

nake nieuws

jaargang 7, nr. 3

Juli 1995

Netwerk Algemene en Kwantitatieve Economie

Netherlands Network of Economics

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NAKE-secretariaat

Mevr. J.C.M. Dijkzeul

Roetersstraat 11

1018 WB Amsterdam

tel.: 020 - 525 4199 / fax: 020 - 525 52 80

(bereikbaar op ma., wo. en vr.)

E-mail: nake@butler.fee.uva.nl

Vooraf

Dit zomernummer van het *nake*-nieuws biedt een overzicht van het volledige **cursusprogramma** voor het komende jaar. Mede op basis van de inventarisatie onder AIO/OIO's in het voorjaar is een uitgebreid programma van specialisatie-cursussen samengesteld. Van alle cursussen is een beknopte beschrijving opgenomen. Het eerste cursusblok start op 15 september. Aanmelding voor de eerste twee blokken kan d.m.v. het aanmeldingsformulier op de middenpagina's (graag vóór 14 augustus, zodat wij het cursusmateriaal op tijd kunnen toezenden.)

Het afgelopen cursusjaar is afgesloten met een zeer boeiende en intensieve workshop in Leiden. Hoewel één van de docenten - John Moore - op maandag vader werd, is het met wat schuiven toch gelukt om alle cursussen te voltooien. David Card toonde aan niet voor niets de Clark Prize te hebben ontvangen voor de beste jonge (< 40 jaar) econoom van de V.S. Hij gaf een zeer boeiende cursus over onderwijs en de arbeidsmarkt, die door praktisch alle 69 deelnemers werd gevolgd. Thomas Stoker gaf een zeer helder overzicht van de niet- en semi-parametrische econometrie, Barry Eichengreen wakkerde de belangstelling aan voor economische geschiedenis, en John Moore tenslotte bewees dat een begenadigd docent zelfs in twee dagen een (vrijwel) complete cursus kan verzorgen, daarbij heen- en weer springend tussen fundamentele micro-economie en macro-economie.

Op 27 oktober vindt de volgende **AIO-presentatiedag** plaats in Nijmegen. Denk nu vast na over een te houden presentatie. Het doel van de AIO-presentatiedag is om AIO's en OIO's een gelegenheid te bieden in een informele sfeer onderzoek te presenteren. Met name beginnende AIO/OIO's worden opgeroepen om hun eerste proeven van onderzoek te presenteren en zo te 'oefenen' voordat men naar de (internationale) congressen gaat. Het is ook een goede gelegenheid om mensen van andere universiteiten te ontmoeten die met hetzelfde onderwerp bezig zijn. Naast deze informele presentaties, zullen op de AIO-presentatiedag ook een aantal AIO/OIO's hun 'eindpresentatie' voor het *NAKE*-diploma verzorgen. Graag nodig ik alle AIO's en OIO's uit om aan de AIO-presentatiedag deel te nemen. Ook begeleiders en andere stafleden zijn van harte welkom. Aanmeldingsformulieren zijn opgenomen in de middenpagina's (s.v.p. vóór 29 september).

Naast alle informatie over de cursussen voor het komende jaar bevat dit **nake** nieuws ook een uitstekend verslag door Marcel Das (KUB) van de cursus 'Migration of Labor' die Oded Stark gaf tijdens de december workshop van 1994.

Dit is mijn laatste **nake**-nieuws. De procedure voor mijn opvolger is in volle gang, en ik hoop dat spoedig na de zomer een nieuwe directeur wordt benoemd. In zijn negenjarig bestaan heeft het **nake** zich een vaste plaats verworven binnen het doctoraatsonderwijs in de algemene en kwantitatieve economie, en ik ben ervan overtuigd dat mijn opvolger het netwerk met succes het tienjarig jublieumjaar in zal leiden.

Casper van Ewijk

"Best courses and teachers of 1994"

All specialisation courses of the Utrecht-programme are evaluated by the participants (through questionnaires). All courses recieved good qualifications. The best courses in 1994 (spring and fall) - ranked according to their score on "general quality" - are:

1. Helmut Bester (KUB), "Bargaining and Markets"
2. Jan-Willem Gunning en Michiel Keizer (VU) "Current issues in development economics"
3. Mary Morgan (UvA), "History of economic ideas"

Our best teachers were:

Helmut Bester (CentER)
Eric van Damme (CentER)
Jan-Willem Gunning (VU)
Mary Morgan (UvA)

The course "Panel Data" by Geert Ridder and Tom Wansbeek had the largest number of students (49).

AIO-Presentation Day

Universiteit of Nijmegen, October 27, 1995

The next AIO-Presentation Day will take place on Friday October 27, 1995 in Nijmegen. This day will be organized in cooperation with the Network of Business Economics (LNBE). The AIO-Presentation Day gives AIO's and OIO'S the opportunity to present their research to colleague AIO's/OIO's, supervisors and other senior researchers. A number of NAKE-AIO's is invited to give their final presentation in order to obtain the NAKE-diploma. One or two NAKE fellows will comment on these presentations. The other speakers should allocate a person themselves to comment on his/her presentation (a NAKE-fellow or another member of staff, or a colleague assistant researcher). The presentations will cover eight research fields in parallel sessions. The presentations will be held in English and will last 45 minutes (including 15 minutes for discussion).

Location: Katholieke Universiteit Nijmegen, Erasmus Gebouw, Erasmusplein 1 (5 to 10 minutes from Station "Heijendaal").

Registration: Before September 29, by filling in the registration form on the midpage.

Utrecht courses

On September 15 the first lectures start for the next block of specialisation courses in Utrecht. A course consists of five lectures; the sixth week is for the exam or for reserve. The double course by Hartog/Teulings/Theeuwes consists of two blocks of five weeks. All courses are given on Fridays in Utrecht. Outlines of the courses are included elsewhere in this bulletin.

Registration: Please register for block I and II as soon as possible (preferably before 14 august 1995). A registration form is enclosed in the middle-pages.

Location for all courses: **Kromme Nieuwe Gracht 80** (15 minutes from the Central Station).

Information on the December workshop and on courses by CentER, see page 39.

