in this paper is the one of a possible efficiency justification of exclusive dealing on grounds of risk sharing. We revisit the seminal model of Aghion and Bolton (1987) under risk aversion and show that exclusivity contracts induce efficient risk sharing and can thus be preferable to the outcome arising from a contract-free environment in spite of their deterrent effect on entry. The insurance arrangement can be maintained and the entry distortion eliminated by the use of a simple financial instrument. However, we show that the availability of such financial instruments may help the incumbent firm achieve exclusion in special circumstances.

Jaap Abbring, Jeffrey Campbell, and **Nan Yang**

“Simple Markov-Perfect Industry Dynamics”

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Abstract:

This paper develops a tractable framework for the numerical and empirical analysis of oligopoly dynamics. This framework is a discrete-time infinite-horizon model with sunk entry costs, ongoing market demand uncertainty, and stochastic idiosyncratic technology progression. Firms choose entry and exit strategies that maximize their expected discounted profits. Each period, potential entrants observe the market structure and current demand state and choose sequentially between entry and staying out forever. Subsequently, all incumbent firms and new entrants simultaneously choose between continuation and irreversible exit. This model implements some key features of the widely used framework of Ericson and Pakes (1995), but takes technology dynamics to be exogenous. This simplifies the model's equilibrium analysis considerably, and allows us to prove existence and uniqueness of a natural symmetric Markov-perfect equilibrium. Our constructive proof also provides a simple and fast procedure for the numerical computation of this equilibrium. We illustrate this procedure with two examples in which the equilibrium can be computed using pencil and paper.

Hein Roelfsema and **Yi Zhang**

“Dual Agency Problems in Outsourcing Contracts”

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Abstract:

We study the effect of the government's commitment problem on outsourcing contracts. We consider three cases: (i) insufficient incentives for the government to supply public goods that support the partnership between final goods producer and the component producer; (ii) the inability to commit to abstain from

corruption; and (iii) limited incentives to provide the rule of law. The main ingredient of our outsourcing model is that the final goods producer adjusts the managerial incentives of the component producer to optimally account for the commitment problem of its government.

Jun Zhou

“Jackpot Justice: The Value of Inefficient Litigation”

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Abstract:

Litigation seems to be a Pareto-inefficient outcome of pretrial bargaining. This paper, however, shows that litigation can be the outcome of rational behavior by a litigant and her attorney. If the attorney has more information than his client concerning the characteristics of the lawsuit, the client can use litigation as a way of extracting information. I show that, counterintuitively, litigation will occur only when the plaintiff is pessimistic about her prospects at trial. Even if the plaintiff could obtain a higher payoff from bargaining than from litigation-without-bargaining, bargaining may not occur in equilibrium. The plaintiff is more likely to sue if she is more pessimistic about winning damage in court and if litigation is more risky. Litigation is less likely to occur if the plaintiff receives third-party financing for litigation.

Thomas Ziesemer

“The Effects of Aid and Remittances on Accumulation and Growth of Poor Developing Countries”

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Abstract:

In order to get the effects of aid and remittances on GDP per capita we estimate equations for net immigration flows as a share of the labor force and GDP per capita growth and also for all their regressors including remittances and official development aid. We use dynamic panel data methods for a sample of poor countries with GDP per capita below US \$1,200 (in 2000) for which aid is about 9.5 percent of GDP. The partial effects in these regressions are as follows: first, remittances enhance net immigration, savings, public expenditure on education and growth, but reduce tax revenues (all measured as a share of GDP). Second, net immigration enhances labor force growth and the savings ratio. Finally, official development aid decreases the savings ratio and the per capita GDP growth rate, but it increases investment, public expenditure on education and literacy and also labor force growth. We integrate all equations into a dynamic system and run a simulation. One result is an endogenous migration hump with several peaks. We compare two counterfactual scenarios—that is, doubling aid and cutting remittances—to the baseline simulation finding that aid and remittances have positive effects on the GDP per capita if all dynamically interacting effects are taken into account.

Carsten Hefeker and **Blandine Zimmer**

“Uncertainty and Fiscal Policy in an Asymmetric Monetary Union”

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Abstract:

The paper examines monetary-fiscal interactions in a monetary union model with uncertainty due to imperfect central bank transparency. We first show that monetary uncertainty disciplines fiscal policy makers and thereby reduces taxes, average inflation, and output distortions. As more members, however, enter the monetary union, the fiscal disciplining effect of uncertainty is mitigated. As a consequence, monetary union enlargement may lead to a more aggressive fiscal stance in some member countries, depending on their relative economic and political weights, on their government’s spending target, and on the change in the degree of uncertainty that they experience with the enlargement.

Sjoerd Beugelsdijk and **Remco Zwinkels**

“Gravity Equations: Workhorse or Trojan Horse in Explaining Trade and FDI Patterns Across Time and Space?”

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Abstract:

Gravity equations are a widely used tool in the international business literature to explain country-level trade and foreign direct investment (FDI) flows. Against

the background of its increased popularity and data availability, a range of commonly made econometric mistakes have recently been discussed in the literature, mostly pertaining to the (omitted) characteristics of countries or country pairs in gravity models. In this paper we complement this literature by focusing on the time-series aspects of gravity models, something that has become crucial with the increased use of panel data. Specifically, we concentrate on the possible non-stationarity of both the dependent variable (trade or FDI flows) and of one or more of the explanatory variables. In this paper we show that: (i) there is indeed a problem with the non-stationarity of variables commonly used in gravity equations; (ii) not correcting for non-stationarity yields overestimated results; and (iii) propose an effective solution.

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