SPECIALISATION COURSES UTRECHT '95/'96

Location: Kromme Nieuwe Gracht 80

Block I: Fridays September 15, 22, 29; October 6, 13 and 20 (reserve date)

10.00 - 12.00, room 132	Hartog/Theeuwes/Teulings "Institutions and Wage Formation I"
12.30 - 14.30, room 132	Cukierman "Central Bank Strategy Credibility and Independence"
15.00 - 17.00, room 132	Cramer "Econometric Applications of Maximum Likelihood Methods"
15.00 - 17.00, room 232	van Wijnbergen "Economics of transition"

Block II: Fridays November 3, 10, 17 and 24; December 1 and 8 (reserve date).

10.00 - 12.00, room 132	Hartog/Theeuwes/Teulings "Institution and Wage Formation II"
12.30 - 14.30, room 132	Vorst/van de Sar "Behaviorial Finance"
12.30 - 14.30, room 232	Oskam/Burrell "Agricultural Policy and Trade Analysis"
15.00 - 17.00, room 132	Van Soest/Melenberg "Applied Nonparametric and Semi-parametric Econometrics"
15.00 - 17.00, room 232	Van der Ploeg/Heijdra "Intertemporal Aspects of Macroeconomics"

Block III: Fridays February 2, 09, 16 and 23; March 1 and 8 (reserve date)

Location: to be announced

10.00 - 12.00, room t.b.a.	Morgan "History of Economic Ideas"
10.00 - 12.00, room t.b.a.	van Winden "Behavioral Modelling of Government Decision Making"
12.30 - 14.30, room t.b.a.	de Zeeuw "Differential Games in Economics"
15.00 - 17.00, room t.b.a.	Ridder/Wansbeek "Panel Data"
15.00 - 17.00, room t.b.a.	Jager/de Jong "Exchange Rate Economics"

Block IV: Fridays March 22 and 29; April 12, 19 and 28; May 3 (reserve date)

12.30 - 14.30, room t.b.a.	Ellman "Analytical Aspects of the Transition from State Socialism to Modern Capitalism"
12.30 - 14.30, room t.b.a.	Peters/Storcken "Social Choice Theory" (An Introduction)
15.00 - 17.00, room t.b.a.	Ridder/Wansbeek "Panel Data"
15.00 - 17.00, room t.b.a.	Viaene/de Vries "The Theory of International Trade"
t.b.a.*	Olson/Schram and van Winden "Experimental Economics and the Design of Mechanism"

**This course will not be given on Friday (probably on Wednesday) in Amsterdam at the CREED Laboratory.*

Institutions and Wage Formation

Joop Hartog and Coen Teulings (UvA), and Jules Theeuwes (RUL)

General outline:

The course will follow the track of a book "*Corporatism or Competition*" that is prepared by Coen Teulings and Joop Hartog. The book puts many recent papers on labour economics in the framework of a cross country comparison of institutions for wage setting. Apart from the book, some of these papers will be part of material to be studied. These papers will be distributed at the beginning of the course.

Part I: basic evidence

1 Wage structure and institutions: basic evidence

We offer discussion of the most important indexes of corporatism and the theories regarding the efficiency of these institutions (Bruno and Sachs, Calmfors and Driffill). Next, we present cross country evidence on standard log hourly wage regressions a la Krueger and Summers (Econometrica, 1988) and Brown and Medoff (JPE, 1987). The purpose of the book is to develop a theoretical framework (Part II) to explain these observations and to confront this framework with detailed evidence (Part III).

Part II: theory

2 The role of corporatism in surplus sharing

We start our theory from the observation that nominal rigidity is a broad phenomenon. Hall and Lazear (JOLE, 1984) MacLeod and Malcomson (AER, 1993) offer an explanation: rigidity is a second best solution to the monopsony power of the firm or to the hold up problem. Corporatisme allows these contracts to be adjusted.

3 Beliefs, social norms and institutions

The contracts proposed by MacLeod and Malcomson require a very special distribution of bargaining power. We argue that social norms are essential for the stability of this type of contract. The empirical evidence of Kahneman, Knetsch & Thaler (AER, 1989) on the role of fairness can be interpreted in this way. Different sets of social norms

can generate different - sub game perfect - equilibria in the economy, e.g. Greif (JPE, 1994). We show that social norms differ across countries (Inglehart, *Culture Shift*, 1990; Hofstede, *Culture's consequences*, 1984) and are partly correlated to the degree of corporatism.

4 Models of union behavior

We offer a discussion of the two canonical models of employment determination in the presence of a union (**Efficient Contract** and **Labor Demand Curve**) and their consequences for efficiency. We discuss two models which partly close the gap between the EC and LDC model, where the union uses tenure profiles to discriminate between workers (Weiss, JPE, 1985; Kuhn, JPE 1988; Kuhn & Robert, QJE, 1989).

Part III: detailed empirical evidence

5 Industry wage differentials and rent sharing

The theory in Chp. 2 suggest that corporatism limits insider power. We show that inter-industry differentials in the US and Canada reflect rent sharing (Abowd and Lemieux, QJE, 1993; Oswald, Blanchflower and Sanfey, unpublished paper, 1993). Time series evidence of Holmlund and Zetterberg (EER, 1991) shows the systematic difference between countries with various types of institutions.

6 Tenure and wages

Tenure profiles are steeper in decentralized economies. To explain this phenomenon, we explore the relation between tenure profiles and rent sharing, partially testing the theories developed in Chapter 4. The basic reference is the paper on tenure profiles by Topel (JPE, 1991).

7 The effect of the bargaining regime

In this chapter we analyze the impact of the bargaining regime. The union differential is larger in decentralized countries, making the insider-outsider interpretation of corporatism less likely. Detailed evidence on the effect of various bargaining regimes on wages in the Netherlands supports this view.

8 Unemployment and wage flexibility

The starting point is the model of sluggish adjustment wages to demand side shocks by Blanchard and Katz (BPEA, 1992). We then continue with a more disaggregated analyses for the US, showing the consistence of this evidence with the analysis in Chapter 2, using a paper by Beaudry and DiNardo (JPE, 1991). 2. Secondly, decentralization of the adjustment to aggregate shocks is shown to yield to distortion of relative wages (Teulings, 1995). We offer cross country evidence by Blanchflower and Oswald, *The wage curve*, 1995.

9 Evidence on the role of corporatism from interviews

In this chapter we seek anecdotal evidence for the model developed in Chp. 2 and 3. Using interviews with trade unionist and employers, we show how bargaining proceeds and how insider power is limited by informal coordination within the union. We analyze the interaction between the government, trade union and employers federation in general wage setting policies and in mandatory extension of government. The role of competition between unions and union membership are discussed.

Central Bank Strategy Credibility and Independence

Alex Cukierman (Tel Aviv University and CentER)

The course will consist of four to five lectures. It will draw mostly but not exclusively on the following book:

A. Cukierman (1992) *CENTRAL BANK STRATEGY, CREDIBILITY AND INDEPENDENCE-THEORY AND EVIDENCE*, The MIT Press, Cambridge MA.

The lectures are:

1. Employment objectives and the credibility of monetary policy under perfect information- (Cukierman, Chs 2,3).
2. The revenue motive for monetary expansion- (Cukierman Ch 4).

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3. An overview of models of monetary policy with private information-(Cukierman Chs 8,9 and 16.2).
4. Private information and central bank independence,theory- (Cukierman Ch 18,Ch 10 is used as background).
5. Measurement of central bank independence and its effects on the economy
 - a. Cukierman Chs 19,20
 - b. Cukierman (1993) "Central Bank Independence,Political Influence and Macroeconomic Performance:a Survey of Recent Developments", CUARDENOS de ECONOMIA, December, pp. 271-291.

BACKGROUND MATERIALS:

- a. Cukierman and Webb (1995) "Political Influence on the Central Bank-International Evidence",forthcoming : The WORLD BANK ECONOMIC REVIEW.
- b. Cukierman, Rodriguez and Webb (1995) "Central Bank Autonomy and Exchange Rate Regimes-Their Effects on Monetary Accomodation and Activism", April. Presented at the conference on POSITIVE POLITICAL ECONOMY;THEORY AND EVIDENCE, CentER, Tilburg University.

The aim of the mini course is to give a broad overview of the main issues, analytical devices and empirical evidence rather than detailed derivations of specific results.

Econometric Applications of Maximum Likelihood Methods

Mars Cramer (UvA)

Since the introduction of the personal computer it is possible for anybody to estimate more complicated models than the linear regression model, if only these models are fully specified: that is, by the method of Maximum Likelihood.

This course is based on the book 'Econometric applications of Maximum Likelihood methods' written by the teacher. It is important for participants to have this

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book at their disposal and study the chapters indicated in advance, also for the first meeting on Friday September 15, 1995.

The following subjects will be dealt with consecutively:

- theory of ML estimation (chapter 2);
- how to tackle the estimation in practice (chapter 5);
- somewhat more theory (chapter 3 and 4);
- one or two examples, to be chosen in consultation with the participants.

The course consists of five lectures, starting on Friday September 15. The teacher will be unable to teach on 13 October; it will be tried to find an alternative in consultation with the participants.

It is strongly recommended to order the book well in advance before the course, because the delivery often proves to be troublesome (for information: Nake-secretariat).

Literature

J.S. Cramer, *Econometric applications of Maximum Likelihood methods*, Cambridge University Press, 2nd (paperback) printing, 1991

Economics of Transition

Sweder van Wijnbergen (UvA)

Throughout the world countries have been implementing farreaching reform programs. The most visible cases are of course in Eastern Europe, but in the eigthies and early nineties many LDCs have implemented drastic trade liberalization programs which required extensive restructuring. To date economic theryory focused on the economic structures such reform programs should try to create, with little or no attention paid to the problems the transformation process itself might run into. The experience sofar suggests that that was a serious omission. This course will therefore focus specifically on problems of economic transformation, the information and incentive problems that may arise on the way, the role public and international agencies can play and the extent to which political considerations need to be incorporated in the design of economic reform programs. Since there is no received theory on any of these issues,

the course will draw on research in progress with students possibly contributing through term papers.

We will discuss incentive problems in the design of adjustment policies, political considerations and credibility of the reform process, the role of the public sector and the banking system in enterprise reform in Eastern Europe and the gradualism versus cold turkey debate on the optimal pace of reform measures.

Behavioral Finance

Ton Vorst and Nico van der Sar (EUR)

Recently, there has been a lot of research concerning anomalies in financial markets. From the research results some have concluded that beta, the most important variable in the classical portfolio theory, is dead, since it doesn't have any explanatory power for stock returns. Variables as book to market values and size seem to be more important. Also, there seems to be evidence of overreaction by market participants. The newly developed behavioral finance theory offers some theoretical explanation for the results. The course focusses on a description of the recent developments in both theory and empiricism.

Prerequisites: Finance at the level of the well-known book of Brealey and Myers.

Literature: Some papers will be distributed at the start of the course

Agricultural Policy and Trade Analysis

Alison Burrell and Arie Oskam (LUW)

The first part of the course offers a theoretical treatment of the formation and functioning of agricultural policy in developed countries, and its effects. Its aim is to develop a formal framework that provides insights on a theoretical level and that could serve as the basis for rigorous empirical analysis. The course consists of the presentation and discussion of a series of formal models, their underlying assumptions and main results. The relevance of these models will be illustrated.

The second part of the course focuses on two current topics in agricultural policy: the measurement of agricultural policy effects in the context of the GATT Uruguay Round agreement, and empirical analysis of the political preferences underlying agricultural policies. The main issues involved will be investigated using theoretical models developed in the first part of the course.

Preliminary requirements (apart from basic level NAKE):

Tyers, R. & K. Anderson (1992) *Disarray in food markets: A quantitative assessment*. Cambridge: Cambridge U.P., Chapter 3, 4 and 5.

Literature (provided as a syllabus):

Bullock, D. (1994) In search of rational government: what political preference function studies measure and assume, *American Journal of Agricultural Economics*, 76(3):347-361.

Gardner, B.L. (1988) *The Economics of Agricultural Policies*. New York: Macmillan, Ch. 4, 5, 7, 8, 9, 11, 12.

Guyomard, H. & L. Mahé (1994) Measuring of distorting support in the context of production quotas. *European Review of Agricultural Economics* 21: 5-30.

Moschini, G. (1991) Economic issues in tariffication: an overview. *Agricultural Economics*, 5: 101-120.

Oskam, A.J. (1989) *Decision-based economic theory*. Wageningen Economic Papers 1989-1, Wageningen.

Applied nonparametric and semiparametric econometrics

Arthur van Soest and Bertrand Melenberg (KUB)

In nonlinear models, traditional estimation techniques like Maximum Likelihood usually require very specific functional form assumptions. For example, the Probit model explaining a binary variable y ($y=0$ or $y=1$) from a vector of regressors $x \in \mathbb{R}^k$, requires $P\{y=1 | x\} = \Phi(x'\beta)$, where Φ denotes the distribution function of $N(0,1)$. If, for example, $P\{y=1 | x\} = F(x'\beta)$ for some $F \neq \Phi$, then the Maximum Likelihood estimator for β based upon the Probit assumptions may be inconsistent. In practice,

this means that model assumptions must be tested thoroughly, and that, if they are rejected, the value of the estimation results can be quite limited.

Recently, a number of estimators have become available which require much weaker assumptions. For example, in the binary choice model, the most general specification is: $P\{y=1 | x\}=g(x)$, for some completely unknown function $g:\mathbb{R}^k \rightarrow \mathbb{R}$. Nonparametric regression estimators have been developed to estimate the function g consistently. They have the drawback of slow convergence, and require a huge number of observations for large k . An intermediate solution is, for example, to assume $P\{y=1 | x\}=f(x'\beta)$, for some unknown function $f:\mathbb{R} \rightarrow \mathbb{R}$. This is an example of a semiparametric model. The assumption is less specific than the Probit assumption, but stronger than the nonparametric model assumption. Estimators for β and f have been developed with better convergence properties than the nonparametric estimator of g .

The availability of nonparametric and semiparametric estimators also allows for more thorough procedures to test, for instance, whether particular price elasticities are zero or not or whether particular regressors should be included or not. In addition, the evaluation of the goodness-of-fit of models may be improved by using nonparametric techniques.

The aim of this course is to discuss a number of empirical applications of nonparametric and semiparametric estimation and testing techniques. Not too much emphasis will be put upon technical matters such as consistency and asymptotic normality proofs. Instead, we will focus on the intuition behind the estimators and testing procedures, and on their practical value for applications.

A global outline of the course is as follows:

- (Week 1-2) Applications of nonparametric density and regression estimation using kernels, nearest neighbours, series approximation, method of sieves and artificial neural networks;
- (Week 3-4) Applications of semiparametric estimation of discrete and ordered choice models, nonlinear regression models, censored regression models, selection models and simultaneous equation models with limited dependent variables.
- (Week 5) Applications of nonparametric testing and nonparametric evaluation of the goodness-of-fit of models.

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Some literature

Härdle, W. and O. Linton (1994), "Applied nonparametric methods", in R. Engle and D. McFadden (eds.), Handbook of Econometrics, vol. IV, Elsevier.

Delgado, M. and P. Robinson (1992), "Nonparametric and semiparametric methods for economic research", Journal of Economic Surveys, 6, 201-249.

Powell, J. (1994), "Estimation of semiparametric models", in R. Engle and D. McFadden (eds.), Handbook of Econometrics, vol. IV, Elsevier.

Ullah, A. and H. Vinod (1993), "General nonparametric regression estimation and testing in econometrics", in G. Maddala, C. Rao and H. Vinod (eds.) Handbook of Statistics, vl. 11, North-Holland.

White H. (1992), "Artificial neural networks", Basil Blackwell, Oxford.

Some applied articles to be selected.

Prerequisites:

Some basic knowledge of Maximum Likelihood estimation, extremum estimation and methods of moments estimation.

Intertemporal Aspects of Macroeconomics

Rick van der Ploeg and Ben Heijdra (UvA)

This course lectures starts with a short introduction to optimal control theory and then continues with the intertemporal approach to macroeconomics. The building blocks of the models are micro foundations such as life-cycle consumption behaviour and present value maximising investment behaviour, in addition to the intertemporal government budget constraint. Careful attention is paid to missing markets arising from consumption externalities and production externalities. In the analysis of interdependent open economies allowance is made for imperfect substitution between home and foreign goods. The basic framework of analysis is thus one-country and two-country tractable overlapping generations models with spill-overs in production. The emphasis is on the consequences for unanticipated and anticipated budgetary and monetary policies in closed and interdependent open economies. Attention is given to both the conventional neoclassical theories of growth and the new theories of endogenous growth. If time permits, political economy considerations will be introduced to analyse the effects of income equality on economic growth.

Subjects:

- optimal control theory
- the classical Ramsey problem
- the Blanchard-Yaari overlapping generations model
- breakdown of Ricardian debt equivalence
- breakdown of Sidrauski superneutrality
- production externalities and endogenous growth
- consumption externalities and endogenous growth
- government spending, distortionary taxes and growth
- budgetary policies and growth in interdependent economies
- political economy of inequality and growth

Literature: to be announced

Registration form AIO-presentation day, October 27, 1995
Nijmegen University

Name AIO/OIO:

Department:

University:

Address:

.....

Phone number:

Email:

Title of the presentation:

Research field (JEL classification), please encircle

- | | | | |
|---|---|---|---------------------------------|
| C | Mathematical and quantitative methods | H | Public Economics |
| D | Microeconomics | J | Labor and demographic economics |
| E | Macroeconomics (incl. monetary economics) | L | Industrial organisation |
| F | International economics | M | Business adm. & business econ. |
| G | Financial economics | O | Econ. development & growth |

.. Other, namely:

Speakers are requested to allocate a discussant themselves to comment on the presentation (excepting AIO's/OIO's who are invited to their final-presentation for the **nake**-diploma).

Name discussant:

Department:

University:

Address:

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Please return this form with an abstract of your presentation before 29 September 1995 to the **nake** secretary, Roetersstraat 11, 1018 WB Amsterdam.

Registration form Utrecht courses
Block I and II, Fall 1995

Name:

Department:

University:

Address:

.....

Phone no.

Email:

I will attend the following courses (please encircle):

Block I

- 1 Hartog/Theeuwes/Teulings I
- 2 Cukierman
- 3 Cramer
- 4 van Wijnbergen

Block II

- 5 Hartog/Theeuwes/Teulings II
- 6 Vorst/van de Sar
- 7 Oskam/Burrell
- 8 van Soest/Melenberg
- 9 Van der Ploeg/Heijdra

Please return this form as soon as possible (preferably before 14 August) to the **nake** secretary: José Dijkzeul, Secretariaat NAKE, Roetersstraat 11, 1018 WB Amsterdam

(The registration form for Block III and IV will be included in the next **Nake-Nieuws**)

History of Economic Ideas

Mary Morgan (UvA)

The course will trace a number of key ideas in modern economics and investigate how these crucial concepts have evolved during the history of economics. We will be seeking answers to the following sorts of questions: Why and when did economists stop theorizing about people with certain motivations towards economic behaviour and begin to argue in terms of "economic man" and later "rational agents"? How have economists over the last 200 years conceived of the notion of competition? How have economists treated the difficult question of what creates our "economic order"? When and how did this become related to our important concept of "equilibrium"?

These questions will be explored with the help of "classic" readings from economists such as Mandeville, Smith, Ricardo, Mill, Marx, Clark, Veblen, Knight, Lenin, Hayek, Marshall, Samuelson, Schumpeter, Frisch and Tinbergen. (A course reader will be available.)

Students with no previous study in this field are advised to read a short introductory text before the course such as P. Deane, The Evolution of Economic Ideas (1978/90) or R. Heilbroner, The Worldly Philosophers.

Behavioral Modelling of Government Decision Making

Frans van Winden (CREED, UvA)

This course is concerned with behavioral (positive) models of government policies. It focuses on the structure, determinants and economic effects of political decision making. Theoretical developments as well as empirical applications are discussed.

References

- Hettich, W. and S.L. Winer, "The political economy of taxation and tax structure", in D.C. Mueller (ed.), *Handbook of Public Choice*, Basil Blackwell, forthcoming.
- Meltzer, A.H. and S.F. Richard, "A rational theory of the size of government", *Journal of Political Economy*, 89, 1981, 914-927.
- Coughlin, P.J., D.C. Mueller and P. Murrell, "Electoral politics, interest groups, and the size of government", *Economic Inquiry*, 28, 1990, 682-705.
- Swinnen, J.F.M. and H. de Gorter, "Why small groups and low income sectors obtain subsidies: the 'altruistic' side of a 'self-interested' government", *Economics and Politics*, 5, 1993, 285-293.
- Alesina, A., "Macroeconomic policy in a two-party system as a repeated game", *Quarterly Journal of Economics*, 52, 1987, 651-678.
- Frey, B.S. and F. Schneider, "An empirical study of politico-economic interaction in the United States", *Review of Economics and Statistics*, 60, 1978, 174-183.
- Renaud, P.S.A. and F.A.A.M. van Winden, "Fiscal behaviour and the growth of government in the Netherlands", in J.A. Lybeck and M. Henrekson (eds.), *Explaining the Growth of Government*, North-Holland, Amsterdam, 1988, 133-156.
- Nitzan, S., *Modelling rent-seeking contests*, paper, 1993.
- Potters, J. and F. van Winden, "Models of interest groups. Four different approaches", in N. Schofield (ed.), *Social Choice and Political Economy*, Kluwer, Boston, forthcoming.
- Potters, J. and F. van Winden, *Comparative statics of a signaling game: an experimental study*, Tinbergen Institute, TI-93-162.

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Shepsle, K.A. and B.R. Weingast, "Structure-induced equilibrium and legislative choice", *Public Choice*, 37, 1981, 503-519.

Laffont, J.J. and J. Tirole, "The politics of government decision-making: a theory of regulatory capture", *Quarterly Journal of Economics*, 1991, 1089-1127.

Persson, T. and G. Tabellini, *The politics of 1992: fiscal policy and European integration*, CEPR, 1991.

Grossman, G.M. and E. Helpman, *Protection for sale*, NBER, 1992.

Additional relevant literature will be mentioned and discussed during the course.

Differential Games in Economics

Aart de Zeeuw (KUB)

The theory of differential games combines optimal control theory and game theory. These lectures provide a brief introduction into the concepts and techniques of the theory of differential games and show how this methodology can be used to analyse economic problems.

Lectures:

- Concepts and techniques of differential games.

Basar, Tamer and Geert Jan Olsder, *Dynamic Noncooperative Game Theory*. Academic Press, New York, 1982

de Zeeuw, Aart, *Lecture notes*, 1991

- International pollution control.

van der Ploeg, Frederick and Aart J. de Zeeuw, "A differential game of international pollution control", *Systems & Control Letters* 17, 6, 409-414, 1991.

de Zeeuw, Aart, *Lecture notes*, 1991

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- Dynamic duopolies.

Fershtman, Chaim and Morton I. Kamien, "Dynamic duopolistic competition with sticky prices", *Econometrica* 55, 5, 1151-1164, 1987.

- The Lancaster game of capitalism.

Hoel, Michael, "Distribution and growth as a differential game between workers and capitalists", *International Economic Review* 19, 2, 335-350, 1978.

de Zeeuw, Aart, "Note on Nash and Stackelberg solutions in a differential game model of capitalism", *Journal of Economic Dynamics and Control* 16, 1, 139-145, 1992.

- Fiscal policy games.

Fischer, Stanley, "Dynamic inconsistency, cooperation and the benevolent dissembling government", *Journal of Economic Dynamics and Control* 2, 1, 93-107, 1980.

- Monetary policy games.

Barro, Robert J. and David B. Gordon, "Rules, discretion and reputation in a model of monetary policy", *Journal of Monetary Economics* 12, 101-121, 1983

Kydland, Finn E. and Edward C. Prescott, "Rules rather than discretion: the inconsistency of optimal plans", *Journal of Political Economy* 85, 3, 473-491, 1977.

Some recent articles will be pronounced at a later stage.

Panel Data

Geert Ridder (VU) and Tom Wansbeek (RUG)

The course will be based on drafts from the forthcoming book 'Longitudinal Econometrics' by Geert Ridder and Tom Wansbeek. Copies will be provided to the students. Topics to be discussed in the course include: random and fixed effects models, estimation methods, economic theory and lambda-constant demand functions, static versus dynamic models, attrition in panels, correlation between regressors and individual effects, nonorthogonality and time-constant regressors, measurement error in panel data, and estimation methods in dynamic models.

Exchange Rate Economics

Henk Jager (UvA) and Eelke de Jong (KUN)

Exchange rate economics covers a field which can be divided into three parts. (1) Exchange rate determination; it concerns an analysis of the way in which economic variables determine the exchange rate. (2) Exchange rate effects; it explains the influence of the exchange rate, including exchange rate uncertainty, on the economic process. Particularly, the influence on international trade, international capital flows, and the rate of inflation are analysed. (3) Exchange rate policy; it treats the choice of the (optimum) exchange rate arrangement for countries with specific economic characteristics and the particular policy options available for defending the chosen arrangement in practice.

The present course can only deal with a part of the field in a thorough way. This year it will emphasize exchange rate determination. The structural models of exchange rate determination will be studied. The other two parts of exchange rate economics will

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only be discussed insofar as they are direct extensions of subjects of the first part. A prerequisite of this course is an elementary knowledge of the structural exchange rate models. The empirical tests of the models and of their underlying assumptions will have a prominent place in this course.

A selection of themes of the course: learning when expectations are not rational; saddle path stability in Dornbusch's overshooting model; the robustness of the overshooting phenomenon; the effects of policy anticipation, resource discovery, and stochastic money supply; imperfect information; neoclassical open-economy modelling; the Scandinavian inflation model; economic policy in a portfolio balance approach; the target zone model, ever-expanding and bursting exchange-rate bubbles; the peso problem; the political economy of flexible exchange rates; time inconsistency and reputation; enforcement mechanisms; elections and the exchange rate.

Subjects of the empirical evidence are: within-sample results and out-of-sample forecast tests of semi-reduced form equations, cointegration and exchange-rate modelling, structural tests on portfolio balance model, tests on risk premia and chaos and non-linear dynamics.

Literature

M. Gärtner, *Macroeconomics under Flexible Exchange Rates*, Harvester Wheatsheaf, Hemel Hempstead, 1993.

P.R. Krugman, Target zones and exchange rate dynamics, *Quarterly Journal of Economics*, CVI (1991), 669-82.

E.J. Pentecost, *Exchange Rate Dynamics: A Modern Analysis of Exchange Rate Theory and Evidence*, Edward Elgar, Aldershot, 1993 (empirical parts only).

Analytical Aspects of the Transition from State Socialism to Modern Capitalism

Michael Ellman (UvA)

This course examines a number of important aspects of the transformation process. These include monetary problems of socialism, which played an important role in the collapse of state socialism. Since the monetary institutions of state socialism were quite different from those of market economies their study is interesting from the point of view of the applicability or otherwise of general economic and monetary ideas in a different institutional environment. Another topic is the general characteristics of the transformation process. Special attention is devoted to the causes of the transformation depression, financial market transformation and enterprise behaviour in the transformation period.

A literature list will be available later at the NAKE-secretariat.

Social Choice Theory (An introduction)

Hans Peters and Ton Storcken (RL)

In social choice theory mechanisms for collective decision making, such as voting, are studied. The main issue in this field is: What is a 'good' collective decision mechanism in the sense that it satisfies certain desirable conditions. One condition which has frequently been imposed on such mechanisms, is strategy-proofness. This condition requires that an individual voter cannot improve the final result for himself by (intentionally) misrepresenting his opinion. In other words, truth-telling is optimal for each individual voter. Many mechanisms, even one man one vote, are not strategy-proof. In fact it turns out that if in addition the mechanism is Pareto-optimal, then it is dictatorial. This last statement, proved by Gibbard (1973) and Satterthwaite (1975) implies the nonexistence of a mechanism which is strategy-proof, Pareto-optimal and non-dictatorial.

The following subjects are studied in this course:

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- Collective decision rules for two alternatives. Several rules are studied in an algebraic framework. Problems such as tie-breaking quorum conditions and weighted majority are considered.
A characterization, by May (1952), of the simple majority rule will be established.
- Collective decision rules for three or more alternatives. After we have discussed the notion of preference relation, four classes of decision rules are discussed. These are the class of score rules, the class of pairwise majority rules, the class of veto rules and a remaining group of rules which do not belong to one of the three mentioned classes.
- Characterizations of collective decision rules. After the discussion of Arrow's impossibility theorem, a fundamental result in Social Choice Theory, several consequences will be deduced, such as the impossibility theorem of Gibbard and Satterthwaite. Furthermore a few well-known rules, such as the Borda rule and the Copeland preference rule will be characterized.
- Domain restrictions. First we study single peakedness. If a combination of individual preferences satisfies this condition, there exists an alternative which wins in every pairwise majority comparison with the other alternatives. Then we study location problems in which a group of people have to decide where to locate a public facility such as a swimming pool, a telephonebox or a school.

The Theory of International Trade

Jean-Marie Viaene and Casper de Vries (EUR)

The course consists of five lectures. The first lecture covers the two standard explanations for the pattern of, the terms of, and gains from trade from a higher dimensional perspective. The second lecture uses the theory of imperfect competition to address the same questions. Both lectures pay attention to empirical issues as well. In the third lecture we deal with the dynamics of endogenous growth and trade. The

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political economy aspects of trade policy are the subject matter of the fourth lecture. The fifth lecture is devoted to a special topic of recent interest, such as the relation between trade and exchange rate volatility.

Prerequisites: A basic working knowledge of international trade theory at the undergraduate level, like in the textbooks by Ethier or Krugman/Obstfeld, is assumed.

Literature:

Bowen, H.P., Hollander, A. and Viaene, J.-M. (1994), "Applied International Trade Analysis: Lecture Notes".

Grossman, G.M. and Helpman, E. (1991), *Innovation and Growth in the Global Economy*, (Cambridge, MA: The MIT Press).

Helpman, E. and Krugman, P.R., (1989), *Trade Policy and Market Structure*, (Cambridge, MA: The MIT Press).

Hillman, A.L., (1989) *The Political Economy and Protection*, (Chur: Harwood).

De Vries, C.G., (1990), "International trade and the arbitrage principle", in: F. van der Ploeg (ed.), *Advanced Lectures in Quantitative Economics*, (London, Academic Press: 349-380).

Experimental Economics and the Design of Mechanism

Mark Olson, Arthur Schram, Frans van Winden (CREED, UvA)

A growing application of economics is the design of new institutions (mechanisms). Examples of the types of mechanisms are for exchange, coordination, and public good provision. Traditional economic research into these activities relied on theoretical studies. Increasingly the laboratory has been used as a testing ground for examining the performance properties of new mechanisms.

This course will cover the theoretical criteria used in examining mechanisms, experimental examinations of existing institutions, and the design of new mechanisms. Examples where these new techniques have been used in designing new institutions will be presented. Students will participate in experiments.

Meetings will take place at the CREED laboratory, University of Amsterdam from Wednesday March 20 till April 26, 1996 (provisional dates).

Literature: *Experimental Methods: a primer for economics*, Daniel Friedman and Shyam Sunder, Cambridge University Press, 1994.

Presupposed knowledge of game theory at the level of: Robert Gibbons, *A primer in game theory*, New York: Harvester Wheatsheaf.

The Migration of Labor
*lectures by Oded Stark **

Report written by
Marcel Das
Department of Econometrics
Tilburg University

1 Introduction

The lectures by Stark were mainly based on his book *The Migration of Labor* (1991). He stressed the fact that there is more to labor migration than an outcome to wage differentials. Other causes of migration are risk diversification, relative deprivation and asymmetric information. These motives will be discussed in section 2. In section 3 I summarize the lecture notes concerning the migrants' performance. Rather new topics - that is, they are not in the book mentioned above - are discussed in section 4. These topics will appear in the book *Altruism and beyond: an economic analysis of transfers and exchanges within families and groups* (1995, forthcoming). I finish with some final remarks in section 5.

2 Motives for labor migration

2.1 Risk diversification

Under the assumption that the economy is divided into an urban (U) and an agricultural (A) sector, migration will take place from A to U when the wage rate in A is less than the wage rate in U. However, when an individual migrates from A to U he might be confronted with a probability of finding no work. In that case he will receive no income. Therefore the individual takes into account the expected wage which is a weighted sum of several alternatives. If the individual only considers the expected wage, then the individual is

* These lectures were given at the NAKI-workshop entitled *Growth, Migration and Regional Development*. This workshop was held in Amsterdam from 12 till 16 december 1994.

assumed to be risk neutral. This implies that when the expected wages in the two sectors are the same, no migration will take place. But individuals are in general risk averse. A possible higher wage in the urban sector introduces also a higher risk. This increased risk may even lead to non-migration.

Risk concerns matter also at a family level. A family can send a member to the urban sector to reduce risk. This can be illustrated in the following father-son example. A father and son work at their farm in the agricultural sector. There is a certain risk of low income in a particular period due to bad weather conditions. In that period both members of the family have hardly anything to eat. If the son migrates to the urban sector and the correlation between the production in the two sectors is not too high, risks are reduced. The total expected wage of the family might stay the same. However, when the yield in the agricultural sector is low, this can be compensated with the income received by the migrated son in the urban sector. In this case the risks are diversified.

Labor migration originating from risk diversification is important for policy issues. If there are no insurance markets, the government can play the role of the insurance company. For instance, in the above example the government can guarantee the farmer an income in the case of a bad crop. In that case it is not necessary for the family to send a member to the urban sector.

2.2 Relative deprivation

The satisfaction or deprivation level of a person's income does not only depend upon the level of own income, but also upon the incomes received by other individuals. If an individual increases in rank in another place, then there is an incentive to migrate. A successful migrant has also an incentive to return back home. In the native country he will increase in rank due to his successful stay abroad. It is also possible that one individual migrates in order to decrease the relative deprivation of the household which stays behind. On the contrary, a wealthy household will not migrate: relative deprivation is also used to explain non-migration.

There are two problems in measuring the deprivation level of individuals or households. First, it is not trivial to find a good measure for relative deprivation. Second, it is not clear which reference group to use. Does the individual judge his satisfaction level based upon a comparison with his native country or with a possible receiving country? The answer to this question is not clear and empirical studies should shed some light on this issue.

2.3 Asymmetric information

Asymmetric information may also lead to migration of labor. Without going into details and summarizing the formulas in asymmetric information models, I will briefly pay attention to it in this subsection.

Employers in one market may know the skill level of a particular individual, while employers in other markets don't. Therefore, employers in the latter markets will base their wage offers on an average wage. In a simplified world of two skill levels this can lead to migration of both skill levels under asymmetry, while under symmetry only the best skilled workers migrate.

When a certain country only wants to attract the high skilled workers without expensive screening (policy implications), it can levy a visum fee (tax). This tax instrument can be used for policy issues. It should be large enough to prevent the low skilled workers from coming in, but it may not be too large, such that the high skilled workers won't come in. Another possibility is that skilled migrants pay remittances to prevent the unskilled from migrating.

3 Migrants' performance

Another topic related to the migration of labor is the performance of migrants on the labor market. In some countries the average wage of migrants lies above the average wage received by the native population. Although this seems rather puzzling, there are some reasons. The migrants may be highly motivated (incentive structure is different) and, on average, high skilled workers. Sometimes migrants outperform the inhabitants due to group abilities, i.e. market environment/trade technology. Therefore anti-clustering might not be a good idea for migrants.

Stark paid also some attention to the relation between the probability of return migration and the migrants' performance. The return probability influences savings and therefore the economic performance of migrants. Both illegal and legal migrants face some probability of returning home. The illegal migrants are confronted with a probability of being kicked out. But also the legal migrants face a positive return probability to their home country. When the business cycle goes down they are often requested to go home. Next to it, many immigrants in the Netherlands face a positive return probability because they *desire* to return at some time in the future.

Let's assume that we live in a perfect competitive world. Further, in the production of output capital and labor are used. Every point in time the labor force consists of natives and migrants. Each individual lives two periods. The earnings are divided between consumption and savings. One can prove that the higher the probability of return migration the higher is the level of savings. This has two important implications with respect to the

economic performance of migrants. First, as a consequence of the possibility of return migration, migrants save more than the native born. Second, if return migration does not take place, migrants' wealth outweighs the wealth of the native born (if they don't send remittances to their family in the country of birth).

4 Human capital formation

Human capital is an important determinant of economic growth and welfare. Stark ended his lectures in discussing new insights with respect to labor migration models in which human capital formation plays a major role. Poor countries are locked in an incentive structure that operates to discourage human capital formation. This is the reason why they do not catch up with the rich countries.

4.1 Life expectancy and per capita income

Let's assume that there are two sectors: a farm and a non-farm sector. Individuals live two or three periods. In period two each individual faces a probability α of dying at the end of this period. In the first period one can choose how much labor will be invested in the formation of human capital. The remaining labor will be used for consumption (there are no capital markets). The second period consumption is equal to the inherited land from the parents (with probability α) or the value of human capital formed in the first period (with probability $1 - \alpha$). A possible third period consumption will be equal to the inherited land. The optimal number of efficiency units of labor put into the formation of human capital in the first period will then be obtained by maximizing the total (discounted) utility of the three period's consumption.

The above model relates the well-being of the parents and their children. Without going further into details, the outcomes of the model are as follows: 1) an increase in the parent's life expectancy increases the investment in human capital by the child, 2) an increase in life expectancy increases the stationary per-capita output in the economy. This means that in a world that consists of countries which are identical in all respects except for the life expectancy of their populations, the per-capita income is higher in countries in which life expectancy is longer.

It becomes clear why the above story is a migration story when the share of the population outside the farm sector is taken into account. Due to the uncertainty of the time at which the child inherits the land, risk will be diversified and there will be more investment in human capital. A higher life expectancy (that is a lower α) will imply a higher share of the population outside the farm sector.

4.2 Long-run output

Instead of looking at short-run implications of labor migration, it is certainly also interesting to look at a long-run analysis. Assume again that we have an open overlapping generation economy in a perfectly competitive world in which time is discrete. Consumers can do three things with the produced good: consume it, save it or use it as an input to produce human capital. The model discussed by Stark finally results in a description of the dynamic evolution of the human capital economy.

Suppose that, on average, human capital of migrants is less than human capital of the inhabitants of the receiving country. Then migration lowers the average human capital in the receiving country. This might result in a lower steady state of human capital in the long run. In the model a lower stock of human capital will result in a lower level of output. Therefore migration reduces growth in the receiving country. Next to it, also in the home country of the migrants, labor migration can reduce growth. It can be the case that the migrants have a higher average human capital compared to remaining individuals, thereby reducing the average human capital of the native country.

This model gives a nice explanation of the long-run implications of labor migration. It is, however, important to mention that the above description of long-run behavior is only one outcome of the model. Some (strong) assumptions have to be imposed on some relationships and parameters.

5 Final remarks

In my opinion, the outcomes of the models rely strongly on all kinds of assumptions. If some (certainly not trivial) assumptions should be invalid, then the outcome would be totally different. For instance, in the case of the influence of the return probability on savings (section 3) the outcome relies dominantly on the wage differential between the two involved countries. Another example is the dynamic evolution of human capital discussed in the previous section. The rather arbitrary outcome of the model relies strongly on all kinds of assumed constrained values of the parameters.

Fortunately, this was recognized during the lectures. Stark emphasized, however, that the models really describe what happens and *can* happen as a result of labor migration. He would never advise a government what to do and what not to do based on the models. The models are nice (theoretical) tools which can be used to describe migration but also non-migration as observed in practice. This is the only aim of this kind of research.

The lectures by Stark were in the first place interesting because of its minimal required background knowledge. Stark's fanaticism about the subject and the way of teaching were responsible for keeping the attention of the audience.

Diploma's

Tijdens de workshop in Leiden is het *nake* diploma uitgereikt aan:

Erwin Charlier
Katholieke Universiteit Brabant

Elma van de Mortel
Erasmus Universiteit Rotterdam

Martin van der Ende
Universiteit van Amsterdam

Hiek van der Scheer
Rijksuniversiteit Groningen

Rob Euwals
Katholieke Universiteit Brabant

Jan Egbert Sturm
Rijksuniversiteit Groningen

Hugo Kruiniger
Rijksuniversiteit Limburg

Annemarie ter Veer (CentER, KUB) heeft eveneens haar *nake* diploma behaald.

Nieuwe AIO'S/OIO'S

Drs. J.J.Y. (Youdi) Schipper (VU)

Begeleiders: Prof.dr P. Rietveld, Prof.dr P. Nijkamp

Onderwerp: Deregulation and social cost: the case of the airline industry

Drs. P. (Perry) Verberne (RL)

Begeleiders: Prof.dr J. Muysken, Dr A. van zon

Onderwerp: Assessing environmental policy constraints and trade-offs: An international multi-sector modelling approach

December Workshop on Finance and Economics

December 11 - 15, 1995

Utrecht

Courses

Professor Michael Brennan, University of California

"Theory of Finance: an overview

Professor Sudipto Bhattacharya, CORE, University Leuven

"Financial intermediation" (Professor and one on

Professor

"The Econometrics of Financial Markets"

and a fourth course to be announced.

Mini-courses CentER for Economic Research, KUB

In september CentER for Economic Research will organize a course by M. Berliant and one by M. Maschler. Further information is not available yet, but you can contact Nicole van Boxel by the end of August for more information: Phone no: 013-663266; email: n.vboxel@kub.nl

agenda

22-08-1995



29-08-1995

World Congress Econometric Society, Tokyo

01-09-1995



04-09-1995

Annual Congress European Economic Assosiation, Prague

15-09-1995



20-10-1995

Block 1, Utrecht-courses

27-10-1995

AIO-Presentation Day

03-11-1993



08-12-1995

Block II, Utrecht-courses

11-12-1995



15-12-1995

nake-workshop

02-02-1996



08-03-1996

Block III, Utrecht-courses

15-03-1996

AIO-Presentation Day

22-03-1996



03-05-1996

Block IV, Utrecht-courses

03-06-1996



07-06-1996

nake-workshop (provisional dates)